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REMARKS BY ELMER B. STAATS  
 COMPTROLLER GENERAL OF THE UNITED STATES  
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"MEASURING AND ENHANCING FEDERAL PRODUCTIVITY--  
 A PROGRESS REPORT"

I was most pleased that this conference of business leaders would consider it appropriate to invite me--as a representative of the Federal Sector-- to join in your discussions of policies to promote productivity in the nation.

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Despite sporadic efforts over the past 35 years, the public sector has not only been considered unmeasurable in terms of what it produces but, as one authority has put it, past studies have assumed "a regrettable negative productivity rate in local, State, and Federal Governments."

We, in the Federal Government, are acutely aware of the need for assessing more precisely our performance record; and to do so in terms that are clear not only to ourselves, but to the American public. Our purpose must be to expose both to top agency management, the Congress, and the public, how well and how poorly our policies, programs, and managerial practices are achieving each year the twin goals of effective Government services while increasing economy and efficiency.

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Underscoring the importance of our subject today is the rapid growth in public expenditures over the past decade. I need not burden you with a set of statistics to support this point. These facts are now known all too well to most of us. Suffice it to say that in the past decade Federal expenditures have increased at a faster rate than any other category of expenditures which make up the Gross National Product. Public attention has been properly focused on the need to improve the U.S. competitive position in world markets and to dampen inflationary pressures through productivity improvements. Happily, public attention is increasingly being focused increasingly on productivity in government at all levels.

Considering governmental expenditures from the standpoint of their effect on the economy, particularly in a period of inflationary pressures, we cannot overlook the fact that State and local government expenditures have risen much more rapidly than those of the Federal Government. When State and local government expenditures are added to those of the Federal Government, the total represents over one-third of the Gross National Product. Measured another way the governmental sector in the American economy in recent years has been growing twice as fast as the private sector.

Auditors and budget analysts and others in the GAO and operating agencies are constantly examining and evaluating individual activities and programs, and producing hundreds of

reports each year. It is true that we have been able to develop satisfactory indices for budgetary and management purposes in isolated cases, but no overall, governmentwide indices have been attempted and no overall guidelines developed for the measurement of them. Moreover, we have not in the past found ways of developing overall performance indicators so as to determine whether Federal productivity is benefiting from applying such tools as statistical sampling, systems analysis, organization development, and the automation of our massive industrial and clerical activities.

I frequently think of the analogy of the professional football team. If the only way the manager had to assess his team's performance was to keep records of a number of statistical indicators--such as yards gained, passes completed, first downs made, and so on--he would still not know how successful his team was in meeting its overall objective of winning games. In football we have ways of keeping score so that at the end of the game there is a net quantitative and highly visible result. You who manage businesses are fortunate in having <sup>such</sup> significant summary indicators as profit and loss, and earnings per share, by which both you and the public can gauge your performance, although I believe you would agree that there is not necessarily a high correlation between changes in productivity indices and the profit and loss statement.

THE FEDERAL PRODUCTIVITY  
MEASUREMENT RESEARCH PROJECT

The Joint Economic Committee of the Congress has, over

the years, held many hearings on the subject of productivity in the private sector. Knowing of the interest of this Committee in the general subject, I visited with Chairman William Proxmire in the fall of 1970, inviting his support for the idea of a major effort to develop productivity indices for the Federal Government. The Bureau of the Budget had, in the early 1960s, undertaken a feasibility study on the subject and established a task force headed by John Kendrick, then of George Washington University and now of the Conference Board, to take the leadership in the study. The optimistic conclusions of that study gave support to the idea that the matter should not be dropped in view of its tremendous potential as a tool of management.

Chairman Proxmire subsequently wrote me as follows:

In view of the importance of the Federal sector to the economy as a whole, and in view of the responsibility vested in Congress for controlling Federal expenditures, I find it distressing that we have no real measures of the efficiency of the Federal sector.

We are most appreciative of the continued interest and support of the Joint Economic Committee throughout this effort.

Following receipt of Chairman Proxmire's request, I decided to ask Director of the Office of Management and Budget George Shultz and Chairman Robert Hampton of the Civil Service Commission, whether they would be agreeable to undertake the project as a joint legislative-executive branch effort. I found that they had a similar strong interest in the subject. The three of us agreed that the time had come for a major effort to gauge the productivity of Federal activities which could be

quantitatively measured. Outside of the Post Office, which has used overall measures for decades, and the Social Security Administration, other elements of Government had not learned how to construct measures of their final outputs in productivity terms.

Hence, we established a joint research project of the three agencies. The project team, which is just finishing two years of effort, is now preparing its report, due for completion by June 30. Today I can give you a preview of some of the findings which it will report to the current Director of the Office of Management and Budget, Roy Ash, Chairman Hampton, and myself--and which I, in turn, will report to Congress.

The report will cover:

1. The design of a permanent productivity measurement system.
2. Initial findings from research into the causes of productivity change in the Federal sector.
3. The importance of capital investment as a contributor to productivity improvement.
4. Other factors which provide incentives or disincentives to productivity change in the Federal sector.

Let me briefly highlight some of these findings.

THE DESIGN OF A COMPLETE  
PRODUCTIVITY MEASUREMENT SYSTEM

The challenge to our joint research project in the past two years has been to identify those Federal activities on which final outputs can be consistently counted from year to year

and related to the resources consumed in their production. To answer this question, we initially consulted with all of the cabinet departments and several independent agencies. We found that all were measuring portions of their work for purposes of staff planning and distribution of resources. After a period of trial and error, and with expert assistance from the staff of the Bureau of Labor Statistics, we requested data last September from all agencies with 200 or more employees, requesting them to submit, for the six fiscal years 1967-72, specific data on their work products, and the man-years and wages consumed in the production of these products. Here is what has resulted:

- We now have data from 187 organizational units in 45 different agencies.
- The data cover over 1.7 million man-years of employment. This represents all Postal employees, almost one-third of Defense Department civilian employees, and almost two-thirds of the civilian employees of the remaining agencies of Government. Overall, the sample covers 60 percent of the civilian man-years worked in fiscal year 1972. Several organizational units reported that they were developing measures which in the future might raise the coverage another five to ten percentage points.

#### WHAT DO THESE DATA TELL US?

They give us, for the first time, broad perspectives on productivity changes among a variety of Federal activities. Here are some of the top findings of the data collected by

the joint team for the six fiscal years 1967 - 1972.

-The Federal activities in the sample showed annual rates of productivity improvement which varied from a low of 1.1 percent in 1969, to 2.8 percent in 1970, with an overall average gain of 1.7 percent.

-In terms of reduced payroll costs, including fringes, the average savings resulting from productivity improvements has been \$300 million per year--accumulating to \$1.5 billion in fiscal year 1972.

-But the Federal sector is probably the world's largest and most diversified conglomerate. It includes a number of organizations which have been increasing their productivity at five percent or more per annum--an excellent record. It includes other group activities which have shown declining productivity. And it includes activities whose productivity has tended to remain flat during the past few years. Hence a simple index of Federal productivity change, like trends in the productivity and profits of business enterprise as a whole, includes wide extremes.

This brings me to the second finding of the joint research project during the past two years, which analyzes:

FACTORS WHICH CAUSE PRODUCTIVITY  
CHANGE IN THE FEDERAL SECTOR

Productivity measurement would be rather meaningless if it consisted only of gathering statistics and adding up the results.

The important point is this--what do we do about the index after we obtain it? We have discovered that this is the most important value of productivity measurement in the Federal sector.

The relevant questions are:

- Is the change which occurred the result of planned actions to improve either quantity or quality of performance?  
Or is the change simply a happenstance result?
- What are the positive and the negative factors which produced the result?
- How can we optimize productivity in relation to service to the public, accuracy of output, or other essential quality criteria?
- What will be the trend in the future? What can we do about it now?

The joint team has asked questions of this type of a number of Federal managers. For this purpose, they grouped the 187 reporting organizations into functional categories which have a similarity of work processes or program mission. Altogether, they identified 16 such functional categories for study. Let me select a few to illustrate the kinds of insights that productivity research is giving to Federal managers.



1. Automation and management improvements have reduced wage costs over \$200 million since 1967 in those organizations that maintain individual citizens' records.

This group of activities maintains records at some time or another on practically every citizen. They include, of course, the Social Security Administration, Internal Revenue Service, the Selective Service System, and others. Collectively, they employed 108,000 man-years in fiscal year 1972. Their gross output has surged ahead since 1967 at a rate of five percent a year. By use of automation and streamlined procedures, this group has been able to hold its employment growth to only two percent a year. Thus its productivity growth has averaged three percent a year; but in one year, it jumped five percent.

This is a case study in enlightened management planning--with the payoffs in productivity resulting from years of preparation, experimentation, and innovation.

2. The impact of automation on productivity has also been pronounced in the overhaul and repair of heavy equipment by the industrial activities of the Federal Government.

Here again we are dealing with large enterprises employing, collectively, 95,000 man-years. We found an annual rate of improvement in productivity of six percent--worth to the taxpayer between 1967 - 1972 at least \$350 million in lower payroll costs. A key reason for the improvement has been a reduction in employment through modernization of plant and equipment, while workload has remained at a high level. Looking

ahead, however, it is probable that the productivity gain will level off due to the reduction in military activities. Incidentally, the closing of unnecessary installations has been a contributor to productivity improvement in the past, since this has eliminated unnecessary capacity and made operations in the residual activities more efficient.

3. Fluctuations in the volume and complexity of work are a significant factor in productivity change from year to year.

Our studies reveal that activities experiencing continuous growth in workload--such as those involved in maintaining citizens' records, grant programs, power-generating activities, transportation, Postal Services, and the Regulatory Agencies--have also showed steady improvement in their output per man-year. The pressure of continuous growth appears to foster systems improvements and to provide incentives for innovation which increase the output per person. We find real concerns, however, among some of these activities as to whether proper standards of service to the recipient, or minimum levels of quality, are being maintained. Analysis of this concern must be one of our continuing study objectives.

On the other hand, we find that a steadily declining workload makes it difficult to avoid deterioration in productivity. Two examples of this emerged from our research this year. One involves the large number of activities which purchase, store, and issue supplies to Federal users throughout the world. They employ 155,000 personnel and manage four million items. These supply activities are primarily in the military services and the General Services Administration. With the winding-down

of Vietnam, their workload has been steadily dropping--at a rate, recently, of six percent a year. Surprisingly, however, these agencies, overall, have been able to avoid any loss in their productivity per man-year by reducing personnel assigned at least as fast as workload has decreased, as well as by a comprehensive program of mechanization. This is a very creditable accomplishment because it has meant a reduction in employment of 30,000 man-years--most within the past three years.

But activities in a down trend cannot always be so fortunate. Our study of 17 printing plants employing 13,000 personnel showed a steady drop in output with no reduction in employment since 1967--and a consequent decrease in productivity per man-year. Analysis of this trend revealed that under the agencies' policy of contracting out to commercial firms the easier jobs are being contracted--while the more difficult work is being kept in-house--thus reducing in-house productivity. There are also opportunities to improve our printing activities through modernization.

The last example I have chosen to illustrate is our research into what causes productivity change in Federal health care operations.

4. Federally-operated health care activities report that technology and constantly rising quality standards affect productivity.

Since 1967, total manpower assigned to medical facilities in the Defense Department, Veterans Administration, and Public Health Service has increased 11 percent, whereas the workload is up only two percent. As a result, output per man-year has dropped. But this is not cited to imply an undesirable trend.

Our medical managers report that it is a result both of more adequate staffing standards, and of the progress in medical technology which is steadily increasing the scope and cost of diagnostic and treatment procedures.

Now let us turn for a moment to the importance of capital investment as a contributor to productivity improvement.

#### THE IMPORTANCE OF CAPITAL INVESTMENT

##### IN PRODUCTIVITY IMPROVEMENT

John Kendrick has been a long-time pioneer and supporter of the effort to measure and enhance Federal productivity. He concludes that new and improved capital goods--including the R&D, education, and training required to create and use them--have contributed about 60 percent of the improved productivity in the private sector over a long period of time. In the light of this finding, the joint project team has studied the ways in which Federal agencies now select capital investment items for inclusion in the annual budget.

The team found that the Federal manager sometimes lacks the incentive and opportunity to seek funds for cost-reducing capital investments.

In the private sector, top management and the Board of Directors are likely to keep the spotlight on such opportunities and on their timely financing.

In the Federal sector, cost savings projects tend to drop out of tight budgets when they are in competition with items related to program requirements or current priorities, such as pollution abatement, health, and safety.

To document the opportunities for more timely financing of productivity improving investments, the joint study team obtained data on unfunded projects from 14 agencies, and selected a number for analysis. The sample identified 394 projects which would be self-liquidating in less than three years--with one-time savings of \$61 million, and recurring annual savings of \$65 million. This sample is believed to cover only about half of the opportunities. Examples are modern materials handling equipment, tape-driven machine tools, automated laboratory equipment, mechanized warehouse, consolidation of facilities, and others.

The joint team's conclusions for accomplishing this very obviously desirable objective are:

- First, the need for clear visibility in the Federal budget process of capital items with productivity-enhancement potential. This will require that such items be submitted by all agencies whether or not they fit within agency budget ceilings, and thus permit the Office of Management and Budget to consider the desirability of financing these projects.
- Second, expert attention to the development of high payoff capital investment opportunities. A number of Federal agencies lack the engineering expertise to identify the most promising opportunities. Hence the joint project team has concluded that full-time attention by a central management agency, such as the Office of Management and Budget or the General Services Administration, should be provided in order to assist agencies to seek out opportunities and document their economic potential.

- Third, there must be better audits of actual results obtained.

One reason why such projects have tended to lack credibility and support in the past has been the failure to demonstrate that the benefits claimed were in fact, achieved--or if not, to evaluate the reasons.

- Fourth, timely financing. While the joint study group has given considerable attention to special funding techniques, it has concluded that the above steps should be accomplished first, and their benefits fully tested. At that point the need for additional financing techniques--such as the Productivity Bank--can be further assessed.

I would like to conclude my remarks by mentioning briefly:

OTHER FACTORS WHICH PROVIDE  
INCENTIVES AND DISINCENTIVES  
TO PRODUCTIVITY CHANGE IN THE  
FEDERAL SECTOR

I am sure we all agree that productivity improvement will not succeed if it is simply and primarily aimed at driving employees to work harder. Richard Gerstenberg, Chairman of General Motors, captured our key findings in the following statement:

"I regard productivity as a measure of management's efficiency, or lack of efficiency, in employing all the necessary resources--natural, human, and financial."

John Kendrick has stated this theme, as follows:

"I believe that productivity measurement is even more important in increasing 'productivity-mindedness' and focusing managment thinking on ways and means of cutting real unit costs and thus enhancing productivity advance in the future."

In our discussions with several hundred Federal managers during the past two years, we have been told that managerial initiative is sharply reduced:

- When arbitrary personnel ceilings make it impossible to maintain adequate service standards, or result in the accumulation of intolerable backlogs.
- When the requirement to reduce average salaries results in employing less qualified personnel who have higher attrition in the first year, and less promotion potential.
- When savings achieved are withdrawn and made available to less efficient activities or,
- When mandatory personnel cuts are applied, equally, to those who have achieved greater efficiency and to those who have not.

There are no easy solutions to such complaints since they are, in large measure, indicators of the need for a more enlightened attitude by top management in encouraging and rewarding good management. We plan to highlight good and poor experiences through continuing case studies.

We are likewise interested in the improvements which arise from providing employees broader opportunities to be involved in the final products of their organization, through such techniques as job enrichment, job restructuring, and participative management. In collaboration with the National Commission on Productivity, we are now sponsoring a series of experiments in selected Federal activities.

Among case studies showing significant results in the experience of the Bureau of Customs in completing the processing of incoming foreign mail parcels at the gateway points, such as San Francisco, in lieu of forwarding the mail on to inland customs offices for final examination and distribution. This change has not only reduced the time required to process the mail, and increased productivity by eliminating an additional handling—but it also placed final responsibility on employees at the port of arrival and resulted in an upgrading of their jobs. As a consequence, everyone has benefited. We want to encourage more cases of this type.

#### CONCLUSION

While the joint research effort which I have been describing terminates on June 30 of this year, we are designing a permanent program to measure and enhance Federal productivity. We have found that the problems in measuring productivity in the Federal Government are not greatly different from those in the private sector, and the benefits are equally great.

I am proposing that the Federal Government continue to collect and analyze productivity data, annually, and to report to the President and to the Congress. We are pleased that the Bureau of Labor Statistics is preparing to serve as the data gathering, reviewing, and publishing agency for Federal sector indices, just as it now does for the private sector.

Last summer, when Senator Proxmire was apprised of the initial results of the joint productivity studies, he issued a press release in which he said:



"Now we have conclusive evidence that the Federal employee, like his counterpart in private industry, is contributing its part to progress in the American economy."

I consider this statement to be a sound conclusion for the past several years. It is my objective to support efforts which will continue to increase Federal productivity as one means of assuring the effectiveness of Federal programs and a full return on the taxpayers investment in governmental services.

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