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STATEMENT OF GEORGE P. SHULTZ
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BEFORE THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS
ON THE PRESIDENT'S PROGRAM FOR THE
REORGANIZATION OF EXECUTIVE DEPARTMENTS
TUESDAY, MAY 25, 1971

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today at the outset of these pathbreaking hearings on the President's proposal for a comprehensive reorganization of the domestic executive departments. The broad issue under consideration here is no less than the capacity of the executive branch of the Federal Government to serve as an effective instrument for the conduct of the Nation's business.

The President's Departmental Reorganization Program is encompassed in four bills transmitted to the Congress on March 25 and subsequently introduced with bipartisan sponsorship. These bills--S.1430, S.1431, S.1432, and S.1433--would replace seven existing executive departments and several other agencies with four new departments--the

expectations raised by new programs and the benefits that actually are realized by the public.

Background

Early in this Administration, President Nixon manifested his concern for effective Government by establishing the President's Advisory Council on Executive Organization and charging it with a broad review of the organization of the executive branch of the Government. The President named Roy L. Ash Chairman of the Council, and a membership was selected from outstanding leaders in business and Government. As Mr. Ash will explain in greater detail later in these hearings, after eighteen months of intensive study and analysis, the Council concluded that the current departmental structure for domestic programs was not adapted to the needs of Government in the 1970's. Acting on this conclusion, it urged a restructuring of the existing departments based on the organizing principle of the major purposes served.

The Ash Council's recommendations were added to a long list of studies by distinguished task forces and commissions

which have urged the reorganization of the domestic departments and a strengthening of departmental management.

In his State of the Union Message of January 22, 1971, President Nixon informed the Congress that he would seek to reform the structure of American Government to make it fully responsive to the needs and wishes of the American people. The message also set forth six goals for the 92d Congress, one of which was the departmental reorganization.

The four bills sent to the Congress on March 25, 1971, and the accompanying analytical reports describing the departments incorporate many of the findings of the Ash Council and other predecessor groups, together with the best experience available in the executive branch. Substantial contributions were made by agency officials thoroughly knowledgeable in the programs affected and intimately aware of the current problems of executive organization and management.

Problems of the Existing Structure

I will not repeat in detail the reasoning set forth by the President in his message of March 25, but I would

like to reaffirm the President's observation that the problem of Government today is not the people in it. All too often we avoid coming to grips with problems of organizing and managing the executive branch on the theory that new policies or different men will somehow rectify chronic deficiencies in the existing system and make it work better. Government officials, no matter how talented and dedicated they may be, cannot function effectively when their efforts are inhibited by obsolete organizational structures and the lack of basic managerial tools.

We have at stake in this reorganization the future effectiveness of our executive departments as workable vehicles for decisionmaking and the administration of domestic programs. The Cabinet Secretary has been regarded by the public and the Congress as both an innovator of new policies and programs and as a key executive who helps the President assure that the will of Congress is effectively carried out. Unfortunately, as the number of departments has increased, as independent agencies have proliferated and as missions have become more complex, the programs relating to

any single purpose of Government have become fragmented or have overlapped with little design or coordination.

It is simply impossible today for the departmental Secretaries and their staffs to do many of the things the public and the Congress have the right to expect. The Interior Department, for example, does not have the scope of authority necessary to develop comprehensive programs concerning the conservation and use of the Nation's water resources. The Department of Commerce, its title notwithstanding, has only a few of the authorities and little of the leverage required for it to play a central role in the advancement of the American economy and prosperity. This is well illustrated by the division of responsibility for assisting businesses among the Department of Commerce, the Department of Labor and the Small Business Administration. The Secretary of Housing and Urban Development lacks the charter needed to launch a broad scale, coordinated attack on community problems, in large measure because some of the most important supportive programs now reside in other departments and agencies or are administered by entirely

separate bureaucracies. This has been most conspicuous in matters relating to housing and to such community needs as water and sewer facilities and urban transportation systems.

This failure to tailor organizational structure to need has meant that the Secretaries of the executive departments have faced increasing difficulty in resolving problems, deciding priorities, and in producing the services expected of them. Consequently, many matters best settled at the departmental level must now come to the Office of Management and Budget or the White House or be relegated to interagency committees for the simple reason that there is no single department with enough authority or resources to make the appropriate decisions or to take the needed action within the scope of its discretion. The establishment of the four proposed departments with their well-defined, comprehensive missions constitutes a major step toward providing the departmental Secretaries with the mandate and tools to conduct the business of Government. The department can then become a primary instrument for seeing that the programs of Government are well designed and effectively executed.

The Congress will benefit because the Secretaries can be held accountable for their deeds and accomplishments. This will be a sharp contrast to the present situation in which inadequacies of authority and diffusion of responsibility provide ample excuses for inaction or mediocre performance. The White House and Executive Office of the President will benefit because they will be relieved of a large part of the task of resolving disputes between narrow interests in the bureaucracy and can concentrate their efforts on the development of policies and the implementation of Presidential and congressional directives.

Need for Comprehensive Reform

In undertaking a sweeping and comprehensive reform of the domestic executive departments, the President was aware that he was launching a course certain to generate intense debate, if not controversy. The President could have chosen to propose remedies for only a few of the more glaring deficiencies in the organization of the executive branch. He rejected this cautious, minimal approach. In his Message of March 25, he stated:

"We can continue to tinker with the machinery and to make constructive changes here and there-- each of them bringing some marginal improvement in the Government's capacities. Or we can step back, take a careful look, and then make a concerted and sustained effort to reorganize the executive branch according to a coherent, comprehensive view of what the Federal Government of this Nation ought to look like in the last third of the 20th century."

In taking the course of comprehensive reorganization, the President has done what the people and the Congress should expect him to do--assess a problem and come up with proposals in actionable form which will deal with the problem in a direct and fundamental manner.

Concept of Departmental Organization

The President has built his proposal around a concept of organization which is consistent with much of the thinking in the field of public administration in recent years--

that the executive departments should be structured in conformance with basic goals or major purposes of Government, not service to a particular segment of the Nation's citizenry or the performance of a particular function or process.

Again, quoting from the President's Message of March 25:

"The key to that new understanding is the concept that the executive branch of the Government should be organized around basic goals. Instead of grouping activities by narrow subjects or by limited constituencies, we should organize them around the great purposes of Government in modern society. For only when a department is set up to achieve a given set of purposes, can we effectively hold that department accountable for achieving them. Only when the responsibility for realizing basic objectives is clearly focused in a specific Government unit, can we reasonably hope that those objectives will be realized."

The four purposes which provide the basis for the creation of the four new domestic departments are:

1. To manage and protect our natural and physical resources. The Department of Natural Resources will

consolidate programs for land and recreation resources; water resources; energy and mineral resources; oceanic, atmospheric and earth sciences; and Indian and territorial affairs.

2. To enhance the personal development and well-being of our people as individuals and families. The Department of Human Resources will carry out programs supporting this goal in the areas of health, human development, and income security.

3. To make the American economy more productive, prosperous, and competitive. The Department of Economic Affairs will consolidate programs in the areas of business development; farms and agriculture; social, economic and technical information; labor relations and standards; transportation and international economics.

4. To foster the development of sound physical and social settings for the Nation's rural, suburban and urban commitments. The Department of Community Development will be charged with administering Federal functions relating

to urban and rural development, community transportation, housing and certain insurance programs.

The details of the programs proposed for inclusion in each of the four departments are contained in the documents already before you. I will not review them in detail here. However, I would provide assurance that the placement of each program was decided after intensive review and analysis. Reasonable men may differ on how certain programs support these major purposes, but adherence to this principle of organization is vital if we are to have a meaningful restructuring of our Government.

Managing the New Departments

While reorganization by the more rational grouping of functions is central to the President's program of improving departmental effectiveness, it cannot and does not stand alone. The new departments must also be effectively managed. With this fact in mind, the President proposed:

"...that the Department Secretary and his office be considerably strengthened so that the man

whom the President appoints to run a department has both the authority and the tools to run it effectively. The Secretary would be given important managerial discretion that he does not always enjoy today, including the ability to appoint many key department officials, to delegate authority to them and to withdraw or change such delegations of authority, and to marshal and deploy the resources at his command so that he can readily focus the talent available to him at the point of greatest need."

To help accomplish this objective, a number of management improvements are incorporated in the plan for each department. These improvements draw on the broad experience and recommendations of all of the domestic departments. Each of the proposed departments will have:

- . the capability to react to changing needs by vesting in the Secretary the authority to organize and manage the department internally;
- . a team of policy-level management officials who share the Secretary's department-wide perspective and who have sufficient authority and stature to

adequately support the Secretary in meeting his responsibility for accomplishing end results;

- . internal groupings of related programs in a small number of administrations under officials reporting directly to the Secretary and who will be able to assist him in the direction of departmental operations;
- . flexibility in the use of resources to accomplish program objectives by giving the Secretary increased discretion to allocate funds within broad appropriations;
- . a strengthened field system with more extensive decentralization of authority to work with and respond to State and local governments, private institutions, and individual citizens; and
- . management systems incorporating the best experience in such areas as program management, program evaluation, management information, and budget analysis.

I am confident that the kinds of authority over internal management which we have placed in the Secretaries and the concepts of departmental organization which have

been described in the reports provided to the Congress will not only assure that the new departments can be administered but that they will be better managed than the smaller agencies which they replace. There is nothing inherent about size which warrants the assumption that large organizations are characterized by loss of control or poor management. Both in Government and business many of the worst administered organizations have been small and many of those which have proved most effective in carrying out their purpose have been large. We have learned enough about organization and management to know that if we do not handicap officials by inadequacies in authority, by rigidity of structure or by excessive restraints in the use of resources, we can expect better results and greater efficiency than has characterized the past performance of the traditional executive departments.

In fact, the impact of the proposed reorganization on the size of the affected departments is variable. Three of the new departments are not significantly larger than certain of the domestic departments which are being superseded. The Department of Community Development will, in fact, have only 30,000 employees, a total much smaller

than several of the present Cabinet departments. The Department of Natural Resources will have approximately 111,000 employees, close to the present size of the Department of Transportation. The Department of Human Resources with 122,000 employees will represent only a 15 percent increase over the present employment of the Department of Health, Education and Welfare. Only the Department of Economic Affairs, which would have about 160,000 employees (including 43,000 military personnel of the Coast Guard), represents a challenge in managing business significantly beyond that previously faced by several civil departments. In this instance, as with the other departments, we are confident that the concept of the operating administration headed by a strong administrator responsible to the Secretary and other management techniques will make it possible to gain the benefits of a single comprehensive Department of Economic Affairs while still assuring the effective coordination and oversight of a very large number of programs.

Field Organization and Management

The manageability of the new departments will also

be determined by the extent to which the Secretary can and will decentralize and by the nature of the field organization. President Nixon, especially through his review of Federal assistance programs initiated in March of 1969, has placed great stress on simplifying processes by which services are rendered in the field and has encouraged decentralization of authority over day-to-day operations to field officials. These new departments will aid greatly in making decentralization a reality. Each department will have a Regional Director representing the Secretary in strategically located regional centers throughout the country. Although the authority placed in these Regional Directors will vary with the special management needs of the several departments, these key officials will be in a position to see that the field services are carried out in an effective and coordinated manner. In the departments having several operating administrations which directly supervise their own field organizations, the various field structures received from existing agencies will be simplified and consolidated to the maximum extent practicable, and decentralization to field officials will

be aggressively pursued. It will take time to bring about these changes in field management and structure, but some of the most significant benefits of the reorganization should be in the form of improved responsiveness and effectiveness in the services being rendered in the regions. Thus the reorganization is not proposed as some global, impersonal exercise in public administration. Instead, it should help to bring Government closer to the people by moving decisions and responsibility in the new departments closer to the problems addressed.

Savings and Costs

Whenever a reorganization is proposed, attention is focused on the costs and savings that are expected to result. I would like to be able to tell this Committee that the departmental reorganizations will produce large and immediate savings and that there will be a substantial reduction in Federal employment. Unfortunately, the adjustments in structure, management systems, and programs which should occur are so numerous and will take place over such a long period of time that there is no practicable way to affix a specific dollar tag to the reforms recom-

mended by the President. There will, of course, be certain immediate economies coming out of the reduction in numbers of certain headquarters positions and the consolidation of supporting services now performed for a larger number of agencies. On the other hand, there will be one-time, start-up costs involved in moving offices, changing communications, revising directives, and related adjustments. These costs of activating the new departments will be relatively small in relation to the amounts being spent on the affected programs.

The really significant savings from the reorganization will flow from the better administration of existing programs, better decisions with respect to new programs, improved judgments with respect to the allocation of resources and the major streamlining of the field organizations which becomes possible when related activities are pulled together under a single Secretary. Here, too, it is impossible to assign precise dollar or percentage estimates to the savings, but I am confident that as the new departments take hold, the citizen will receive better and more responsive service from his Government at significantly lower costs than is now possible.

effect the transition without interruption of ongoing functions. For this reason, Section 801 of the departmental bills provides that each new department will become effective 120 days after the Secretary is appointed, or on such earlier date as the President may prescribe. The Secretary will also be aided by the amount of planning for the organization and management of each new department that is reflected in the various analytic reports, and the preparatory work that is continuing while the Congress has the legislation under review.

We have submitted the reorganization proposals in the form of four separate bills, with the expectation that the Congress will take these up seriatim. We would expect, therefore, that the effective dates of the new departments will be spread over a period of some months. This will ease the burden which will at any one time fall on the President, the Executive Office of the President, and the affected existing departments.

In considering procedures to achieve a smooth transition, we have also given attention to the possible impact on the more than 400,000 employees of the affected departments and agencies. I have already indicated that

we do not expect significant immediate reductions in total employment as the result of the reorganization. To the extent that manpower is saved, it will be the policy of the Administration to rely on attrition to reach lower levels of employment. We have also written into each bill a provision similar to that in the Department of Transportation Act which prohibits for a period of one year separation or the reduction in grade or compensation of employees as the result of a new department being established. Officials in the Executive Schedule (that is, Level I to V) are also assured that their compensation will not be reduced if they are given appointments to positions with duties comparable to those which they performed prior to the reorganization.

The Issue is Good Government

Mr. Chairman, the issue before the Congress is good government, government that earns and retains the respect and confidence of its citizens, government that can adapt to new circumstances and new challenges. By proposing this reorganization, we seek to improve the capacity of Government to serve its citizens and for those citizens to hold the units of Government more clearly accountable for

