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November 1988

# Commerce Issues



Comptroller General  
of the United States

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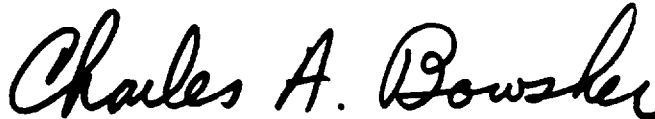
November 1988

The President of the Senate  
The Speaker of the House of Representatives  
The Secretary-designate of Commerce

This summary report, one in a series that addresses major policy, management, or program issues facing major agency heads in the new administration, is based on our work relating to the Department of Commerce. Some of our concerns are relatively new, while others represent long-standing and unresolved problems.

This report identifies four important issues we believe should be included in whatever agenda Congress and the Secretary of Commerce set for the Department. They involve the need to (1) improve the Department's export promotion activities, (2) improve export controls, (3) address planning and decisionmaking problems associated with the decennial census, and (4) monitor progress on development of the new automated patent system.

These issues are discussed in detail in the reports and testimonies listed at the end of this report.



Charles A. Bowsher

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# Improve U.S. Export Promotion Activities

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Our merchandise trade deficit reached \$159 billion in 1987. One way to help reduce the trade deficit is to export more of America's competitive products.

But part of the solution lies in improving our export promotion activities. This is the role of the International Trade Administration (ITA). It provides a range of services through a network of 67 domestic offices and 126 overseas posts in 66 countries to assist U.S. businesses, particularly small- and medium-sized firms, in exporting U.S. goods and services. ITA services include one-on-one business counseling, notifying U.S. firms about trade opportunities, representing U.S. firms' interests in trade and investment disputes overseas, and staging exhibitions and trade missions.

Unfortunately, the effectiveness of Commerce's export promotion activities is weakened by significant organizational and management problems.

Major ITA reorganizations in 1980 and 1982, and several other smaller ones, exacerbated existing problems in the planning and execution of overseas trade promotion activities. The reorganizations were supposed to enhance the industrial analysis capabilities of ITA to facilitate trade policy initiatives. However, the reorganizations

also divided responsibility for trade promotion among three ITA units with different orientations, increased substantially the number of assistant secretary-level positions (from 3 to 27), and compartmentalized most activities.

The cumulative effect is

- a lack of accountability for program results,
- internal disagreements over roles and responsibilities, and
- coordination problems for activities requiring joint efforts.

These organizational weaknesses have contributed to the selection of questionable trade promotion events and the scheduling of activities in countries with little or no commercial potential. As a result, more than half of annually scheduled, publicly announced overseas trade events are cancelled.

The Secretary needs to

- streamline ITA's organizational structure,

- clarify the responsibilities of ITA's operating units to eliminate or minimize overlap, and
- hold managers accountable for the success of scheduled trade promotion events and a reduction in cancellations.

ITA's efforts have also been marked by conflicting goals and reduced budgets for export promotion activities.

ITA's primary clients are supposed to be small- and medium-sized U.S. firms. However, certain other policy goals have weakened ITA's ability to serve this client population.

In the past, some ITA overseas trade events were priced to allow for reduced fees in events oriented toward small- and medium-sized, new-to-export/new-to-market firms, and to support market development. However, this flexibility has basically been eliminated.

In line with reduced budgets and its objective of reducing the federal role in export promotion, ITA has turned over some overseas trade promotion events to private sector organizations and no longer subsidizes the cost of participation in ITA-sponsored

events. ITA now prices all activities on a full-cost recovery basis.

Since the private sector has shown interest in taking over only the most profitable events, ITA is left in the difficult position of trying to recruit participants for events in developing markets on a full-cost basis. Not many small- and medium-sized firms can afford these costs.

The Secretary of Commerce must reconcile the conflict between the U.S. export promotion policy objective of helping small- and medium-sized U.S. firms and the policy objectives aimed at privatization and full-cost recovery for each event.



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# Needed Changes in Export Controls

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Commerce's efforts to oversee and administer the export control system for civilian products with military applications need to be more efficient and effective.

The export control list, which determines which items require government approval for export, should be streamlined to allow export control authorities to concentrate on the most sensitive technologies. It is difficult to effectively control the full range of products and technologies subject to export control because of the huge volume of goods moving in world trade. By limiting the size of the control list, the entire system should be more effective.

The Omnibus Trade and Competitiveness Act of 1988 provides for the elimination of export licensing requirements for the least technologically sophisticated items that are exported to most free world destinations.

The act, however, does not remove the items from the control list. The act also eliminates other licensing requirements for selected countries that control exports to the satisfaction of the United States. Under this change, the Secretary of Commerce must determine which countries are eligible for this treatment by determining that they have effective export control

systems. The extent to which these provisions of the trade law reduce the burden of export controls and permit Commerce to concentrate on enforcement of the most important items depends, in part, on how the Secretary implements the act. It is important that the Secretary act expeditiously.

While Commerce administers the export control system for militarily significant commercial items and issues export licenses, the Export Administration Act of 1979, as amended, also authorizes the Defense Department to review certain license applications. Defense reviews licenses for exports to proscribed and certain free world destinations. For the latter, it currently makes license reviews assessing the potential for diversion to a proscribed destination, similar to the way Commerce does its evaluations.

Defense's role in making licensing decisions has been a highly contentious subject of debate in recent years. The debate centers around Defense's (1) role in reviewing licenses for the export of items to free world destinations, (2) interpretation of export control policy, and (3) evaluation of evidence used in making decisions. The issue will be vigorously debated during the

next reauthorization of the Export Administration Act of 1979, as amended. The new administration needs to establish a position on the issue.

We have found little difference between Defense's recommendations on the disposition of export license applications and Commerce's licensing decisions on exports to free world destinations. Commerce should work with Defense to eliminate unnecessary duplication at Defense.

Most export controls used to further foreign policy objectives are largely symbolic and should be used only as a last resort when diplomatic and economic alternatives fail. The Export Administration Act of 1979, as amended, authorizes the President to establish export controls for foreign policy reasons. When these controls are symbolic, they do not prevent the targeted country from getting the controlled products from other countries. Instead, their costs are borne by American businesses in the form of export sales lost to firms in other countries.

Moreover, removal of such controls without some quid pro quo is difficult even when the controls are not expected to change the objectionable behavior that

precipitated them. Finally, use of such controls merely heightens perceptions that the United States is an unreliable supplier. As a consequence, we believe that diplomatic and alternative economic measures, such as reducing the size of diplomatic missions or denying favorable tariff treatment, should be used whenever possible instead of foreign policy export controls.

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# Early Planning and Timely Decisions Needed to Control Escalating Decennial Census Costs

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Controlling the escalating cost of, and recruiting quality people for, the 1990 Decennial Census will be two of the immediate and important challenges facing the new administration. Similarly, much of the cost of the 2000 Decennial Census will depend on the speed and quality of the planning and decisionmaking done in the early 1990s. However, if the past is any indication, Commerce will experience serious problems with both censuses unless changes in management's approach and practices are made at the Bureau of the Census.

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## Action Needed Now for the 1990 Decennial Census

Decennial census costs have increased dramatically.

- The Bureau spent \$221 million to take the 1970 census. The cost for the 1980 census was \$1.1 billion. Even when inflation and workload are taken into account, the 1980 costs doubled from the prior census.
- Official estimates for the 1990 census project a cost of \$2.6 billion. However, past experience in the 1980 census and indications from recent activities suggest that the 1990 census could exceed \$3 billion.
- If the cost escalation rates of the recent past continue, with no change in the general census methodologies, the total cost

for the 2000 census could reach \$6 billion or more.

In 1980, the Bureau ran out of money and was forced to reduce certain operations and eliminate others. The potential shortfall appears even larger for 1990.

Timely decisionmaking is essential because the Bureau's efforts to reduce costs may be exacerbated by recent problems in attracting and retaining enough people to carry out initial 1990 Decennial operations. The Bureau will need over 300,000 temporary employees, and personnel costs represent a major component of a decennial census.

To date the Bureau's wage scale does not appear attractive in some high-cost areas, hampering recruitment efforts. Potential increases in the minimum wage would increase the attractiveness and competitiveness of other employment opportunities in some areas. This would further compound the Bureau's recruitment problems and would possibly result in increased costs. Obtaining and training a sufficient temporary workforce was a problem in 1980 and, given the increasing competition for quality workers, the problem is likely to intensify by 1990.

The Secretary of Commerce needs to

1. Hold the Bureau accountable for developing and implementing a cost reduction plan aimed at controlling decennial census costs and ensuring timely decisions.
2. Ensure that the Bureau takes steps to avoid further escalation in census costs and meets its staffing goals.

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Early Planning and  
Timely  
Decisionmaking for  
the 2000 Decennial  
Census Needed

Early planning and timely decisionmaking are critical if the decennial census is to be effectively managed and executed. This is especially important given the increasing reliance on automated procedures and equipment for taking the census, which require long lead times for acquisition and development.

The Bureau's planning efforts generally start late, experience delays, are incomplete, and fail to fully explore innovative approaches. This leaves many key operational issues undecided. Weaknesses in the Bureau's planning activities and its failure to make timely decisions are its most serious management problems and will likely contribute to a less efficient and more costly 1990 Decennial Census. Cost control efforts have not been emphasized at the Bureau.

Since the 1990 census will occur during the new administration's tenure, the new Secretary of Commerce will immediately focus on its management. The next 4 years will also represent a critical time frame for the 2000 Decennial Census. The policy and operational foundations and framework which will impact on future Census operations and costs should be set during this period. Therefore, this time frame represents Commerce's best opportunity to affect how Census will be run in the future.

The Bureau will need to complete its plans for the 2000 census early in the decade to have sufficient time for effective execution. This is especially important if methodological changes are to be considered to reduce cost escalation.

Accordingly, the Secretary should

1. see that Census develops and implements an effective management structure, planning capacity, and decision timetable in sufficient time to help guide Census in making the decisions and changes necessary for the 2000 census, and
2. hold Census accountable for rigorous exploration of cost control approaches and



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alternative methodologies for doing the  
2000 census.

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# Closely Monitor Development of the New Automated Patent System

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Commerce's Patent and Trademark Office (PTO) has undertaken a major effort to develop an automated patent system. The project, estimated to cost about \$448 million, has experienced serious problems. Commerce recently said it took actions to strengthen management of the project and improve technical design. However, continued top-level attention is needed to ensure the project will properly support PTO's important patent mission.

Commerce has not adequately overseen the planning for this project, and PTO has spent millions with little assurance it was implementing the best alternative. The automation effort has been fraught with problems caused by inadequate planning and oversight. As a result, PTO has had to change its expectations for the system, revise its cost estimates for the project, rewrite the statement of work to clearly reflect what is required of the contractor, and renegotiate the terms of the contract.

The Automated Patent System is an ambitious effort using state-of-the-art technology and will be relied upon to carry out one of PTO's primary missions. The failure of this system to operate as intended could jeopardize PTO's ability to carry out its mission and waste millions of dollars.

After we had reported serious management problems with the development of the new system, Commerce formed a panel of National Bureau of Standards and industry computer experts to review the Automated Patent System. The panel recently issued a report that noted progress in the development of automated search and retrieval of patents but criticized the system design and management effort.

The panel recommended changes that it estimates could save \$70 million in acquisition costs on the project. Commerce said it is implementing the panel's recommendations and has established a new Assistant Commissioner of Information Systems position to provide additional oversight on PTO's automation projects.

It is critical that effective management controls be in place to ensure that cost, schedule, and performance problems are promptly identified and addressed.

# Related GAO Products

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Personnel Management Issues in the Foreign Commercial Service (GAO/T-NSIAD-87-12, Mar. 11, 1987).

Commerce's Assessment of the Foreign Availability of Controlled Items Can Be More Effective (GAO/NSIAD-88-71, Feb. 9, 1988).

Commerce/Defense Review of Applications to Certain Free World Nations (GAO/NSIAD-86-169, Sept. 16, 1986).

Assessment of Commerce Department's Foreign Policy Report to Congress (GAO/NSIAD-86-172, Aug. 19, 1986).

Status of the 1990 Decennial Census (GAO/T-GGD-88-53, Sept. 27, 1988).

Decennial Census Minicomputer Procurement Delays and Bid Protests: Effects on the 1990 Census (GAO/GGD-88-70, June 14, 1988).

The Census Bureau Needs to Plan Now for a More Automated 1990 Decennial Census (GAO/GGD-83-10, Jan. 11, 1983).

ADP Systems: Patent Office's Contract Renegotiation Behind Schedule (GAO/IMTEC-87-35, July 31, 1987).

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ADP Acquisitions: Patent Automation  
Encountering Major Planning and Procurement Problems (GAO/IMTEC-86-19, July 17,  
1986).

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# Transition Series

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The Budget Deficit (GAO/OCG-89-1TR)

The Public Service (OCG-89-2TR)

Revenue Options (GAO/OCG-89-3TR)

Financial Services Industry Issues (GAO/OCG-89-4TR)

International Trade Issues (GAO/OCG-89-5TR)

Information Technology Issues (GAO/OCG-89-6TR)

Financial Management Issues (GAO/OCG-89-7TR)

Program Evaluation Issues (GAO/OCG-89-8TR)

Defense Issues (GAO/OCG-89-9TR)

Health and Human Services Issues (GAO/OCG-89-10TR)

Commerce Issues (GAO/OCG-89-11TR)

Agriculture Issues (GAO/OCG-89-12TR)

Justice Issues (GAO/OCG-89-13TR)

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Education Issues (GAO/OCG-89-18TR)

Department of State Issues (GAO/OCG-89-19TR)

Environmental Protection Agency Issues (GAO/  
OCG-89-20TR)

Department of Labor Issues (GAO/OCG-89-21TR)

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**Transition Series**

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Housing and Urban Development Issues (GAO/  
OCG-89-22TR)

Foreign Economic Assistance Issues (GAO/  
OCG-89-23TR)

Interior Issues (GAO/OCG-89-24TR)

Transportation Issues (GAO/OCG-89-25TR)

Internal Revenue Service Issues (GAO/OCG-89-26TR)

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