

EXECUTIVE OFFICE OF THE PRESIDENT
PRESIDENT'S ADVISORY COUNCIL ON EXECUTIVE ORGANIZATION
WASHINGTON, D. C. 20506

November 19, 1970

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR

THE PRESIDENT

The attached Memorandum contains our recommendations to you on the organization of social and economic programs. We have summarized them for you below.

1. We believe that the current departmental structure does not reflect the purposes of the social and economic programs, but reflects rather functions and means which should be subordinated to purpose. To correct this underlying deficiency we recommend restructuring the organizations which administer those programs in accord with three major purposes: individual well-being, community development, and economic growth and productivity.

To do this we propose that five departments and four independent agencies be merged into three departments: A Department of Human Resources, a Department of Community Development and a Department of Economic Growth and Productivity.

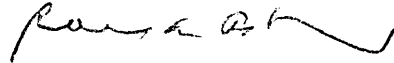
2. One of the independent agencies eliminated by this recommendation is OEO. We recommend the termination of OEO by transferring its operating programs to two of the new departments, its Legal Services program to a government corporation and its government-wide functions for research, information and evaluation to the OMB and the Domestic Council.
3. We believe the Federal field system requires major reorganization. In this area we have recommended:

- a. the delegation of project grant decision making and formula grant plan approval to the regional offices of each Department;
 - b. the upgrading of staff capabilities at the regional level;
 - c. that each Departmental Regional Director have line authority over all regional executives of his Department. The line of authority would run from the Secretary to the Regional Directors. Regional Directors would be appointed by the Secretaries with Presidential approval;
 - d. the strengthening of the Federal Regional Councils by providing their Chairmen with staff, direct liaison with Washington, and placing other regional coordinating bodies under their supervision; and
 - e. the OMB and the agencies undertake intensified analysis of Washington-based coordinating bodies, eliminating those which aren't useful.
4. We believe that your revenue sharing proposal goes a long way toward resolving many grant problems, but it will not replace immediately the categorical grant-in-aid system. That system must be simplified and made more rational. We have recommended that the OMB give organizational emphasis to grant simplification and be given authority to determine both the boundaries for local planning districts and the organizations to carry out the required planning.
 5. To improve the ability of governors and mayors to manage more effectively, we have proposed establishing an Executive Management Grant program. These funds would be "free money" for the governors and would replace funds now received through Regional Commissions, HUD 701 grants, and others.
 6. Finally, we believe that the Regional Commissions are an unnecessary administrative layer and we have recommended their termination. In our proposal, their functions would be absorbed by the EDA. The funds allocated to their planning function would be reallocated to the Executive Management Grant program listed above.

In our view, the implementation of these recommendations will strengthen the management of government activities to the end of accomplishing some of the domestic goals whose accomplishment now eludes us.

On behalf of the Council,

Respectfully submitted,



Roy L. Ash
Chairman

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT
PRESIDENT'S ADVISORY COUNCIL ON EXECUTIVE ORGANIZATION
WASHINGTON, D. C. 20506

November 19, 1970

MEMORANDUM FOR

THE PRESIDENT

SUBJECT: Organization for Social and Economic Programs

Over the past year we have studied the organization of the Federal Government for the delivery of social and economic programs and services. We have concluded that major structural changes both in the alignment of agencies and in the processes of administration of their programs are necessary if performance is to fulfill promise.

Federal effort in aid of social and economic improvement has expanded vastly in recent decades, but improvements in the institutions of government to deliver this aid effectively have not kept pace with performance requirements. Policies are often conformed to existing institutions and structures rather than institutions being modified to make them responsive to changes in policy. An important reason we are proposing major organizational reform is our conclusion that agencies and processes must be restructured to accord with the increasing social and economic responsibilities of the Federal Government.

In the course of our study we have accumulated very large amounts of data, wide samples of opinion and have analyzed the thoughtful recommendations of the many groups and individuals who have been concerned in the past about these problems.

This Memorandum and its accompanying Appendices is a distillation of a large body of supporting material and research. The complexity and breadth of the issues is reflected in the volume of the material which has been developed.

The sources of our fact finding efforts are summarized in the next few paragraphs. Our staff interviewed in person about 400 individuals, including members of Congress, key officials of Federal, State and local governments, as well as professionals in universities and representatives of special interest organizations. In addition, at the local level, 388 Community Action and Model Cities agencies and 38 mayors responded to a mailed questionnaire, and over 530 recipients of social programs were interviewed. The staff conducted intensive surveys in two geographic areas: a predominantly agricultural county in Oklahoma, Muskogee, and a northeastern industrial city, Pittsburgh. The consensus among these individuals and groups supported

the need for change and, of those who related that need to organizational restructuring, most favored simplification of present arrangements.

Our study also included a review of the reports of previous studies on Government organization: the President's Committee on Administrative Management, 1937, chaired by Louis Brownlow; the Commission on Organization of the Executive Branch, 1949, chaired by Herbert Hoover; the second commission of 1955 chaired by Herbert Hoover; the Temple University Survey of Federal Reorganization of 1953; the Report on the Status of the Hoover Commission Recommendations by Meyer Kestnbaum of 1956-1958; the President's Advisory Committee on Government Reorganization chaired by Nelson Rockefeller, 1953-1960; the President's Task Force on Government Organization chaired by Don Price, 1964; the President's Task Force on Government Organization led by Ben Heineman, 1967; the President-Elect's Task Force on Organization of the Executive Branch led by Franklin Lindsay, 1968-1969; the President-Elect's Task Force on Intergovernmental Fiscal Relations directed by Richard Nathan, 1968-1969; and the continuing work of the Advisory Commission on Intergovernmental Relations.

The reports of Congressional committees and the extensive material prepared by the social and economic program agencies themselves also provided useful background for our study.

Our analysis covered those agencies of Government which carry out the bulk of the Federal Government's social and economic programs.

These are principally, but not limited to the:

- Department of Agriculture
- Department of Commerce
- Department of Health, Education, and Welfare
- Department of Housing and Urban Development
- Department of Labor
- Small Business Administration
- Office of Economic Opportunity

Activities of other Departments and agencies also bear upon the economic and social problems which face the Nation. While the Council reviewed the programs of these other agencies, our study concentrated on those institutions most responsible for carrying out social and economic policy and those areas where structural improvements would yield the greatest overall benefits at this time.

Initially, we limited our study to the social program agencies. As our study progressed, it became clear that the interdependency of these programs with activities covering economic growth and development required consideration of the organization of government to develop and

implement many aspects of economic policy. The study, therefore, was broadened to include economic programs.

Some of the reforms we propose have been suggested by previous study groups. That they are still urgently needed is an indication of the intransigency of organizational problems.

THE CHARACTERISTICS OF FEDERAL ORGANIZATION
FOR SOCIAL AND ECONOMIC PROGRAMS

The organizational problems of the social and economic program agencies are diverse and complex. They have emerged over a long period of time and are intensified both by the additional responsibilities which the legislation of the past decade has imposed on the Federal Government and the absence of consistency in the principles around which the Federal Government is organized.

In broadest terms, these problems are:

- ° The effective pursuit of National social and economic goals is impeded seriously by ambiguity in the definition of agency missions and the jurisdictional rivalry between agencies inherent in the Departmental structure of the Executive Branch.
- ° Both the exercise of executive leadership and the decentralization of authority to Federal field offices is made difficult by the existing Departmental structure, and the form and content of the delegations of authority from Washington agencies to their field offices.

- ° The absence of an overall government view of the grant process centered on results has led to great inefficiency in that process, damaging to the credibility of the Federal Government and diminishing the effectiveness of the programs in which grants-in-aid are used.
- ° A serious by-product of the Federal grant-in-aid process is the undermining of the leadership capability of governors and mayors and the priorities of local governments.

The structures of the Federal social and economic program agencies are based on different organizing principles. Some are organized around functions such as health or education and some are based on a concern for the interests of special groups to be served such as small business or farmers.

As new social and economic needs have been identified, new programs have been added altering the missions of these agencies. For example, the Department of Agriculture, created in 1862, to serve mainly the interests of the farmer, now serves a much broader constituency which includes agri-business interests and non-farm rural citizens. The functions of the Department of Labor too, have changed from special emphasis on the rights of labor toward manpower training especially of the disadvantaged.

The lack of consistency in the organizing principles of the Federal Departments has created serious problems for managing the social and economic agencies and as a consequence, realizing the goals of these agencies. Inadequate delineation of Departmental missions inevitably leads to duplication of programs and interagency conflict over program jurisdiction. Departmental as well as White House administrative energies too often have been diverted to resolving these jurisdictional issues.

The present organizational structure encourages fragmentation when comprehensive responses to social and economic problems are needed. Problems are defined to fit within the limits of organizational authority, resulting in piecemeal approaches to their solutions by separate departments and agencies.

But perhaps the most serious impediment to effective management of social and economic programs posed by the current organizational structure is the difficulty of establishing accountability for performance. The public holds the Administration accountable for effective government, but without relatively clear and discrete assignments of responsibility, it is difficult to hold line officials truly accountable. Department heads find that accountability for each objective is so diffusely spread among agencies as to frustrate their attempts

to establish any meaningful measure of their own or their subordinates' success.

The Federal field structure reflects and compounds the problems of the Departmental structure. It is characterized not only by the conflict inherent in the absence of a common organizing concept but by both a lack of authority to act, even when action is possible, and the lack of strong field leadership.

The complexity of Federal field structures now containing 65% of the employees of the social and economic program agencies, is described elsewhere in this Memorandum. But despite its complexity, these structures have several common characteristics.

- ° Management in almost all Departments and agencies is highly centralized in Washington, leaving to field offices very limited management authority.
- ° Reporting relationships with few exceptions run from office or bureau units in the field to their counterparts in Washington, by-passing both the Departmental Regional Directors and the Departmental Secretaries.
- ° Most Federal field operations interact heavily with their functional counterparts in State and local governments and very little with the general managements of local government, the governors and mayors.
- ° Field operations are heavily dependent on Washington approvals severely limiting the scope of action which field offices may take to resolve interagency issues which arise in their geographic areas.
- ° Information systems which might permit the exercise of greater field discretion do not exist. Consequently, Washington level direction is often given without direct knowledge of the local situation.

We have found at least two points of difference among the field structures of these agencies.

- ° The levels of authority delegated to their Regional Directors, while rarely adequate, vary markedly from agency to agency.
- ° While some agencies notably the Department of Housing and Urban Development, have moved vigorously to decentralize operations, others have moved not at all. The results are increasingly disparate capacities to manage Federal field operations.

The grants-in-aid of the Federal Government have doubled in the past decade and now account for about 14% of the Federal Budget.

The necessity of administering to the rapid growth of Federal grant programs has left unresolved two problems which have serious implications for the credibility of Government and the continued strength of the Federal system.

- ° The categorical grant system often bypasses the chief executives of State and local governments. This diminishes their ability to control expenditures within their jurisdictions, imposes Federal program priorities where they may be relatively inapplicable and reduces the practical authority which the chief executive may exercise over the recipient bureaucracies in his area.
- ° The grant process reflects the defects of Federal Departmental organization. In the absence of clear mission definition and strong Departmental leadership, a maze of guidelines, conditions, reporting requirements and the like, have emerged from each administering agency. These have produced for recipients at all levels, confusion and later, frustration with what appears to be a system without rationality.

Attempts to reform the grant process have had indifferent success although certain efforts, notably revenue sharing described in Appendix 5, are promising. Revenue sharing, however, even if accepted by Congress, is not likely to displace the categorical grant system in the foreseeable future. Because the defects of the grant system are at least in part, a reflection of the defects in the structure of Departments and field operations, they will persist unless we act now to restructure the agencies which administer grant programs.

THE OBJECTIVES OF ORGANIZATIONAL REFORM

Certain objectives of organizational reform have evolved as we have considered alternatives for resolving the problems of social and economic agency organization. We have been guided by these concepts in the specific recommendations which we have made.

- ° Organization for social and economic programs should be based on the major purposes of these programs and this principle should apply to all organizations where possible, at both the inter and intra-departmental level. When organizations conform to this concept, clear lines of authority and responsibility from the President and the Department Heads are possible.
- ° The Departmental mission and constituency should be broad enough to foster a large measure of conflict resolution and policy discretion within each Department and to minimize the need for interagency coordination. Departments so organized can settle inter and intra-agency disputes and select program strategies at a level below the President.

- ° The number of agency heads directly accountable to the President should be reduced in order to increase the possibility of meaningful direction from and contact between the President and the major line officials of his Administration.
- ° The Departmental structure should be designed to avoid the pressure on Departments to take advocacy positions and to assure greater responsiveness to policy direction from the President. Such a structure will increase the President's freedom to select men who approximate his perspective and free him from the necessity of choosing between or ignoring, line subordinates who are forced by responsibilities to assume a more narrow perspective and to reflect parochial interests in their advice to the President.
- ° Similar and interdependent programs should be brought together to the maximum possible extent providing a single organizational location for a given social program objective. This will assure accountability, reduce the need for coordination across departmental lines and provide in one place the elements needed to make trade-off decisions in pursuit of that objective.

We have concluded that substantial change in departmental structure is needed. We are well aware that sweeping organizational changes are difficult to accomplish and not to be undertaken lightly. However, after a very careful examination we have rejected more modest approaches for we believe that they will not solve the management problems that challenge Government today.

We recommend that Federal social and economic programs be merged into three major line Departments:

- ° A Department of Human Resources;
- ° A Department of Community Development; and
- ° A Department of Economic Growth and Productivity.

THE COUNCIL'S VIEW

PROPOSED DEPARTMENTAL STRUCTURE

The principal rationale for our organizational proposals is our view that there are three clearly identifiable objectives of all governmental social and economic policies and programs. These are:

- ° The development and well-being of individuals and families;
- ° Improving the quality of urban and rural communities; and
- ° Maintaining and strengthening the American economy.

We believe these purposes are both comprehensive and permanent and provide a practical basis for designing a structure of organization which can deal effectively with many issues which arise in the areas of social and economic concerns. We have given our rationale for these recommendations in greater detail in Appendix 1.

On the pages which follow, we are recommending the consolidation of five present Departments and four existing independent agencies into

three Departments; each to be concerned with one of the broad policy and program objectives of governmental social and economic concerns.

In proposing this reorganization, our intention has been to create a broad framework into which other existing and new activities may from time to time be placed. Consequently, we have not proposed the transfer of all those agencies which might logically have been included. For example, we have not proposed a change in the organizational relationship of the Veterans Administration, although at some future time it may be desirable to consider one.

The next several pages present the concepts of a Department of Human Resources, a Department of Community Development and a Department of Economic Growth and Productivity.

Department of Human Resources

The core of the proposed Department of Human Resources would be the Department of Health, Education, and Welfare. The new Department would be structured to assist individuals and families in their personal development and well-being.

To achieve these objectives, it will be necessary to bring into the Department those programs, such as manpower training and unemployment insurance, which are essential parts of the strategy for assisting in the development of individuals and families. By bringing

together most of the programs whose primary purposes are individual well-being, the Department would be able to deal effectively with the range of options which bear on its mission.

As shown in the chart on the next page, we suggest that the Department of Human Resources be structured to deal with policy and programs in four areas. These are: Health, Income Maintenance and Security, Education and Manpower, and Social and Rehabilitation Services.

The following major shifts of present activities to the new Department are proposed:

from: The Department of Health, Education, and Welfare

The entire Department excluding certain construction programs

from: The Department of Labor

The Manpower Administration and the Bureau of Employees' Compensation

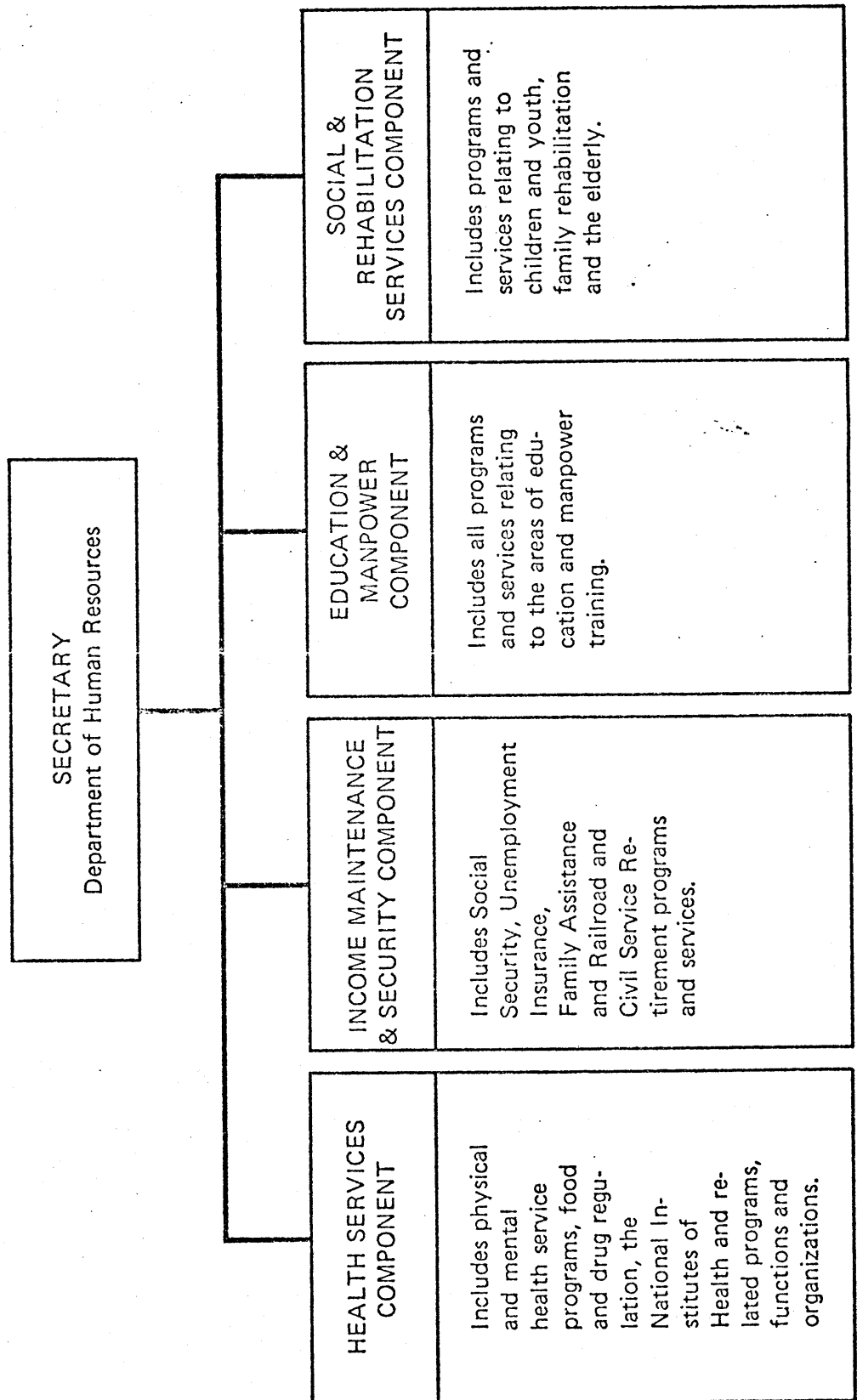
from: The Department of Agriculture

The Food and Nutrition Service

from: The Office of Economic Opportunity

The migrant, health and nutrition programs, and manpower training programs now delegated to the Department of Labor, and Head Start and Follow Through, now delegated to the Department of Health, Education, and Welfare.

PROPOSED DEPARTMENT OF HUMAN RESOURCES FUNCTIONAL COMPONENTS



from: The Department of Justice

The Office of Science and Drug Abuse Prevention
and the Narcotics Addict Rehabilitation Act Unit

from: The Railroad Retirement Board

The entire Board

from: The Civil Service Retirement and Disability Fund

The entire program

In Appendix 2 we have described in greater detail the rationale and the components of the proposed Department.

Department of Community Development

The Department of Community Development would be an evolution from the more narrowly focused Department of Housing and Urban Development. This new Department would have a broadened mandate to assist in the development of sound physical and social settings for the Nation's rural, suburban and urban communities. The creation of this Department would merge programs of the Department of Housing and Urban Development, with the urban and rural community development programs of the Office of Economic Opportunity, the rural community development programs of the Department of Agriculture, and many public facilities construction programs of the Department of Health, Education, and Welfare.

The emphasis of this Department should be to provide leadership and assistance to the planning and priority setting roles of State and local governments. With this emphasis, the regrouping of programs should enhance Federal relationships with State and local governments and encourage coherent planning and development of communities, both old and new. The Department would also serve as the focus for volunteer and community self-help programs such as VISTA. We also propose combining in the Department the activities of the Community Action and Model Cities programs.

To enable the Department to accomplish its mission, the following major activities would be transferred to it from existing Departments and agencies:

from: The Department of Housing and Urban Development

The entire Department

from: The Department of Health, Education, and Welfare

Construction programs such as Hill-Burton
for hospitals; community mental health,
Indian sanitation

from: The Department of Agriculture

The Farmers Home Administration, the Rural
Community Development Service, and elements
of the Extension Service

from: The Office of Economic Opportunity

The Community Action Program, VISTA, Special Impact programs, and the rural economic opportunity loan program which has been delegated to the Department of Agriculture

The chart on the next page shows the Department of Community Development and its major functions. In appendix 3 we have described in greater detail the rationale and the component activities of the proposed Department.

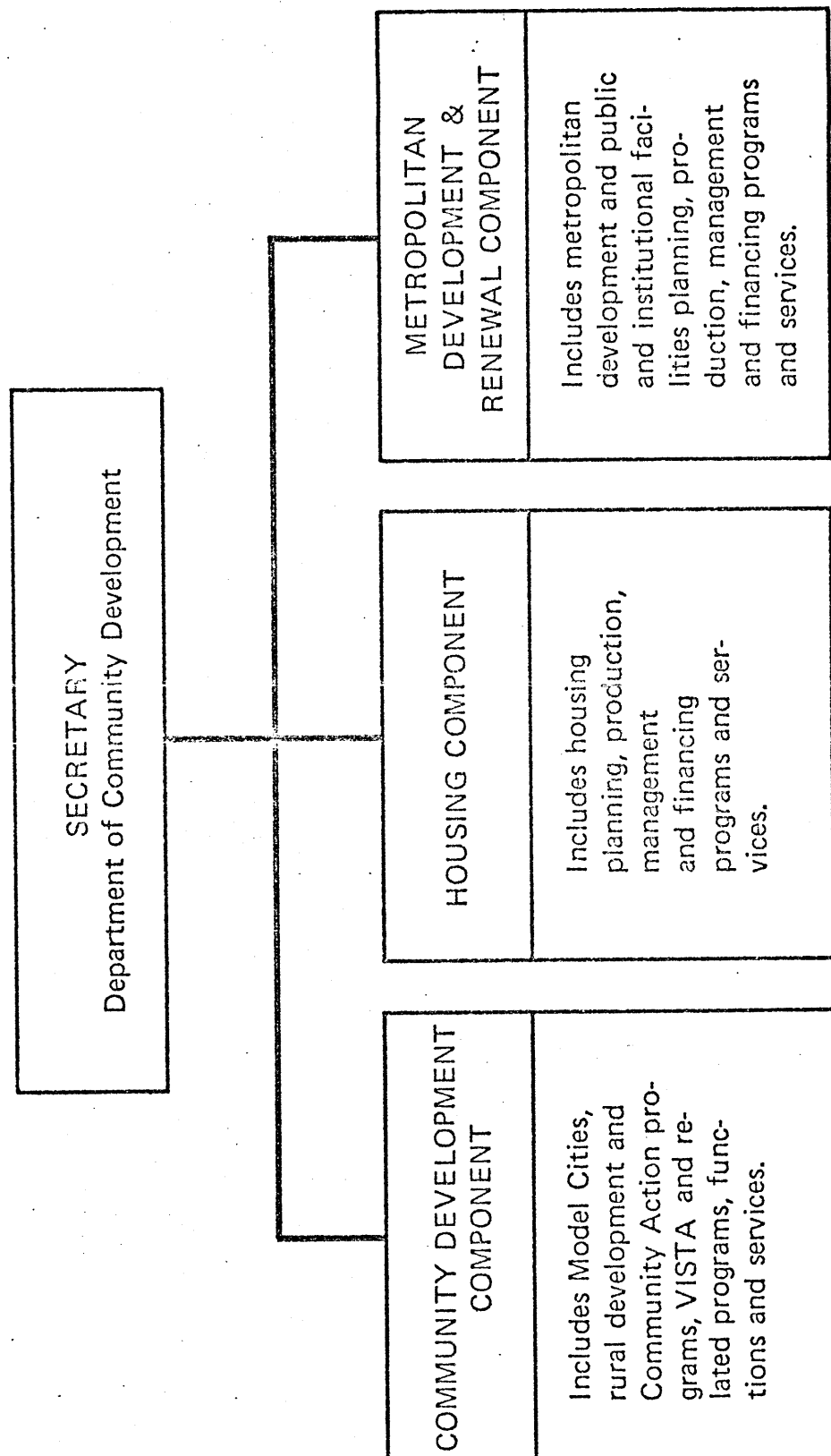
Department of Economic Growth and Productivity

The time is long since past when the Federal Government can continue a piecemeal approach to its critical role in keeping the American economy productive, growing and competitive.

We believe that a continuing and vigorous effort to promote economic growth is a matter of highest national purpose which warrants recognition as the primary mission of a Cabinet Department. Consequently, we are proposing the formation of a Department of Economic Growth and Productivity whose mission would be to stimulate balanced and sustained economic growth.

In fulfillment of its mandate, the new Department would accommodate all economic interests to achieve efficient and harmonious development

PROPOSED DEPARTMENT OF COMMUNITY DEVELOPMENT FUNCTIONAL COMPONENTS



of the economy, domestically and internationally. More specifically, it would:

- ° Provide advice to the President, in concert with other economic advisors, on the formulation of national economic policy;
- ° Implement a broad range of economic programs cutting across traditional lines of interests to achieve overall policy objectives;
- ° Provide information for the public and other government agencies to develop understanding of economic policy and provide basic economic and demographic information needed by both the private and public sectors;
- ° Provide marketing and technological data, set standards, and develop promotional programs in the interest of the overall economy;
- ° Enhance the opportunity for all factors of production to receive a fair share of economic growth;
- ° Promote economic development in lagging regions and carry out Federal programs which provide economic assistance to minority and small business enterprises; and
- ° Provide an integrated focus for Federal efforts to promote international trade.

This new Department would absorb two of the Federal Departments dominated by clientele-oriented objectives, namely the Departments of Commerce and Labor and much of a third, the Department of Agriculture. It would provide leadership with primary rather than partial responsibility for the appropriate governmental contributions to the healthy development of the economy. In doing so, it would provide a single

focus to relate and hopefully to integrate, the views of all sectors of the economy; functions which must be performed continuously if the Nation is to enjoy balanced and sustained economic growth. A Cabinet officer with this mandate should be able to forestall, reconcile or resolve many business-labor-consumer problems that now can be resolved only in the Executive Office of the President.

To enable the Department to accomplish its mission, the following major components would be transferred to the Department of Economic Growth and Productivity:

from: The Department of Commerce

The entire Department including program functions of the Regional Action Planning Commissions (Title V) and excluding the National Oceanic and Atmospheric Administration which would be transferred to the proposed Department of Natural Resources

from: The Department of Labor

The entire Department excluding the Manpower Administration and the Bureau of Employees' Compensation which would be transferred to the proposed Department of Human Resources

from: The Department of Agriculture

The entire Department excluding the Rural Electrification Administration, the Forest Service, the planning functions of the Soil Conservation Service which would be transferred to the proposed Department of

Natural Resources; the Farmers Home Administration which would be transferred to the proposed Department of Community Development and the Food and Nutrition Service which would be transferred to the proposed Department of Human Resources

from: The Small Business Administration

The entire Administration

from: The U. S. Tariff Commission

The entire Commission

from: The Department of the Treasury

Its functions to investigate and enforce antidumping regulations

from: The Department of State

Its functions now performed by commercial attaches

from: The Federal Field Committee for Development in Alaska

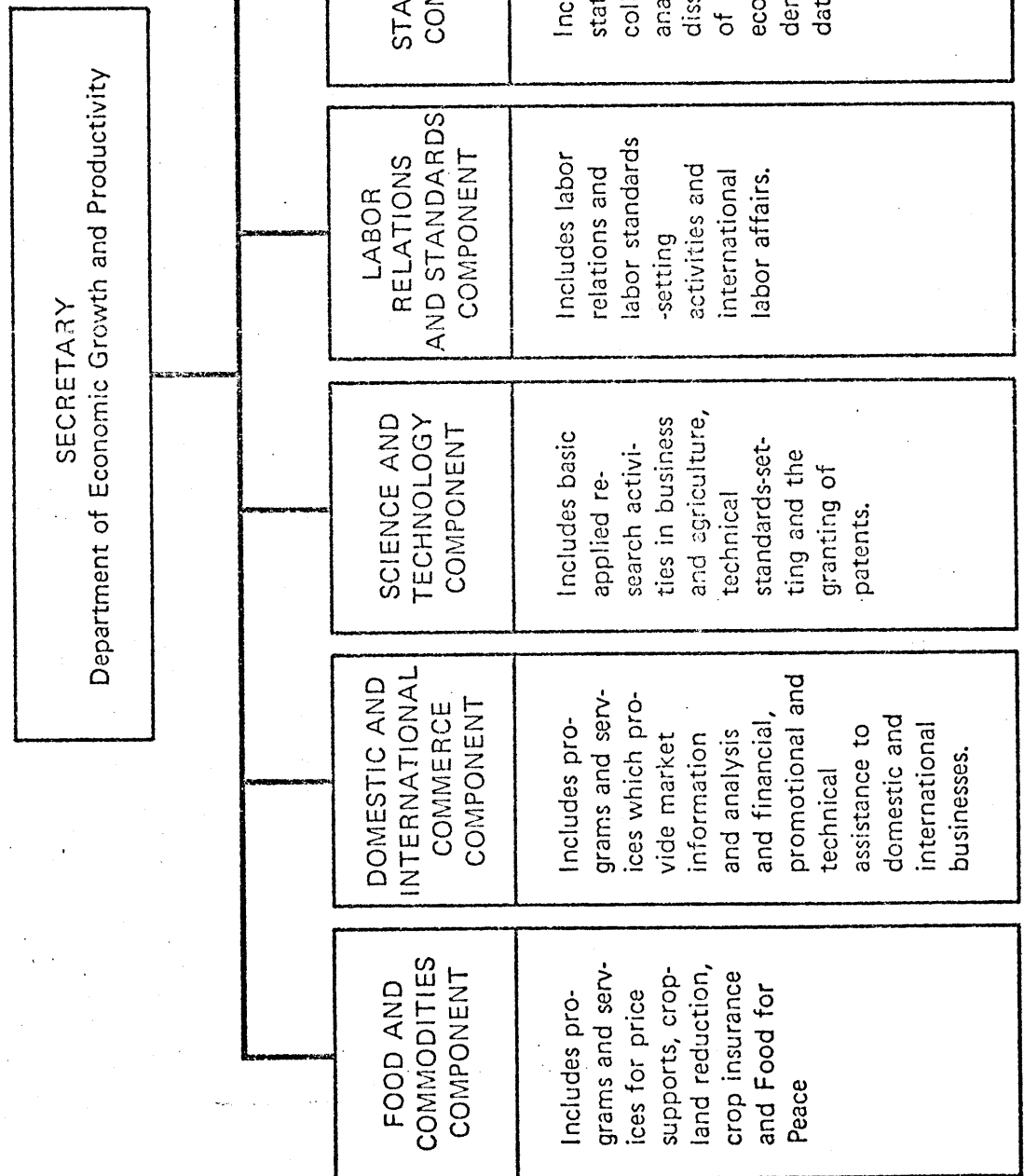
The entire Committee

from: The Appalachian Regional Commission

All program functions of the Commission

The chart on the next page depicts the proposed Department of Economic Growth and Productivity and its major functions. In Appendix 4 we have described in greater detail the rationale and the component activities of the proposed Department.

PROPOSED **DEPARTMENT OF ECONOMIC GROWTH AND PRODUCTIVITY** **FUNCTIONAL COMPONENTS**



ADDITIONAL TRANSFERS AFFECTING THE EXECUTIVE OFFICE OF THE PRESIDENTResearch and Evaluation Functions of the Office of Economic Opportunity

In our Memoranda for the President dated August 19, 1969, and October 26, 1970, we urged that operating programs within the Executive Office be transferred, retaining within the Executive Office only those policy-making and management functions appropriate to the Presidential level of attention. Consistent with these views, we have already recommended in this Memorandum that most of the operating programs of the Office of Economic Opportunity be transferred to the proposed departments. Among the responsibilities of the Office of Economic Opportunity which remain are those for government-wide research and evaluation of social programs. These responsibilities now duplicate functions which in recent months have been assigned to the Domestic Council and the Office of Management and Budget.

Accordingly, we recommend that the Office of Economic Opportunity's responsibilities for government-wide policy research and for innovative research and development be transferred to the Domestic Council. The Domestic Council's role in innovative research and development should be focused on defining issues which require exploration and on setting research objectives. The Office of Economic Opportunity's responsibility for evaluation of Federal social programs should be transferred to the Office of Management and Budget.

As a practical matter, the line departments can be expected to carry out these research and demonstration programs and projects defined by the Domestic Council, and would continue to conduct research, demonstration projects and program evaluation specific to their missions. But the Domestic Council would determine what should be tried and by whom. Evaluation of the results of demonstration programs would be obtained through the Office of Management and Budget.

Information Functions of the Office of Economic Opportunity

The information activities of the Office of Economic Opportunity have taken on government-wide significance and should be merged with the similar responsibilities of the Office of Management and Budget.

We recommend that the Office of Economic Opportunity's information program, including the Federal Information Exchange System, be transferred to the Office of Management and Budget.

Legal Services Program of the Office of Economic Opportunity

Legal Services is an operating program of the Office of Economic Opportunity. As such, we believe strongly that its retention in the Executive Office of the President is inappropriate. At the same time, it is a unique Federal program which extends the benefits of the adversary process to many who do not have the ability to seek legal help. The program has had the continuing support of its clients and of

the legal profession. It has stimulated new interest and opportunities for legal experience in representing new and deserving clients.

In our view, this program should be placed in an organizational setting which will permit it to continue serving the legal needs of the poor while avoiding the inevitable political embarrassment that the program may occasionally generate.

The transfer of the program to a line department is undesirable because of the paradox of retaining within the Executive Branch a program funding lawyers who challenge administrative procedures and may, and often do, sue agencies of the Executive Branch. The adversary process and the advocacy role would be inhibited by the subordination of this program within a department. Similarly, the transfer of Legal Services to the Judiciary would bring into question the judicial objectivity of that branch.

We believe that the objectives of the Legal Services Program will be achieved best by making it an independent operation. This would be accomplished by creating a government corporation. The corporate form would be a step toward the eventual reprivatization of this program, while recognizing the need for the continued financial support and protection of the Government for a still fledgling activity.

Therefore, we recommend that the functions of the Legal Services Program be transferred to a non-profit corporation chartered by Congress.

This proposal is described in greater detail in Appendix 6.

RESTRUCTURING THE FEDERAL FIELD ORGANIZATION AND THE GRANT-IN-AID PROCESS

Throughout this study our concern has been to discern how, through organizational changes, the hand of responsible management at the Federal, State and local levels of government might be strengthened. We have concluded that the principal changes which would contribute to this objective are:

- ° The organization of Departments around the central purposes of the social and economic programs;
- ° The responsible decentralization of Federal program decisions to the field;
- ° The simplification and rationalization of the entire grant-in-aid process; and
- ° The augmentation of the management resources of governors and mayors.

We have dealt in the preceding sections of this Memorandum with the organization of Departments. This section deals with Federal field structure, improvement of local government and the Federal grant-in-aid system. In addressing these areas, we are mindful of the

President's address of August 1969, on the New Federalism in which he stated:

A third of a century of centralizing power and responsibility in Washington has produced a bureaucratic monstrosity; cumbersome, unresponsive, ineffective.

In addition to proposing the devolution of authority to State and local governments through such programs as revenue sharing, the President directed the decentralization of departments and agencies most directly involved in providing Federal assistance to states and localities. With these thoughts we are in complete agreement.

Decentralizing Program Authority to Regional Offices and Councils

While we believe that a major revision of the structure and process for grants-in-aid to State and local governments is long overdue, the key to effective decentralization of Federal operations is relocating decision-making authority for granting funds. This is the case not only because of the authority inherent in the ability to allocate funds, but also because most decisions will be better made as close as possible to the point where local differences can be accommodated.

As one step in making decentralization of program authority a reality, we recommend that project grant decisionmaking and formula grant plan approval be delegated to regional offices.

This delegation of authority to the field should exclude: (1) new programs for as long as it takes to establish staff capability and program policy; (2) research and demonstration programs; and (3) programs where the number of cases is sufficiently few to make centralized decisionmaking more efficient.

The effect of this recommendation would be to significantly alter the roles of Washington and field office personnel. The role of regional staffs would change from providing information on Federal programs and advising the central office on grants, to actually making grant awards subject to policy direction and performance review from the Washington office. As a more substantive and responsible part of the Federal Government, regional offices would be better able to attract and retain qualified staff.

At the Washington level, smaller staffs would retain the central program management functions of policy development, program monitoring and evaluation, technical assistance, staff development, public and Congressional relations, budgeting and the like. Non-grant programs such as those involving the provision of direct services or research could remain in Washington.

Strengthening the Quality and Quantity of Regional Staffs

To add new responsibilities to regional offices without strengthening the field structure would place serious burdens on regional staffs already spread thin and would jeopardize effective decentralization.

Consequently, we recommend that staff capabilities at the regional level be upgraded by gradually shifting staff from Washington, increasing the number of supergrade positions in the field and raising the quality and quantity of regional personnel training.

Clarifying the Line Authority of Departmental Secretaries and Regional Directors over Regional Activities

Responsiveness to State and local needs through decentralization is only part of the reform needed in the Federal field structure. The bureaus and agencies of the Federal Government as they affect field actions need to be more responsive to Departmental and Presidential policies.

Today, the Federal field structure is often a collection of separate services and bureaus reporting directly back to Washington bureaus with little Departmental control either at the regional or Washington level. In the Department of Health, Education, and Welfare, for example, regional sub-units, with the exception of those of Social

and Rehabilitation Services, have traditionally reported directly to their counterparts in Washington, rather than to Health, Education, and Welfare's Regional Director. While plans for decentralization even now in progress, strengthen the regional directors, they will still lack line authority over program heads in their geographic areas.

To assure the responsiveness of the units within a Department to Departmental and Presidential policy, the authority of the Secretary and the Regional Directors must be strengthened. We believe that with respect to the field structure, this requires that each Regional Director have line authority for operations in his region.

Therefore, we recommend that departmental Regional Directors have line authority over all regional executives and their programs. The line of delegation should be from the Secretary to the Regional Director who may then delegate to appropriate regional officials. The Regional Directors should be appointed by the Secretary with the approval of the President.

This should not be construed to limit the development of policies, programs and procedures, the technical guidance of programs or the evaluation of activities by Washington Bureaus or services. But it does contemplate that the Regional Director will have the line responsibility for program delivery.

Strengthening the Management of Federal Regional Councils

The lack of adequate program coordination hinders the effectiveness of programs. Interagency cooperation and issue resolution have always been difficult; yet, the need for cooperative action has become more pressing. Today's complex social and economic problems require programs working jointly both at the point of delivery and throughout the governmental process.

The more difficult issues of coordination occur when agency missions are in conflict, as they often are. At the present time, the resolution of issues between Departments depends on bargaining or referral for decisions to the Executive Office of the President. Existing bodies cannot resolve important operating and policy issues below the White House level.

The problem of coordination, difficult enough in Washington, is compounded in the field. The most recent devices to foster cooperative and joint effort of the social program Departments in the field are the Federal Regional Councils created in 1968. Although they have no inherent power or authority and have no funds to disburse, the Councils do provide a medium for communication, identification and resolution of conflicting policies and practices, and the development of joint programs.

They are the most comprehensive mechanism at the regional level for coordinating Federal social programs.

But the Regional Councils do not have appropriate staff and the Chairman has no authority beyond that achieved by the quality of his leadership. The Chairman, elected by the members of each Council, is a peer of the other members. His first loyalty and responsibility is to the activities of his own agency. If regional coordination is to be more effective, these defects in the Regional Council structure should be corrected.

We are unwilling to recommend that the Regional Chairman be the direct representative of the President, appointed by him with powers deriving from the authority of the President. Such regionalization of the Presidency would be inconsistent with our national concept of the separation of Federal, State and local governmental powers and would create a wholly new view of the constitutional delegation of the authority of the President.

Therefore, we recommend that the Regional Councils be strengthened by assigning a Washington-based official of the Office of Management and Budget of high career rank to serve each Regional Council. We recommend further, that provision be made for a regionally-based staff for each Council reporting to the Chairman, to serve as liaison with State and local governments and to carry out such tasks as may be assigned to them by the Chairman.

We support the practice of having the Chairman elected by the members of the Council. However, to alter the present peer relationship, each Regional Chairman must have direct control over the Regional Council staff and must develop a close working relationship with the representative of the Office of Management and Budget.

Clarifying the Coordination Role of Federal Regional Councils

If the Regional Councils are to be effective coordinating bodies, the number and authority of competing regional coordinating bodies should be curtailed.

We recommend, therefore, that all coordinating activities in each region be brought under the supervision of the Regional Council as the principal interagency coordinating entity.

One such mechanism is the Regional Interagency Coordinating Committee established for the Model Cities program. Another is the Cooperative Area Manpower System designed by the Department of Labor to coordinate the Federal programs dealing with manpower at all three levels of government.

At the local level, there are 25 Federal Executive Boards. Started in 1961, as a voluntary, interagency effort with no budget, the Federal Executive Boards have been useful in providing a forum for information exchange and for such joint efforts as combined action to increase minority employment.

We recommend that the Federal Executive Boards be retained as metropolitan coordinating mechanisms, reporting to the Chairmen of the Federal Regional Councils.

In Appendix 7 we have described briefly the rationale and organizational implications of these Regional Office and Council proposals.

Rationalizing the Washington-Based Coordinating Mechanisms

In Washington, the interagency scene is filled with coordinating groups established with hope, but now often existing in name only. It is estimated there are currently some 850 interagency committees, a number of which were established on a permanent basis.

It is recommended that the Office of Management and Budget and the Department officials concerned, intensify their analysis of each of the Washington level interagency coordinating committees and eliminate all which do not have genuine and continued usefulness.

Simplifying the Grant-in-Aid Process

The need for governmental reform extends beyond the restructuring of the Federal Departments and field organizations. Federal efforts in social and economic areas are carried out principally by formula and categorical grant assistance to State and local governments. In the past decade, these have vastly increased in number. For example, 260 such programs are administered by the Department of Health, Education, and Welfare alone.

State and local governments are faced with an unmanageable welter of requirements, limitations and bureaucratic processes. Each Department and agency, and often each bureau in the Department sets its own requirements, creating a potpourri of overlapping demands and jurisdictions, of rivalries and conflicts. There is no national Federal grant system, and no way in which State and local grant recipients can deal with the Federal Government in a uniform fashion. Continuation of these conditions promises increased waste and confusion and further damages the credibility of the Federal Government.

A greater uniformity of procedures for all Departments is possible. Indeed the need has been long recognized and the proposed solutions equally as long resisted. If greater uniformity can be accomplished, we believe the gains in Federal efficiency and credibility and the benefits to recipients would be incalculable.

To obtain the desired procedural uniformity, grant procedures require sustained and professional attention. This task cannot be left to the departments alone or to ad hoc interdepartmental committees. The perspective required can be found only at the level of the Executive Office of the President, and the Office of Management and Budget is the logical organization in that Office to direct the rationalization of grant procedures.

We recommend that the Office of Management and Budget give special and continuing organizational recognition to the task of rationalizing Federal grants management.

This task requires that the Office of Management and Budget:

- ° Set Federal grant policy guidelines, set and monitor process standards for Federal assistance programs, and install a government-wide clearance system for grant regulations;
- ° Review similar-purpose grant programs and recommend consolidations, changes in matching ratios and distribution formulas;
- ° Analyze the financial impact of Federal grants on State and local governments and the fiscal capacities of those governments to work with Federal Government programs; and
- ° Provide information centrally on the availability and nature of grant funds.

A recent step toward improving the administration of Federal programs for State and local level was the Intergovernmental Cooperation Act of 1968. The Office of Management and Budget Circular A-95 designed to implement this legislation has two principal aims.

- ° To establish coterminous boundaries for planning, districts are required to qualify for certain Federal programs in areas such as health, manpower and law enforcement.
- ° To assure the involvement of State and local governments in the coordination of Federal programs by establishing a review and comment process involving 49 Federal Grant programs.

Under Circular A-95, the Office of Management and Budget has review authority only for procedures leading to agency designation of functional planning districts at the sub-State level. In practice, each Federal program agency is free to approve boundaries without regard to those approved for other programs. Without central control, it is likely that the present pattern of dissimilar planning boundaries will continue. Planning and coordination are made more difficult when municipalities and counties fall into more than one district for similar functions.

Therefore, we recommend additionally that the Office of Management and Budget be assigned authority to designate the boundaries for local planning jurisdictions and the organizations to carry out such planning for Federal social programs after consultation with local officials, governors and the concerned agencies.

In Appendix 5 we have described in more detail our proposals for simplifying and rationalizing the grant-in-aid process.

Improving the Management Capabilities of State and Local Government

Despite the vast dollar growth in Federal assistance to State and local governments, the present process is having the undesirable effect of weakening Governors of States and chief executives of local general purpose governments. Funds are often granted on a categorical basis to functional units of the governments, thus limiting the ability of

governors and mayors to set local priorities and allocate staff and dollar resources to implement them.

While the public holds the elected chief executive accountable for social and economic programs, too often he has marginal influence over the parts of his government receiving Federal funds. One of the most important challenges of governmental reform is the redress of the imbalance between responsible local governments and the functional organizations of those local governments, caused by the grant process of the Federal Government.

A means of achieving a new balance is to strengthen the planning, management and evaluation capability of governmental executives with respect to the entire range of their activities, including Federally assisted activities.

We recommend that Executive Management Grants be made to the States to be administered by the Office of Management and Budget. These grants should be on a formula basis. They should provide for an automatic passthrough as to a major portion of the grant for cities and urban counties of over 75,000 population. Each Governor should have the discretion to make grants to smaller general purpose units of government, or to combinations of these governments.

The rationale for this proposal is covered in greater detail in Appendix 8.