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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON ECONOMIC STABILIZATION  
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS  
HOUSE OF REPRESENTATIVES

ON

"THE FEDERAL ROLE IN FOSTERING PRIVATE SECTOR PRODUCTIVITY"

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Federal role in fostering private sector productivity. As you know, we at the General Accounting Office share your continuing interest and concern about this subject. We have appeared before this subcommittee twice before to discuss national productivity issues.

In our September 1978 statement we began by discussing the importance of productivity to the economy. Increasing awareness about productivity's importance is certainly not required any longer. Productivity has evolved from a somewhat esoteric area of study to a topic of national concern.



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In July 1980, we returned to discuss the National Productivity Council established by executive order in October 1978. We found that organization to be ineffective in meeting its objectives and endorsed legislation introduced by Congressman Lundine of this subcommittee that would establish a stronger effort.

We appear before you today while our national productivity performance continues to be dismal. According to current measures, it appears that productivity for 1981 will have improved by only about 1.5 percent over 1980's negative growth. This poor productivity performance is of particular concern because of its well documented implications for inflation and international competitiveness.

At the first meeting of the newly created National Productivity Advisory Committee, the President said: "We cannot have economic prosperity, sustained growth without inflation, unless we have better productivity growth." The Secretary of Commerce noted at the same meeting the role of declining productivity in reducing U.S. competitiveness in world markets and the Secretary of Labor called productivity improvement "the nation's No. 1 priority." These are points with which we wholeheartedly agree. The question remains, however, of what is to be done about our productivity problem and, specifically, what is the Federal role?

There are now many encouraging developments in private sector productivity. Management and labor are beginning to recognize that productivity cannot be ignored as short-term

profits and wage settlements are pursued. Corporate leaders are at last questioning their traditional approach to management. This trend has already resulted in the establishment of productivity managers in many large firms, increased application of productivity sharing incentive plans and techniques to improve the quality of working life, and a renewed emphasis on improving technology at the workplace. There is no question that if our national productivity trend is to be improved, the initiative must come primarily from the private sector. Yet, there is also an important Federal role in national productivity. This fact was recognized during the past decade when numerous national productivity organizations were created. Unfortunately, these efforts were all ineffective.

In our testimony today we will briefly discuss past experience in national productivity policy and what we can learn from it. We will then discuss the new National Productivity Advisory Committee and strengths and weaknesses in the administration's productivity efforts as they now stand. Finally, we will offer our thoughts on what is needed to effectively organize a Federal effort to improve productivity.

National productivity policy has had an unusual administrative history over the past decade. Each administration has had a productivity organization and each has been ineffective. This poor experience with productivity organizations should not condemn the concept of a productivity focal point in Government. Rather it

should provide lessons that can be applied to current efforts to alter the productivity trend.

In recognition of the important direct and indirect effects the Federal Government has on productivity, and in light of declining productivity growth, President Nixon established the National Commission on Productivity in 1970. The organization received legislative sanction in 1971. In 1974, the organization became the National Commission on Productivity and Work Quality, and in 1975, the Congress established the National Center for Productivity and Quality of Working Life. In September 1978, the Center's legislative authority was allowed to expire and President Carter subsequently established the National Productivity Council. The Council existed largely in name only until President Carter left office.

The fact that national productivity organizations have existed continuously for the past decade demonstrates that the Government has long recognized that Federal productivity policies and programs should be subject to central review and coordination. Yet, the common thread we find running through all of these organizations is the lack of support they received and their consequent ineffectiveness.

The lesson to be learned from this decade of experience is that a Federal productivity effort cannot be effective without adequate support. In previous reports and in congressional testimony, we have stated that the success of a national productivity effort is not dependent on organizational structure but on the support it receives from the Congress and the President.

We define "support" in this case as

- appointment of a strong leader who has access to other top leaders of the administration,
- a linkage between the productivity effort and economic decisionmaking,
- recognition by the President and heads of agencies that the individual or organization is the focal point for Federal productivity efforts, and
- provision of sufficient resources to enable the organization to fulfill its mission.

None of the previous productivity efforts had these elements of support. They were largely forgotten after the initial press releases announcing their creation. For many years the productivity organizations received no funding whatsoever. In other years they received funding but were isolated from the decision-making process when productivity related policies were set. A need still remains for an effective productivity focal point despite a decade of half-hearted attempts to address the problem.

The lack of support provided these productivity organizations reflects a belief expressed by recent administrations that productivity is a dependent variable in our economy; that productivity is an effect of economic problems and not a cause. According to this view, productivity will be improved by macroeconomic policies designed to reduce inflation rather than actions designed specifically to improve productivity. While there is much truth to this belief, the lack of productivity growth itself contributes to our economic problems, and successful actions to improve productivity will help to ameliorate them.

When it is recommended that the Federal Government develop a productivity improvement policy, and act to help foster productivity growth, many react negatively because they perceive the recommendation as leading to increased Government involvement in the economy. This is not the case. The Government already has a pervasive effect on the economy and productivity. The Government indirectly affects productivity through tax and regulatory policies that may alter work and investment incentives. In fact, the tax changes enacted last year were designed to stimulate productivity by encouraging research and development and capital investment.

A 1980 study by the Office of Management and Budget estimated that the Government spends more than \$2 billion annually on programs directly related to private sector productivity improvement. Over 80 percent of this funding can be broadly classified as support for activities to improve civilian technology through research and development. About 6 percent of the funds is devoted to financial and technical assistance programs to implement new technologies and methods in the private sector. Less than 2 percent is spent for improving human resources through programs for skill training, improved labor mobility, job security, and labor-management cooperation.

Despite documentation of all these programs directly related to productivity, there is no national productivity plan nor are there overall goals and objectives for Federal productivity programs. Therefore, there is no way to properly evaluate these programs to determine if the current level of funding is appropriate, to

identify the need for new programs, or to assign priority to existing programs. We cannot even answer such questions as: how much is now being spent on productivity? Is the spending in the right areas? Is any of the spending counter-productive?

In addition, without overall goals and objectives, these ongoing programs are reviewed by the Office of Management and Budget as small programs within a given department or agency. They are not reviewed as a part of a Federal effort to encourage productivity. As a result, programs that may have valuable long term effects on productivity are often rejected or reduced during budget reviews. We are not advocating that all productivity related programs be fully funded; we simply want to see them reviewed in the context of a productivity plan or strategy.

Various productivity studies we have completed or are now conducting have documented the need for a productivity focal point of some type to provide guidance and direction for productivity programs. For example:

--In a 1980 report on the Department of Labor's actions to provide leadership in human resource productivity (AFMD-81-10), we found that the Department had not assessed private sector needs to determine what Federal actions should be taken to improve productivity; had not developed a Department-wide productivity plan; had not evaluated its ongoing productivity projects in terms of their impact on productivity; and had not coordinated its ongoing

productivity projects within the Department or with other Federal departments and agencies. The Department still lacks a clear strategy regarding productivity improvement despite its ongoing role in labor-management cooperation and encouraging employee training.

--The Department of Commerce sponsors several programs directed toward productivity improvement and is in a position to play an increasingly important role in collecting and disseminating information on productivity and helping to develop new technology with widespread industrial applications. These efforts, however, cannot be properly undertaken without being part of an administration-wide policy. Otherwise, Commerce programs may overlap or even contradict those of other Federal agencies.

--In an ongoing study we have identified numerous programs designed in whole or in part to improve the productivity of specific industries such as mining, railroads, agriculture, and shipbuilding. These programs are scattered throughout the Government and are not coordinated in any way. Lacking a productivity strategy and central review from a productivity perspective, decisions about these industry programs will continue to be based on anecdotal evidence rather than a clear Government policy on the Federal role in private sector productivity.

The current administration has voiced strong concern over national productivity trends. As we noted earlier, top administration officials including the President have regularly commented on the need to improve productivity to strengthen the economy. In yet another example, the Chairman of the Council on Economic Advisers stated last May in a letter to Senator William V. Roth that the administration is "fully aware that improvements in productivity are the sole source of improvements in the standard of living for all Americans."

The administration maintains that it is fully addressing the productivity problem through tax reform, regulatory reform, budget reductions, noninflationary monetary policy, and the work of the Cabinet Council on Economic Affairs with the advice of the newly created National Productivity Advisory Committee. Let me list the first four elements of the administration's approach very briefly since they are generally well known:

First, productivity improvement through tax policy is expected to result from reductions in income tax rates, and accelerated capital recovery.

Second, regulatory reform designed to reduce excessive reports, regulations, and delays that stifle capital investment.

Third, stringent budget policy to reduce waste and fraud, eliminate unnecessary subsidies, and regain control over "uncontrollable" expenditures.

Fourth, maintain a consistent, noninflationary monetary policy by working with the Federal Reserve Bank to achieve a stable, moderate rate of monetary growth.

We are not here to comment on the merits of these aspects of the administration's economic program. However, we are pleased that productivity improvement is explicitly considered an important goal of the overall program.

The fifth aspect of the administration's approach to productivity improvement is less defined at this point. This involves the workings of the new National Advisory Committee and the Cabinet Council on Economic Affairs to which it reports. The National Productivity Advisory Committee was formed on November 10, 1981, under Executive Order 12332. The Committee, composed of 32 distinguished private citizens and one Federal employee, is required to advise the President, through the Cabinet Council, on the Federal Government's role in improving productivity and economic growth and the potential effect Federal laws and regulations may have on productivity growth.

The Cabinet Council on Economic Affairs, is made up of cabinet level administration officials involved in economic decisionmaking including the Secretaries of the Treasury, State, Commerce, and Labor, the Chairman of the Council of Economic Advisers, and the Director of the Office of Management and Budget. The administration charged the Cabinet Council with responsibility for developing policy on productivity issues in conjunction with the Advisory Committee. According to the Chairman of the Council of Economic Advisers, the administration considers productivity issues too important to be segregated in a separate body outside the economic

decisionmaking process. We hope the Cabinet Council does not limit itself to considering productivity as only an effect of other economic policies.

Our nation's productivity problem is not only a result of our economic problems, but has also contributed to them. The Government's response to this issue must link both aspects of the problem. Better organizing and directing Federal efforts to improve productivity should be an integral part of the overall effort to strengthen the economy.

In our February 1981 report to the Congress (AFMD-81-29) we recommended establishing a productivity organization to (1) guide and coordinate Federal programs aimed at improving national productivity, and (2) work with the private sector to develop a national productivity plan. We recommended that the productivity organization be small, be established by legislation, have its own budget authorization, and have a Presidentially appointed chairperson. We now believe the existing Cabinet Council on Economic Affairs and the National Productivity Advisory Committee could fulfill the intent of our recommendations if they address both aspects of the productivity problem just mentioned. An appropriate starting point would be the development of a productivity plan.

The development of a national productivity plan is a crucial element in an effective national productivity effort. Such a plan should be developed with the extensive involvement of business, labor, and academic representatives as well as existing national and regional productivity centers. The

productivity plan should on one level address the macro problems of tax policy, regulatory reform, and general economic policy affecting productivity--all issues of central concern to the Cabinet Council. On the micro level, the productivity plan should

- identify and describe the relationship and effect of Federal policies, programs, and activities on private sector productivity;
- delineate clearly the responsibilities of Federal departments and agencies having direct program functions within the plan;
- identify unnecessary obstacles to productivity improvement created by the Federal Government;
- develop alternative policies, programs, activities, and lines of responsibility to improve private sector productivity; and
- list short- and long-term objectives and their priorities, and recommend specific projects and programs for the next year to attain these objectives.

In addition, the plan should provide for

- an analysis of the Federal budget to document where Federal funds in support of private sector productivity improvement are being spent, and
- an assessment of Federal efforts during the past year to improve productivity, including identification of gaps, duplicated efforts, successes, and failures.

The plan should be developed with private sector involvement extending beyond the current Advisory Committee. The plan should also be dynamic, and to remain so it must be updated regularly based on continued interaction of public and private officials.

Such a plan would provide guidance to Federal departments and agencies with productivity related programs and would provide the Office of Management and Budget with recommended funding priorities for these same programs. Finally, the plan should enable decision-makers to put productivity-related proposals into a meaningful context. Without a plan, the Government must approach each productivity-related issue on an ad hoc basis.

We want to make it clear that by a productivity plan we are not proposing that we initiate national economic planning and we certainly are not proposing that the Federal Government become more deeply involved in the economy. A national productivity plan in our view is simply a tool to better manage the many existing policies and programs related to productivity.

In conclusion, after many years of observing and examining Federal productivity efforts, we are pleased with the initial efforts of the current administration. While we can identify certain shortcomings, we can also identify strengths that previous efforts have lacked. Among the strengths we see first, a productivity advisory body that feeds directly into the top level economic policymaking process. Second, the new productivity committee has begun its work with top level commitment and involvement. The committee has met with the Vice President and other key economic policymakers. The

Cabinet Council on Economic Affairs, to which the Committee reports, is reported to be the most active of the cabinet councils and includes all the leaders in economic policy.

While we currently do not see certain important elements in this approach, we hope they will soon be made part of it. First, to make the administration's effort to improve productivity more effective, we believe the Cabinet Council on Economic Affairs and the National Productivity Advisory Committee should work together to develop a productivity plan along the lines discussed earlier in this statement. A productivity plan will simply make clear to both agency officials and the Congress how the administration intends to approach the productivity problem and how it expects existing and future productivity programs to operate.

Second, we believe an institutionalized focal point for productivity is needed. This could be within the Cabinet Council on Economic Affairs or elsewhere in the Executive Office of the President. We have seen too many cases of productivity being a shared responsibility and then ending up no one's responsibility. The focal point could be very small, but it would serve two very important functions. It would provide full-time staff support to the Cabinet Council and the Advisory Committee on productivity issues, thus helping to insure the existence of a clear productivity perspective in economic decisionmaking. The focal point would also provide a single point in Government where agency officials and citizens can direct their concerns or questions about productivity issues.

Third, while we applaud the creation of the National Productivity Advisory Committee, we hope its membership or that of successor committees will better represent labor and small business. If we are to break down the adversarial barriers that have exacerbated our productivity problems, we must involve all aspects of the economy in developing policies to reverse the dismal productivity trend. Although the Advisory Committee has only a one-year life, extensive private sector involvement of some sort should be a regular and permanent part of productivity related policymaking.

In previous testimony we have emphasized the importance of funding and legislative authorization in organizing a productivity effort. We still consider these elements important, but they are overshadowed by the need for top level support and linkage to the decisionmaking process.

The administration has taken an important step in establishing the National Productivity Advisory Committee and providing it with a direct link to economic policymaking at the highest levels. While we are encouraged at this attempt to broaden the Government's approach to productivity improvement, we must emphasize that this important step is but an initial one. We urge the administration to take this structure it has created and develop it into a mechanism that can effectively organize and guide a Federal effort to help improve national productivity. Such an effort, in conjunction with a productivity oriented economic policy and increasing concern about productivity improvement throughout

the private sector, will help reverse our disturbing productivity trends and the related economic and trade problems. We stand ready to share our thoughts and experience in productivity with the administration and the Congress as policy development in this area proceeds.