

NOMINATION OF FRANKLIN D. RAINES

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**HEARINGS**  
BEFORE THE  
**COMMITTEE ON**  
**GOVERNMENTAL AFFAIRS**  
**UNITED STATES SENATE**  
**ONE HUNDRED FOURTH CONGRESS**  
**SECOND SESSION**

ON

NOMINATION OF FRANKLIN D. RAINES TO BE DIRECTOR  
OF THE OFFICE OF MANAGEMENT AND BUDGET

JULY 23 AND 24, 1996

Printed for the use of the Committee on Governmental Affairs



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**TESTIMONY OF HON. SLADE GORTON, A U.S. SENATOR FROM  
THE STATE OF WASHINGTON**

Senator GORTON. I guess I am the person who was associated with Mr. Raines longer than any other, since he comes from Seattle and because, before he was out of his teens, he was working on various projects within the purview of Governor Dan Evans.

This is an overachiever, Mr. Chairman. I think that is the best possible description of him. He was a tremendously outstanding young man, even in high school in Seattle. While he was at Harvard College, he spent at least some of his summers on various important civic activities in the State. After he finished law school, he returned for a while as an associate at one of our most outstanding law firms and worked in a legion of civic activities.

So when he did move back East, while he was making a tremendous contribution I am sure to his own family and career and to the United States as a whole, his leaving was a great loss to Seattle.

Now, he seeks to take a tremendous pay cut to move into a vitally important job in our government. I am certain I will have a significant number of disagreements with him in the position that he seeks, but I know that he is going to do an outstanding job, that he will thoughtfully defend the positions that he takes, and that he will be a credit to his administration, to the Federal Government as a whole, and to his country.

Mr. RAINES. Thank you, Senator.

Chairman STEVENS. Thank you very much, Senator Gorton.

Now, Senator Murray has said that she may come down. She is involved upstairs, but we will leave a place in the record for her statement and call now on you, Senator Moynihan.

**TESTIMONY OF HON. DANIEL PATRICK MOYNIHAN, A U.S.  
SENATOR FROM THE STATE OF NEW YORK**

Senator MOYNIHAN. Thank you, Mr. Chairman.

I would follow up exactly in the terms that Senator Gorton has spoken. I had the honor and I so state of being one of Frank Raines' teachers at Harvard College. We were in seminars together, and he was often in our house on Francis Avenue. We have been friends now for the longest while.

I think it will do no harm before this Committee to tell you that he spent a year in the White House on the urban affairs staff in the first administration of President Nixon. He has gone on to many other things. He is, of course, a graduate of Harvard College, of Harvard Law School. He is a Rhodes Scholar. He has interspersed his activities in the private sector with public service from the beginning, as Senator Gorton said. It is perhaps particularly important that he served as associate director of the Office of Management and Budget in the administration of President Clinton.

I commend him to the Committee with a great sense of honor, and I have to say that in present circumstances, I expect that I will disagree with him as often as Senator Gorton.

Chairman STEVENS. Thank you very much, Senators. We appreciate very much your appearance. I know you have come at short notice.

Mr. Raines, it has been short notice for all of us. We appreciate your courtesy in coming here at an odd time. We may be called back up to the floor for a vote, but we are going to try to keep this going until we can find a way to finish the matter. We do have a markup scheduled for Thursday, and we have listed your nomination as being ready for consideration at that time.

Our Committee does have a relationship to the Office of Management and Budget that no other committee has, not only because we hold your confirmation, but because so many of the issues that will come across your desk really deal with matters that are under the jurisdiction of this Committee, and in terms of the legislative initiatives that you will bring forward and in terms of the various aspects of the laws that you will act under, really affect our Committee primarily. So we are pleased to have the chance to review your experience and qualifications and suitability to serve in the position for which you have been nominated.

I have to state for the record that you have responded to the biographical and financial questionnaires and answered written pre-hearing questions. We will make those responses a part of this hearing record.

Senator STEVENS. I want to recognize Senator Glenn for any opening statement he may wish to make.

**OPENING STATEMENT OF SENATOR GLENN**

Senator GLENN. I do have a short statement, Mr. Chairman.

Welcome to our hearing today, Mr. Raines. I am glad we can get this done today. I understand you were able to take your family down to Atlanta over the weekend, and I am sure you witnessed all the pageantry and competition there. The job you are going into is going to be of Olympian proportions also, I would say; you are going to need the same kind of dedication that all those athletes have down there. But with your background, I would carry that one step further and say you should be a Gold Medal favorite at this point, with the background you have for this.

You will be entering an arena—and I have told previous people this when they have come before this Committee for this position, and I do not say this lightly; I really do believe it—I think this will be the second most important position in government. I do not think anybody has more impact on what happens in this country—even the Vice President—he is doing government reform and all these things that are very important—but you are where the rubber meets the road; you are going to be where it all comes together and having to put the priorities of this country out there in front of the budgeting process. There is no more important job in government, I do not think, except the President's.

So as far as I am concerned, you are going into the second most important spot in the government. I do not say that politically at all. I say it as nonpolitically as I possibly can. I have told people like Dick Darman and others, going back through the years, exactly the same thing, because I really do believe it.

OMB is where it all comes together. It is where you reflect the priorities. You have a major impact on that. You are going to recommend where every dollar of our revenue gets spent. We have literally thousands of programs that have to be managed, and that

brings us to something else, which is the "M" in OMB, which I think almost every person over there has fallen short on emphasizing to the degree I would like to see it emphasized—the "Management" part of OMB. It was changed back when this was just Bureau of the Budget, and the "M" was deliberately put in. And this Committee, as the Chairman said, has had a major role in some of those areas, too. We passed the CFO legislation which you are going to be responsible for implementing, and it is just now beginning to take a bit in government, as I am sure you would probably agree—just beginning to take effect. Before 1990, we did not even have to have every department and agency audited on a yearly basis. They would just ask for more money, and we would vote something, and away they would go. They did not even have to have a bottom line audit at the end of every year. Well, we have to do that now.

We have expanded the IGS, and new procurement legislation, so the point is, we have given you a lot of tools to work with over at OMB, but it is going to be up to you how you go at those things and how you use those tools. I cannot imagine anyone more qualified than you are when I look over your resume. You first got your feet wet working in the White House, as Pat said a moment ago. You served as domestic policy advisor to President Carter and as associate program director at OMB at a time when we were really involved in setting up a lot of our government management laws, so you are familiar with that.

After your first tour at OMB, you served as general partner at Lazard Freres in New York; in 1991, you became vice chairman and director at Fannie Mae. You showed your commitment to public service by devoting your time and effort to a broad array of Federal and local advisory groups.

I think it is clear to anyone reviewing your distinguished career that you know the White House and the executive branch. You have previously served at OMB, and you may be the first director ever to have as broad a background as you have and successful experience in the private sector as well. So you know what drives our market economy in this country also, and you will have a major impact on that.

I think I would have to rank your skills and qualifications at the highest level compared with your predecessors.

So, while it is certainly not an easy job—it is fraught with demands and headaches, large and small—I am glad you have accepted the President's request, and I think you will do a great job for this country, and that is the main thing. I look forward to working with you.

Mr. RAINES. Thank you, Senator.

Chairman STEVENS. Thank you very much.

Mr. Raines, one of the reasons we are holding this hearing now is because I am going down to Atlanta this evening myself. I had the opportunity, and I finally got a room.

Now, there are some questions that I must ask you because they are just traditional within this Committee, so let me start off with those.

Is there anything you are aware of in your background which might present a conflict of interest to the duties of the office to which you have been nominated?

Mr. RAINES. No, Mr. Chairman, and I believe that I have taken the appropriate actions in resignations and recusals that, where I have had relationship in the past, I will sufficiently be excluded from those turning into conflicts should I be confirmed.

Chairman STEVENS. You have indicated plans to recuse yourself, as you said, from any particular matter directly and specifically affecting the Federal National Mortgage Association and from any particular matter in which the Federal National Mortgage Association is a party or represents a party. Now, I am informed that this recusal does not include matters of policy, budgeting or regulation affecting housing, financial services or mortgage banking sectors generally. How will you deal with the possible conflicts and policy issues involving Government Sponsored Enterprises, the GSEs, or other housing or mortgage policy issues that may arise?

Mr. RAINES. Well, Mr. Chairman, first of all, I will have eliminated all financial interest that I have in Fannie Mae within 90 days of the time that I would take office. Also, to the extent to which there is any relationship with Fannie Mae, I will have acquired an insurance policy to cover my pension and my deferred compensation, my pension-like compensation, which would continue so that I would have no interest in the continuing success of Fannie Mae in any form.

I will have no ongoing financial interest in Fannie Mae. Nevertheless, I have agreed to recuse myself from any matter which particularly involves Fannie Mae and any matter in which Fannie Mae is a party or represents a party.

Chairman STEVENS. But you would still be dealing with policy matters that affect the same areas from which you have come. You have recused yourself from the particular issues involving Fannie Mae, as I understand, in which Fannie Mae is a party or represents a party, but what about the general policy issues that will have an overwhelming impact on the future of Fannie Mae; isn't there a conflict there, too?

Mr. RAINES. If it has a direct impact on Fannie Mae—any legislation, for example, any regulation that has a direct impact on Fannie Mae—I would be recused from. What I would not be recused from, for example, is policy affecting FHA and housing. I would not be recused from student loan policy even though there is a government-sponsored enterprise that is involved with student loans. I would not be recused from college construction even though there is a GSE.

One of the problems with complying with the ethics regulations and being the Director of OMB is that there is very little that you are not involved in. The OMB Director, as Senator Glenn indicated, is involved in virtually every policy matter across the entire government, so that by eliminating any economic interest and by ensuring that where Fannie Mae or Fannie Mae's interests are directly involved that I will recuse myself, I am very hopeful that we have dealt with the ethics question. And this has been, I think, agreed to by both the ethics officer at OMB and the Office of Government Ethics.

Chairman STEVENS. Mr. Raines, we are going to set this aside. Senator Faircloth, it is nice to see you here.

**TESTIMONY OF HON. LAUCH FAIRCLOTH, A U.S. SENATOR  
FROM THE STATE OF NORTH CAROLINA**

Senator FAIRCLOTH. It is nice to be here, and it is nice to be here for Frank Raines, a fellow North Carolinian. I do have a statement I would like to put in the record. I am very much in support of him.

Chairman STEVENS. We are pleased to have your statement in support of the nominee, Senator Faircloth. Thank you for taking the time to come.

Mr. RAINES. Thank you, Senator.

[The prepared statement of Senator Faircloth follows:]

**PREPARED STATEMENT OF SENATOR FAIRCLOTH**

Mr. Chairman, I am pleased to come before your Committee in support of Frank Raines to be Director of the Office of Management and Budget.

I am Chairman of the HUD Oversight Committee on the Banking Committee. Earlier this year, when I held oversight hearings on Fannie Mae, I was able to get to know Mr. Raines.

During our meeting, I found out that his father and family are from Apex, North Carolina, and that he returns there frequently for family reunions. I also discovered that Mr. Raines had a strong background in the private sector.

I was surprised a few months later to learn that the President had nominated Frank Raines to be his Budget director.

The job of Budget director is incredibly important to the future of this country. We are five trillion dollars in debt—and it's getting bigger. Every day we borrow \$160 billion that we do not have. I do not see how any responsible person in public office can continue down this road without endangering our children and grandchildren's future.

To me, the best Children's Defense Fund is a zero national debt.

I think—and I hope—the nomination of Frank Raines can make a difference in this regard. First, because he has roots in North Carolina, I trust that he brings a great deal of common sense to this job.

Because of his business background, I hope he will be more sympathetic to the notion that we have to balance our budget and reduce our national debt—and that we have to do it soon. I have every confidence that he will help in this effort.

Mr. Chairman, thank you—I would urge the Committee to act favorably on the nomination of Frank Raines.

Chairman STEVENS. Senator Murray, do you have a statement that you would like to present at this time?

**TESTIMONY OF HON. PATTY MURRAY, A U.S. SENATOR FROM  
THE STATE OF WASHINGTON**

Senator MURRAY. Thank you, Mr. Chairman, and I will submit my prepared statement for the record. But I wanted to come down and let the Committee know that this nominee has bipartisan support. Senator Gorton was here earlier.

Frank Raines has been an admirable member of our community and is strongly supported. I want to put in a good word for his stewardship at the Fannie Mae program and just let you know that we are very proud of him in the State of Washington. At a time when many people are not contributing to their government, opting out of government service, it is a delight to find somebody like Mr. Raines, who is willing to do this, and I just wanted to be here to thank him and to urge your support.

Chairman STEVENS. Thank you, Senator Murray. We will print your full statement in the record and are pleased that you came down to appear today.

Senator MURRAY. Thank you.

Mr. RAINES. Thank you, Senator.

[The prepared statement of Senator Murray follows:]

**PREPARED STATEMENT OF SENATOR MURRAY**

Mr. Chairman, it is a pleasure to be here this afternoon with Senators Gordon and Moynihan to introduce Mr. Raines to your Committee. I believe our bipartisan support for Mr. Raines' nomination speaks highly of his qualifications and our expectations of his ability to manage the Office of Management and Budget.

Mr. Chairman, it is always a pleasure to see talented, skilled individuals step forward to serve the public by working in the government. We are all aware of the cynicism and skepticism associated with government service today, and I often fear today's vogue government-bashing deters many of our best and brightest from government service.

Mr. Raines' history of public service is something to be proud of, and I commend him for his willingness to serve the people. As I am sure Senator Gorton agrees, it is always a proud moment when individuals from Washington State decide to get involved in our government.

Frank, a native of Seattle, displayed his interest in politics and government service at an early age. He was student body president of Franklin High, and in the summers following high school, Frank worked in our State Capitol for Governor Dan Evans.

Frank eventually moved on to work in the White House, on of all issues—welfare reform, and then in the OMB. He spent time in New York honing his skills in investment banking and became a financial advisor to many States and local governments including Chicago, Seattle, Iowa and Texas.

This is just a brief analysis of the wide and varied experience that makes Frank qualified to be OMB Director. I didn't even mention his constant, active and admirable role in community service—service that has continued wherever Frank lives and works.

And finally, we must acknowledge his good stewardship at Fannie Mae. Due in part to his work, America is now experiencing its highest rate of home ownership in almost 15 years.

So, Mr. Chairman, I am pleased to introduce Mr. Raines to your Committee and I thank you for your time.

Chairman STEVENS. Mr. Raines, do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities for which you have been nominated?

Mr. RAINES. No, sir, I do not.

Chairman STEVENS. And do you agree without reservation to respond to any reasonable summons to appear and testify before any duly-constituted committee of the Congress if you are confirmed?

Mr. RAINES. Yes, I do.

Senator STEVENS. Would you like to give your statement now; Mr. Raines?

**TESTIMONY OF FRANKLIN D. RAINES, NOMINATED TO BE  
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET**

Mr. RAINES. Thank you, Mr. Chairman.

I certainly appreciate the great effort the Committee has made to make this hearing possible today and to consider my nomination to serve as the Director of the Office of Management and Budget.

I appreciate also the opportunity, Mr. Chairman, that you gave me to introduce my family. I would also like to express my appreciation of the presence of several friends and colleagues who are in the audience.

I regret that my parents, Delno and Ida Raines, and my brothers and sisters could not be here today, but they all live a great distance from the Capitol.

And I particularly want to thank Senators Moynihan, Gorton, Murray and Faircloth for their generous introductory statements. I am truly grateful that they took the time to appear in my behalf.

On April 12 of this year, President Clinton announced his intention to nominate me to serve in his Cabinet as Director of the Office of Management and Budget. I consider it a great honor to have been asked by the President to take on this assignment and a privilege to have the opportunity to help the President create economic policy, balance the budget, invest in the Nation's future and improve the productivity and efficiency of the Federal Government. I look forward to the chance to get to work.

I come before the Committee with a background in business, government and nonprofit organizations that prepares me well for the many facets of OMB.

My first job was at Irving's Grocery, the small store in our neighborhood in Seattle where, at the age of 8, I worked each day after school and on Saturdays. My current job, almost 40 years later, is with Fannie Mae, the largest corporation in America, when measured by assets.

I have worked for the Seattle Model City Program in local government and on the White House staff during the Carter administration. I have assisted clients to raise over \$10 billion in the financial markets while a partner in a Wall Street firm and helped local organizations raise thousands of charitable dollars for scholarships, health care, the homeless, AIDS treatment, and human rights. I have served on the boards of two universities and as a trustee of the local Black Student Fund. If confirmed, I will be one of only a few OMB Directors who previously worked in the agency.

I mention all this to simply assure the Committee that I have the breadth of experience necessary to fulfill the broad responsibilities of Director of OMB.

If I may, please allow me to make a few comments about some of the substantive issues that face the Director of OMB.

One of the jobs of the OMB Director is to serve as a senior economic advisor to the President. We are currently enjoying one of the longest economic expansions in 50 years, with an unemployment rate of 5.6 percent, inflation under 3 percent, and interest rates low enough to drive the home ownership rate up to the highest level in 15 years. This outstanding economic performance is the result of complementary fiscal and monetary policies that have facilitated steady growth, the creation of 10 million jobs in less than 4 years, and increased tax revenue.

I hope we can extend this economic record by continuing fiscal and monetary policies which provide support for the resurgence of American business competitiveness in world markets. I also hope we will see improvements in productivity which will lead to improvements in real wages for American workers.

By 1993, most of us in the private sector despaired that the Federal Government would ever reduce its budget deficit. When President Clinton took office, OMB projected a deficit of \$298 billion for fiscal year 1996 if major changes in revenue and spending were not

made. In its most recent estimate, OMB now projects a deficit for fiscal 1996 of \$117 billion, a reduction of 60 percent. As a percentage of gross domestic product, the budget deficit has declined from 4.7 percent to 1.6 percent between 1992 and 1996. This is a remarkable achievement, unrivaled among industrial nations, that should make both the President and the Congress proud.

The President has also presented a plan to achieve a balanced budget by the year 2002, whether measured by OMB or Congressional Budget Office economic assumptions. As the budget is brought into balance over the 10 fiscal years from 1993 through 2002, OMB projects that \$3 trillion less debt will be added to the national debt as a result of the President's plan. The national debt will decline from 50.6 percent of GDP at the end of fiscal year 1992 to 42.6 percent of GDP at the end of fiscal year 2002.

I view it as the job of the OMB Director to help build and sustain the consensus necessary to actually deliver on the promise the administration and Congress have made to the American people to balance the Federal budget by 2002 and reduce the burden of the national debt. In that spirit, I hope that negotiations can be resumed on a bipartisan, multi-year balanced budget agreement. Such an agreement would continue the momentum for reaching balance and give confidence to business, workers and investors that sound fiscal policies will be pursued in the future.

Like most Americans, I have watched the great debate here in Washington over the allocation of scarce Federal dollars within the context of a balanced budget. As you consider my nomination, you should know that I agree with the priorities advocated by the President. I believe that investments in education, training, the environment and national defense are critical to the future economic and physical security of the Nation. I also hope that the means will be identified to increase investment in our national infrastructure, which is one of the most vital governmental contributions to our economy. I believe that income from work is morally, spiritually and economically better than income from welfare. But I also believe that the national community has a responsibility to care for its most vulnerable members, particularly when work for all is not available.

The President and the Congress will face difficult allocation choices along the path to a balanced budget. My hope is that these choices can be made with the spirit of compromise that the American people expect of their representatives in Washington.

Finally, let me say a word about the management of the Federal Government. I have spent most of my career in private business, small, medium and large. I have learned that more important than an inspiring vision, a clever strategy or a well-scrubbed budget is performance. This Committee has labored for many years to induce reforms in the way the government is managed. And now, with the cooperation of the Clinton administration, its National Performance Review headed by the Vice President, and OMB, you have a willing partner in the effort to make government work better.

I have been impressed by the progress made in creating audited financial statements for agencies, in making the Federal Government a better buyer using commercial practices, in beginning to de-

velop strategic plans and performance reports, in improving the use of information technology, and reducing the burden of regulations.

I intend to continue and intensify these efforts because I believe the American people are demanding that their government perform to the same high standard that they are expected to meet in their own jobs. We will make the government more efficient and productive so that more tax dollars go to programs rather than to overhead, waste or abuse. We will restore the reputation of the government and its employees so that all Americans can feel proud of what their country is doing in their name and with their money.

Mr. Chairman, thank you for this opportunity to appear before the Committee. I would be very pleased to answer any questions that you may have.

[The prepared statement of Mr. Raines follows:]

#### PREPARED STATEMENT OF MR. RAINES

Mr. Chairman, I appreciate the opportunity to appear before the Committee today for consideration of my nomination to serve as Director of the Office of Management and Budget. I have a short opening statement which I would like to make.

I am joined today by my wife Wendy Farrow Raines, and my daughters Laura, Andrea and Sarah. I also appreciate the presence of several friends and colleagues who are in the audience. I regret that my parents, Delno and Ida Raines, and my brothers and sisters could not be here today, but they all live a long distance from the Capitol.

On April 12 of this year, President Clinton announced his intention to nominate me to serve in his Cabinet as Director of the Office of Management and Budget. I consider it a great honor to have been asked by the President to take on this assignment and a privilege to have the opportunity to help the President create economic policy, balance the budget, invest in the Nation's future, and improve the productivity and efficiency of the Federal Government. I look forward to the chance to get to work.

I come before the Committee with a background in business, government, and non-profit organizations that prepares me well for the many facets of OMB.

My first job was at Irving's Grocery, the small store in our neighborhood in Seattle, where at the age of 8, I worked each day after school and on Saturdays. My current job, almost 40 years later, is with Fannie Mae, the largest corporation in America, when measured by assets.

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I view it as the job of the OMB Director to help build and sustain the consensus necessary to actually deliver on the promise the administration and Congress have made to the American people to balance the Federal budget by 2002 and reduce the burden of the national debt. In that spirit, I hope that negotiations can be resumed on a bi-partisan, multi-year balanced budget agreement.

Such an agreement would continue the momentum for reaching balance and give confidence to business, workers, and investors that sound fiscal policies will be pursued in the future.

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Mr. Chairman, thank you for this opportunity to appear before the Committee. I would be very pleased to answer any questions that you may have.

[Biographical Information and Responses to Pre-hearing Questions follow:]

#### BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEE

##### A. BIOGRAPHICAL INFORMATION

1. Name: Franklin D. Raines (Generally known as Frank)
2. Position to which nominated: Director of the Office of Management and Budget
3. Date of nomination: May 24, 1996

4. Address: Residence: 3006 Albemarle Street, N.W., Washington, D.C. 20008  
Office: 3000 Wisconsin Avenue, N.W., Washington, D.C. 20016

5. Date and Place of Birth: January 14, 1949—Seattle, Washington

6. Marital status: Married to former Wendy Farrow

7. Name and ages of children: Laura 10, Andrea 8, Sarah 2

8. Education:

Franklin High School—9/64—6/67 Diploma 6/67  
Harvard College—9/67—6/71 BA Magna Cum Laude 6/71  
Magdalen College, Oxford University—10/71—12/72 (No degree)  
Harvard Law School—9/73—6/76 JD Cum Laude 6/76

9. Employment Record:

Dates	Employer
6/71—9/71	Campaign assistant, campaign of Angelo Georcaris in Chicago, Illinois.
12/72—9/73	Associate Director, Seattle Model Cities Program.
1973—76	During law school, I performed paid consulting services for the City of Boston and the Seattle Model Cities Program.
1973—76	I served as a paid teaching fellow and as a freshman proctor during law school.
6/74—9/74	Law Clerk, Preston, Thorgrimson, Ellis, Holman & Fletcher, Seattle Washington.
6/76—7/75	Law Clerk, Coyington & Burling, Washington, D.C.
7/75—9/75	Law Clerk, Davis, Wright, Todd, Riese & Jones, Seattle, Washington.
6/76—1/77	Associate, Preston, Thorgrimson, Ellis, Holman & Fletcher, Seattle, Washington.
2/77—6/78	Assistant Director, Domestic Policy Staff, Executive Office of the President.
6/78—6/79	Associate Director, Office of Management and Budget.
7/79—12/90	General Partner, Lazard Freres & Co., New York, New York.
9/81—1985	Owner and President of Elmwood Distributing, Inc., a beer distributorship.
10/89—1/96	Trustee, Mitre Corporation.
1/91—6/91	I performed paid consulting services for the City of Washington, D.C.
7/91—present	Vice Chairman and Director, Federal National Mortgage Association.
7/92—present	Trustee, Robert Wood Johnson Foundation.
1/93	I received an honorarium for speaking before the Urban Institute.
6/93—present	Director, Pfizer, Inc.
1994—present	Director, Manpower Research and Development Corporation.
1/95—present	Trustee, Rockefeller Foundation.
1/95—present	Director, The Boeing Company.
11/95	In connection with my speaking before American Management Systems (AMS), AMS made a donation to a charitable organization.
1/96—3/96	Trustee, Mitretec Systems, Inc.
1996	I received payments from EDS, a division of General Motors, as compensation for my attendance at meetings of the persons designated to be nominated as Directors of EDS upon General Motors' divestiture of EDS. My designation as a director of EDS has been withdrawn.

10. Government experience:

Special Assistant to the Secretary of State and Executive Secretary, Governor's Committee on Constitutional Reform, Olympia, Washington, 1967.

Deputy Executive Director of the Washington State Commission on the Cause and Prevention of Civil Disorders, Seattle, Washington, 1968.

Staff Assistant to Daniel P. Moynihan, Assistant to the President for Urban Affairs, The White House, Washington, D.C. 1969.

Delegate to the White House Conference on Food, Nutrition and Health, Washington, D.C. 1969.

Member, National Advisory Council on the Education of Disadvantaged Children, Washington, D.C. 1970—1972.

Chairman, Task Force on Government and Citizen Participation, Seattle 2000 Commission, Seattle, Washington. 1973.

Member, New York City Commission on Early Childhood Education, New York, New York. 1985—1986.

Member, New York Governor's Task Force on Poverty and Welfare Reform, New York, New York. 1986.

Member, New York Governor's School and Business Alliance Task Force, New York, New York. 1986—1989.

Member, Board of Directors, New York City Public Development Corporation, New York, New York. 1986—1990.

Member, State of Texas Select Committee on Tax Equity, Austin, Texas. 1987—1989.

Chairman, Transition Committee on Financial Management for the Mayor of the District of Columbia, Sharon Pratt Kelly, Washington, D.C. 1990.

Coordinator, Economics and Trade Cluster, Clinton Transition, Washington, D.C. 1992—1993.

Advisor, National Performance Review, Washington, D.C. 1993.

Member and Interim Chairman, Commission on the Roles and Missions of the Armed Forces, Washington, D.C. 1994—1995.

U.S. Treasury Advisory Commission on Financial Services, 1995—present

11. Business relationships:

*For-profit organizations:*

Dates of Affiliation	Entity	Relationship
7/79—12/90	Lazard Freres & Co.	General Partner
9/81—1985	Elmwood Distributing, Inc.	Owner and president
7/91—present	Federal National Mortgage Association	Vice Chairman and Director
6/93—present	Pfizer, Inc.	Director
4/95—present	The Boeing Company	Director
3/95—4/95	Electronic Data Systems, Inc.	Consultant

*Non-profit organizations:*

Dates of Affiliation	Entity	Relationship
5/79—1991	University of Puget Sound	Trustee
6/80—present	John F. Kennedy School of Government	Adjunct Lecturer/Member of the Visiting Committee
1984—86	Harvard Alumni Association	Director
1984—86	Florence Heller School Brandeis University	Member of Advisory Committee on Employee Benefits
1984—2/88	Urban Research Center, New York University	Member of Advisory Board
1985—91	Center for Law and Social Policy	Director
7/86—6/92	Harvard University	Overseer
1986—94	Harvard College	Member of the Visiting Committee
1/87—present	Black Student Fund	Director/Treasurer
1/88—11/91	French American Foundation	Director
6/88—1/92	American Institutes for Research	Director
6/88—6/92	Harvard Business School	Member of the Visiting Committee
5/89—10/91	National Institute for Dispute Resolution	Director
10/89—1/96	Mitre Corporation	Director
6/89—present	Council for Excellence in Government	Director

Dates of Affiliation	Entity	Relationship
9/89-5/95	German Marshall Fund of the United States	Trustee
3/91-present	The Energy Foundation	Director
9/91-present	Federal National Mortgage Association Foundation	Director
11/91-11/94	Urban Institute	Director
7/92-present	Robert Wood Johnson Foundation	Director
9/94-present	Federal City Council	Co-Chair of D.C. Agenda, Project and ex-officio member of Executive Committee
1994-present	Manpower Research and Development Corporation	Director
1/95-present	Rockefeller Foundation	Director
1/95-3/95	Mitretek Systems, Inc.	Director

## 12. Memberships:

Dates	Organization	Relationship
6/73-present	American Association of Rhodes Scholars	Member
10/76-present	Washington State Bar Association	Member
11/79-12/90	New York Stock Exchange	Allied Member
6/80-present	NAACP	Member
2/81-present	Bar Association of the District of Columbia	Member
7/84-12/90	National Association of Securities Dealers	Listed as broker with Lazard Freres & Co.
1985-1994	National Academy of Sciences	Member of various committees and commissions
6/89-present	Sigma Pi Phi	Member
6/89-present	Council on Foreign Relations	Member
1/91-present	Harvard Club of New York	Member
5/91-present	American Academy of Arts and Sciences	Member
8/91-present	National Academy of Social Insurance	Member

(See also the response to Question 11 above.)

## 13. Political Affiliations and Activities:

a. List all offices with a political party which you have held or any public office for which you have been a candidate.

None

b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Volunteer for Eleanor Holmes Norton, Candidate for Delegate from the District of Columbia--1990

Volunteer on issues staff Dukakis presidential campaign--1988

c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

Dates	Organization, Party, Committee, etc.	(Dollars)
08/10/86	Citizens for Laurent	\$250
10/02/86	Citizens for Calder	100
10/20/86	Brock Adams Senate Committee (primary and general)	2,000
04/29/87	Dukakis for President	500
09/22/87	Mary Landrieu Election Committee	100
10/26/88	Friends of Doug Wilder	500

Dates	Organization, Party, Committee, etc.	(Dollars)
11/28/88	Judd Gregg for Governor	750
02/20/89	Bill Bradley for U.S. Senate	1,000
04/05/89	Kathleen Brown for Treasurer	1,000
04/10/89	Harvey Gantt Committee	250
05/08/89	Goddard for Governor	550
06/25/89	Young for Governor	500
12/18/89	Raymond Flynn Committee	500
02/28/91	Bob Matsui for Congress	1,000
04/11/91	Brock Adams for Senate	1,000
06/12/91	Lee Corbett for City Council	1,000
10/23/91	Democratic Congressional Campaign Committee	500
11/12/91	Fannie Mae Political Action Committee	2,500
11/13/91	Committee for Nanton	500
02/21/92	Friends of Jane Harman	500
03/27/92	Idahama for Matt Schaefer	250
05/08/92	Mary Rose Okas for Congress	1,000
02/24/93	Wilson for Chairman	500
04/13/93	Committee to elect Senator Kennedy	500
04/28/93	Watt for Congress	500
04/28/93	John Lewis for Congress	1,000
06/17/93	The Jefferson Committee	500
06/30/93	Friends of Kwasi Mfume	500
07/27/93	Citizens for Waters	500
07/27/93	Fields for Congress	500
07/27/93	Flake Campaign Committee	500
09/22/93	Myrtle Davis for Mayor	250
11/18/93	Stokes for Congress	500
04/12/94	Congressman Floyd Flake Committee	500
05/19/94	Mel Watt for Congress	500
06/09/94	Hancock for Congress	100
06/09/94	Lou Stokes for Congress	500
06/14/94	Senate Democratic Committee Victory Fund	2,000
06/29/94	Citizens for Eleanor Holmes Norton	100
07/27/94	Volunteers for Vento	1,000
08/11/94	Bill Clay for Congress	500
11/02/94	Friends of Bob Carr	500
11/02/94	Friends of Kent Conrad	500
11/02/94	J.C. Watts for Congress	500
03/01/94	Rangel for Congress	500
03/22/95	Friends of Walter Tucker	500
04/06/95	Scott for Congress	500
04/06/95	Floyd Flake Committee	500
06/14/95	Stokes for Congress	500
06/25/95	Citizens for Eleanor Holmes Norton	500
06/25/95	Tom Davis for Congress	500
07/21/95	Kurt Schmoke Committee	1,000
07/25/95	Gephardt for Congress	500
08/31/95	Kurt Schmoke Committee	1,000
10/29/95	Wynn for Congress	500
11/14/95	Mel Watt for Congress	500
03/08/96	Hancock for Congress	500
04/12/96	Citizens for Eleanor Holmes Norton	500

## 14. Honors and Awards:

Max Black Human Relations Award of the Seattle Jewish Committee, 1967.

Alfred P. Sloan Scholarship Harvard College. 1967.

Harvard National Scholarship Harvard College. 1967-1971.

Research Fellowship, John F. Kennedy Institute of Politics, Harvard University. 1970-1971.

Kirkland House Master's Award, Harvard College. 1971.

Rhodes Scholarship, Magdalen College, Oxford University. 1971-1972.

Fellow, American Academy of Arts and Sciences. 1991-present.

Member, National Academy of Social Insurance. 1991-present.

First Marshall, Twenty-Fifth Reunion Class of 1971 Harvard College. 1996.

15. Publications and writings:

1. *FNMA and Affordable Housing*, National Mortgage News, April 1, 1996.
2. *Technology Investment Helping Fannie Mae Fulfill Its Mission*. The American Banker, November 1, 1995.
3. *Fannie Mae: Empowering Lenders Through Technology*. Hamilton Carter Smith Newsletter, March 1995
4. *The Downtown Arena: "Let's Not Blow It"*, Washington Post, October 2, 1994
5. *Showing America a New Way Home Through Technology*, National Mortgage Technology Review, September 1994
6. *The Race Ahead: Competition in the Mortgage Banking Industry*, Mortgage Banking, August 1994.
7. Untitled article, Alliance to Save Energy Newsletter, January 1994.
8. *Fannie Mae's Service Record Refutes the Critics' Carping*. The American Banker, April 14, 1992.
9. Untitled letter to the editor in support of the candidacy of Daniel Patrick Moynihan for the U.S. Senate, New York Times, September 9, 1976.
10. Guest Editorial and Reports, Seattle Post Intelligencer, prior to 1974.
11. *Presidential Policymaking: The Genesis of the Family Assistance Program*, Honors Thesis for Harvard College, 1971.
12. "The Meaning of the Campus Struggle," a chapter in *A Manifesto for Youth* by the Ripon Society, 1970.
13. *Washington Looks at: Constitutional Revision*, unpublished monograph on file at the Washington State Library.
14. *Why Do Poor Children Seemingly Fail in Public Schools?* Seattle Schools, May-June 1970.

16. Speeches: See Attachment 1.

17. Selection:

(a) Do you know why you were chosen for this nomination by the President?

I believe I was chosen by the President because of my experience in business, government, and non-profit groups.

(b) What do you believe in your background or employment experiences affirmatively qualifies you for this particular appointment?

From 1977 to 1979 I served as Assistant Director of the Domestic Policy Staff and as Associate Director for Economics and Government of the Office of Management and Budget. From 1979-1990 I was affiliated with Lazard Freres & Co. During that time I served as financial advisor to numerous States, cities, and authorities helping them manage financial crises and/or gain access to the financial markets to finance large capital programs. From 1991 to the present I have served as a senior executive of Fannie Mae. In this position I have helped manage the largest company in the Nation measured by assets. From 1994 to 1995 I served on the Commission on the Roles and Missions of the Armed Forces. This commission spent one year examining the important issues surrounding the future of the United States armed services.

#### B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate.

Yes. I will resign all positions and sell all equity securities received in connection with these positions. I have certain vested rights in pension and deferred compensation plans with Fannie Mae which will continue pursuant to arrangements reviewed by the ethics officer of OMB and the Office

of Government Ethics. I also will retain certain limited partner interests in fully invested real estate partnerships and a fully invested venture capital partnership, as well as stock in a privately held beverage bottling company. None of these holdings is likely to pose a conflict of interest with my proposed government services.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No. I intend to maintain my membership on the Visiting Committee of the John F. Kennedy School of Government at Harvard University. This is an uncompensated advisory body with no governing body responsibilities.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

#### C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

If confirmed by the Senate, I intend to take the following actions with respect to my current employment arrangements, service on boards of directors and financial interests:

a. I will resign the following positions:

Vice Chairman and Director, Federal National Mortgage Association  
 Director, Federal National Mortgage Association Foundation  
 Director, The Boeing Company  
 Director, Pfizer, Inc.  
 Trustee, Robert Wood Johnson Foundation  
 Director, Manpower Research and Development Corporation  
 Trustee, Rockefeller Foundation

b. I will liquidate the following financial interests (for each of the listed securities. I will liquidate all of such securities held by me):

Federal National Mortgage Association ("Fannie Mae") common stock  
 Fannie Mae stock options  
 Boeing common stock  
 Boeing stock options  
 Boeing Deferred Compensation Plan for Directors account  
 Pfizer Nonfunded Deferred Compensation and Unit Award Plan for Non-Employee Directors account  
 Pfizer restricted stock (I will sell as soon as permissible under the terms of the stock, which will be six months after termination of my Pfizer directorship)  
 Circuit City common stock  
 General Motors Class E common stock  
 MSR Exploration common stock  
 Garden State Cablevision, Inc. common stock  
 District of Columbia municipal bond—7.37% 2005/6  
 District of Columbia Go municipal bond 9.375%  
 Limited partner interest in Corporate Partners, L.P. and LFXR Partners, L.P.  
 Limited partner interest in CCI Partners, L.P.

c. I will retain vested benefits under the Fannie Mae Elective Deferred Compensation Plan and the Federal National Mortgage Association Executive Pension Plan/Federal National Mortgage Association Retirement Plan

for Employees Not Covered Under Civil Service Retirement Law. These will remain in effect as retirement benefits of my employment with Fannie Mae. Liquidating them would substantially reduce the value of my retirement benefits. Accordingly, and because I intend in any event to recuse myself for the duration of my term, from any matter directly and specifically affecting Fannie Mae, I intend to retain these benefits. Moreover, I intend to insulate my financial interests in these retirement plans from the future prospects of Fannie Mae by obtaining an insurance policy guaranteeing Fannie Mae's obligations under the plans.

d. As a result of the divestitures described above, my financial holdings will consist solely of investments in widely diversified mutual funds, government securities, limited partner interests in real estate partnerships, stock of a private beverage company, and a limited partner interest in a fully-invested venture capital partnership none of which, I am advised are likely to constitute a conflict of interest with my services as Director of the Office of Management and Budget.

e. I will recuse myself from the following matters:

For the duration of my term, I will recuse myself from any matter directly and specifically affecting Fannie Mae and from any particular matter in which Fannie Mae is a party or represents a party. This recusal does not include matters of policy, budgeting or regulation affecting the housing, financial services or mortgage banking sectors generally.

For one year from the date on which I take office, I will recuse myself from any matter in which Boeing is a party or represents a party.

Until I have sold all of my Pfizer stock, I will recuse myself from any particular matter having a direct and predictable effect on Pfizer. In addition, I will recuse myself from any matter in which Pfizer is a party or represents a party for one year from the date on which I effect such sale or the date on which I take office, whichever is later.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

I intend to liquidate any investments or obligations which the OMB ethics officer has determined to create a potential conflict of interest. Also see response to C. (1) above.

3. Describe any business relationships, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

I do not believe I have any conflicts of interest as a result of prior relationships or transactions. The operation of federal ethics laws and regulations should avoid any such conflicts of interest from arising in the future. See my response to question C. (2) above with respect to the divestitures I will undertake to eliminate potential conflicts of interests.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

From 1979 to 1991, while employed by Lazard Freres & Co., I served as financial advisor for numerous States, cities, and authorities. This required me to be engaged in both monitoring and advising activities with respect to legislation as well as activities affecting the administration and execution of law on a continuous basis. Throughout this period the District of Columbia was a client. I assisted the District in advocating authorizing and appropriations legislation, as well as advocating certain administrative actions.

From 1991 to the present, I have served as a senior executive of Fannie Mae. On numerous occasions, I have represented Fannie Mae before legislative committees and executive bodies advocating matters related to the company, housing policy, and issues affecting the communities in which the company operates.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide a copy of any trust or other agreements.)

As described in response to question C. (1) above, as long as I retain interests in Fannie Mae pension and deferred compensation plans I will either recuse myself from matters having a direct and predictable effect on Fannie Mae or obtain a financial arrangement (such as an insurance policy guaranteeing the Fannie Mae obligations) that insulates my financial interests from the future prospects of Fannie Mae. Even with such an arrangement, it is my intention for the duration of my term to recuse myself from any matter directly and specifically affecting Fannie Mae.

In addition, pursuant to 5 C.F.R. §2635.502, in order to avoid the potential for an appearance of conflict of interest related to my service on the Boards of Directors of Pfizer Inc. and The Boeing Company, I intend for one year from the date on which I take office to recuse myself from any matters in which either Pfizer or Boeing is a party or represents a party.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

#### D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation if so, provide details.

I have been a General Partner of Lazard Freres & Co. and Vice Chairman of Fannie Mae. These businesses have been involved in litigation and administrative proceedings during my tenure with the companies. I have never been named as an individual party in any such proceedings.

From 1981 to 1985 I was an officer of Elmwood Distributing, Inc., an Illinois corporation. Elmwood and I were named defendants in the case of *Baker, et. al v. Elmwood Distributing Inc., et. al*, No. 83CC0215 (U.S. District Court for the Northern District of Illinois). This was an employment discrimination case that was dismissed on summary judgment.

4. Have you even been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense?

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

I have nothing to add to the information already provided to the Committee.

#### E. FINANCIAL INFORMATION

Financial information is retained in the Committee's files.

## PRE-HEARING QUESTIONS FOR FRANKLIN D. RAINES

## I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

1. Why do you believe the President nominated you to serve as Director of the Office of Management and Budget? What particular qualifications do you bring to the position?

A. I believe I was chosen by the President because of my experience in business, government, and non-profit groups.

From 1977 to 1979 I served as Assistant Director of the White House Domestic Policy Staff and as Associate Director for Economics and Government of the Office of Management and Budget. From 1979-1990, I was affiliated with Lazard Freres & Co., an investment banking firm. During that time I served as financial advisor to numerous States, cities, and authorities. From 1991 to the present, I have served as a senior executive of Fannie Mae. From 1994 to 1995, I served on the Commission on the Roles and Missions of the Armed Forces. This commission examined the important issues surrounding the future of the United States armed forces.

2. Were any conditions, expressed or implied, attached to your nomination to be Director of the Office of Management and Budget?

A. No.

3. Have you made any commitments with respect to the policies and programs you will attempt to implement as Director of OMB? If so, what are they?

A. No.

4. To what extent does your compensation arrangement with Fannie Mae involve future income—for instance, from the exercise of stock options—that may depend on future events that could be influenced by Federal economic or budget policies? What provisions will you make to avoid conflicts of interest in exercising your duties as Director of OMB?

A. None of my compensation arrangements with Fannie Mae that may depend on future events will continue after I take office.

I will divest all of the Fannie Mae common stock that I own. I will also divest all of the Fannie Mae stock options that I own. Additionally, I intend to insure Fannie Mae's obligations to me under its pension and deferred compensation plans by purchasing a policy of insurance or similar guarantee from a nationally recognized insurance company.

For the duration of my term, I will recuse myself from any particular matter directly and specifically affecting Fannie Mae and from any particular matter in which Fannie Mae is a party or represents a party. This recusal does not include matters of policy, budgeting, or regulation affecting the housing, financial services or mortgage banking sectors generally.

5. Are there any other issues involving OMB from which you may have to disqualify yourself? If so, please explain.

A. In addition to the recusal involving Fannie Mae described above, I will recuse myself from the following matters:

1. For one year from the date on which I take office, I will recuse myself from any matter in which the Boeing Company is a party or represents a party.

2. Until I have sold all of my stock in Pfizer, Inc., I will recuse myself from any particular matter having a direct and predictable effect on Pfizer. In addition, I will recuse myself from any matter in which Pfizer is a party or represents a party for one year from the date on which I effect such sale or the date on which I take office, whichever is later.

## II. ROLE AND RESPONSIBILITIES OF OMB DIRECTOR

What do you consider your primary responsibilities and priorities to be as OMB Director?

A. My primary responsibilities and priorities as OMB Director fall into three areas:

1. Advising the President on economic and other matters.

2. Advising the President in creating specific policies relating to revenue, expenditures, regulations, and legislation.

3. Assisting the President to manage the Executive Branch in the execution of laws, policies, and programs.

Specific activities will include:

- Managing the preparation of the budget of the United States;
- Supervising the administration of the budget;
- Seeking to improve government efficiency and effectiveness through improved management of the government (i.e., improving both general management and Federal financial management systems);
- Overseeing the regulatory review, legislative coordination, and Executive Order coordination functions;
- Contributing to the implementation of improved government-wide procurement policies and practices; and
- Overseeing Paperwork Reduction Act activities.

2. What do you envision your relationship and the nature of your responsibilities to be as they relate to other OMB managers, including:

- (a) Deputy Director
- (b) Deputy Director for Management
- (c) Administrator, Office of Information and Regulatory Affairs (OIRA)
- (d) Administrator, Office of Federal Procurement Policy (OFPP)
- (e) Director, Information Security Oversight Office (ISOO)
- (f) The Associate Directors of OMB?

A. OMB's most recent, comprehensive management review—OMB 2000—reaffirmed the existing organizational structure, in which two Deputy Directors assist the Director in applying OMB's resources toward the design and implementation of the Administration's policy agenda. I will work closely with the Deputy Director, who will assist me in the day-to-day management of OMB. I will also work closely with the Deputy Director for Management (DDM) and the statutory offices (OIRA, OFPP, and OFFM) to guide and support their efforts across government as well as to enhance their effectiveness by ensuring that their activities are integrated into the budget process and other activities of the Resource Management Offices (RMOs).

The program associate directors direct the work of the RMOs, and thus will work closely with me to provide the President with the highest quality policy analysis and advice. The other four associate directors—for economic policy, legislation, communications, and administration—and the assistant director for budget review will advise me in their respective areas.

Under the authority of the 1996 Treasury, Postal, General Government Appropriations Act, the Information Security Oversight Office (ISOO) was transferred from OMB to the National Archives and Records Administration (NARA) in November 1995. The Director of ISOO reports directly to the Administrator of NARA.

3. Do you have any plans to reorganize OMB or to reorder its priorities? If so, what types of changes would you make?

A. When Leon Panetta and Alton Rivlin assumed responsibility for OMB at the beginning of the Administration, they asked for a comprehensive review of OMB's organizational structure and work processes, with a view towards enabling the organization to serve the Director and the President as effectively as possible. The results of that review, known as OMB 2000, were announced in March 1994. The organizational changes proposed as part of OMB 2000 were implemented in April 1994. The changes were one part of OMB 2000's larger set of reforms designed to integrate OMB's budget and management responsibilities, reforms that will take time to implement fully.

As required by the Government Performance and Results Act, OMB will develop a strategic plan in the coming year. In a letter to CAO commenting on its report on the OMB 2000 reorganization, John Koskinen, OMB's Deputy Director for Management, stated that the strategic planning process, "offers an excellent opportunity for OMB to evaluate our institutional capacity. . . . This planning effort will address the integration of manage-

ment and budget responsibilities . . . and different approaches to integration and coordination among OMB's various units." The results of the planning process should indicate if any further changes are needed in OMB's priorities or structure.

### III. ECONOMIC AND BUDGET POLICY

1. In light of the reduced deficit of about \$130 billion projected lately for fiscal year 1996, do you think it would be reasonable to strive to balance the budget and move toward surpluses before 2002?

A. The Administration remains committed to balancing the budget by 2002 using CBO's economic assumptions. However, I would note that the Administration's fiscal year 1997 budget shows the budget in surplus in 2001 using the Administration's assumptions about the likely performance of the American economy.

2. President Clinton's budget request for fiscal year 1997 proposes tax cuts now that would be rescinded in 2001 if the deficit in the year 2000 is not below the target path toward balance in 2002. If the deficit exceeds that target, however, it may be because the economy is in recession in 2000, or is coming out of a recession that leaves swollen deficits in its wake.

(a) If that is so, wouldn't rescinding a tax cut (i.e., raising taxes) at that time deepen the recession and/or undermine a recovery?

(b) What are the chances that adopting the President's proposed "trigger" could run serious risks of pledging the country to an ill-timed fiscal contraction?

A. At some time during the next six years, it is possible that an external event may push the economy into a recession or a period of weak growth. The automatic stabilizers in the budget would tend to ameliorate the impact of a slowdown in the first instance. If further stimulus was required, it would be advisable to rely first on monetary policy, rather than on fiscal policy. Fiscal policy should focus on a longer-term plan to bring the budget deficit into balance. Only if monetary policy were unable to offset the restraining forces in the economy would it be appropriate to shift temporarily to a more stimulative fiscal policy.

3. A similar question can be posed about President Clinton's spending plan, which envisions limited spending reductions before 2000 and then bigger cuts to reach a balanced budget by 2002. What if the economy is weak as it moves into the next century? Wouldn't it be wiser to make larger spending cuts now, when the economy is expanding, than to put them off until a future time when retrenchment could be even more unpleasant than it is now?

A. As I stated in answer to the previous question, at some time during the next six years, it is possible that an external event may push the economy into a recession or low growth and, if that occurred, it would be advisable to rely first on automatic stabilizers and monetary policy to remedy the situation. We should change fiscal policy only after it appears that monetary policy will not do the job.

4. Unemployment is now below 5.5 percent and probably cannot go much lower without creating labor scarcities and wage-price pressures. Long-term interest rates rose sharply this year as it became clear that the economy's growth was re-accelerating and that Congress and the President would not soon reach a long-term budget agreement. Under these conditions, wouldn't a sizeable further reduction of the Federal deficit in fiscal year 1997 be just what the economy's doctor would order to prolong prosperity without inflation?

A. Deficit reduction is the best prescription for the economy's long-term growth. That is why the President has asked the Congress to come back to the bargaining table and use the substantial mutually agreed upon savings from the prior negotiations to balance the budget.

However, I would not exaggerate concerns about the short-term stability of the economy. The unemployment rate was 5.6 percent in May. If the unemployment rate stays around this level during the second half of this year, as the Administration and most private forecasters predict, there will be little, if any, upward pressure on prices. The President's budget calls for reductions in the deficit in each year, reaching a surplus in 2001 under OMB economic and technical assumptions (and 2002 under CBO assumptions). If

during these years inflation accelerates or economic growth falters, monetary policy should adjust to supply the necessary restraint or stimulus. Fiscal policy should continue to follow the balanced budget program set forth by the Administration.

5. Even after the unexpectedly high tax revenue reported by the Treasury for April, the Federal deficit remains about 1.7 percent of GDP in fiscal year 1996, the second successive year of relatively full employment. Interest rates on Treasury bonds have risen steeply since January. Does this imply clearly that the Federal deficit is now crowding out some private investment that otherwise would help to modernize and expand the private economy and prolong this period of prosperity?

A. The primary causes of the increase in interest rates this year are the acceleration in economic growth and the associated strong job creation, and market views about the Federal budget deficit. However, there has been enough progress on deficit reduction that long-term interest rates now are lower than they were when the President took office, even though the unemployment rate is two percentage points lower and economic growth is far more solid.

Many economists believe the economy is now operating at close to its full potential. This has led to some fears in the financial markets that the economy might overheat. I would expect these fears to be alleviated—and interest rates slowly to decline—as the economy continues to perform at a moderate pace with no acceleration of inflation in the second half of this year.

Private business fixed investment continues to grow at a faster pace than the rest of the economy—4.3 percent last year and 11 percent (at an annual rate) in the first quarter of this year. Meanwhile, the government sector (as measured in national accounts) shrunk by 1.3 percent last year and increased at only a 1.6 percent rate in the first quarter of 1996. Four successive years of lower budget deficits have led to a boom in investment that shows no signs of slowing.

6. There is renewed interest recently in general reform of the Federal tax system. Do you believe that the present system should be overhauled? If so, what form do you think change should take? How do you feel about further broadening the base of the income tax? What are your views about moving to a system that would not tax income that people save?

A. The President has said that we must pursue opportunities to make the tax system simpler and more conducive to activities that encourage economic growth. Alternative systems that tax consumption rather than income have some interesting and attractive properties, but they also tend to be more complex than the current system, bear more heavily on people of modest means, or both. They also tend to raise significant transition issues. The President has endorsed an important step in the direction of encouraging saving, without the costs of conversion to a full-scale consumption base, in his proposed liberalization of the Individual Retirement Account.

7. Present budget proposals by both the Administration and Congress would freeze "discretionary" Federal spending in nominal dollars below its fiscal year 1995 level through 2000 or beyond. Even slow inflation meanwhile will eat away at its purchasing power. Reductions in the defense budget, which made this containment easier for several years, may be over. How do you assess the impact of such a long-term spending freeze on the functions of the Federal Government? Do you see alternatives to such a freeze that might be considered?

A. To remain within the discretionary spending limits, agencies will need to improve productivity and become more efficient. Even so, we will need to examine closely many existing government functions—and potentially restructure some of them—in order to provide adequate funding of the functions that we decide government should continue to perform. Examples of the kind of changes that are needed have already surfaced through the Vice-President's National Performance Review, but I will be looking for more new ideas to help us remain within spending limits and stay on a path to balance.

8. Do you think that Federal investment spending on R&D, infrastructure, education and training—nearly all of which is in the "discretionary" part of the budget—can be adequately funded under a freeze on total discretionary spending, while

also providing more Federal resources for enforcement of criminal laws, immigration laws, and possibly for defense?

A. The Administration has given a very high priority to increasing investments in the public and private sector that will contribute to economic growth. These include:

- returning the budget to balance to free up capital for private investment;
- increases in education and training to give Americans the skills they need to get high-wage jobs in the new economy;
- proposals to fund a balanced mix of basic research, applied research, and technology development—much of it through cooperative projects with private industry; and
- proposals to improve foreign trade by aggressively seeking to open markets in Japan and other countries.

This can be done while increasing support for enforcement of laws and continuing adequate defense. But it will require that the Congress and the Administration work together to constrain spending on areas of lower priority.

9. The perennial struggle to contain spending up to now has yielded only temporary reductions in the upward trajectory of budget deficits, largely because continuing increases in medical entitlement costs have not been addressed. Please outline your ideas on what basic reforms you would recommend to address this issue.

A. The President's 1997 budget proposes specific policies to reduce medical entitlement costs and to reform Medicare and Medicaid.

The President's Medicare plan strengthens and improves the program, reduces spending by a net \$124 billion over seven years, and improves the solvency of the trust fund to assure the viability of the program. Specific reforms give seniors more choices among private health plans, make Medicare more efficient and responsive to beneficiary needs, attack fraud and abuse, cut the growth rate of provider payments, and maintain the Part B premium at 25 percent of program costs.

In reducing the rate of growth of provider payments, the Administration's plan changes the payment methodology for home health, skilled nursing, and hospital outpatient departments to a prospective payment system, a methodology that has been successfully implemented to moderate the rise in Medicare inpatient hospital expenditures. The Administration is also experimenting with new market-oriented payment methodologies that will test the feasibility of competitive bidding for Medicare services.

The President's plan would limit the growth in Federal Medicaid expenditures by \$54 billion over seven years. The plan has three components: unprecedented, new flexibility for States to administer the program; a per capita cap financing structure; and reduced and re-targeted disproportionate share hospital (DSH) spending.

10. Steps have been taken under several years to curtail Medicare and Medicaid spending. Mostly these have involved limiting payments for services to doctors and hospitals. As a result some doctors limit the federally insured patients they serve, and some hospitals limit Medicaid patients. President Clinton's current budget proposals rely heavily on proceeding with this approach. Do you think it is plausible to make further sizable cuts in medical entitlements through further gains in efficiency and further fee cuts without limiting services to patients and/or making patients pay more out of their pockets?

A. The Administration believes that the rate of growth of the Medicare and Medicaid programs can and should be slowed, but that these programs should be addressed in the context of broader health reforms to ensure that quality and access are maintained. As part of his plan to balance the Federal budget, the President has proposed to reduce spending in the Medicare program by \$124 billion over the next seven years, and in Medicaid, by \$54 billion. The Administration believes that reductions of this magnitude, in combination with the insurance market reforms and a new program to help people who lose their jobs maintain their insurance, are reasonable and at-

tainable, and do not pose a risk of diminishing coverage for beneficiaries. I agree with this assessment.

While some of the Medicare savings proposals in the President's plan are reductions in provider payment rates, the President's plan also proposes to reform the payment methodology for hospital outpatient departments, home health, and skilled nursing facility services. By moving to a prospective payment methodology for these services, the Administration hopes to take advantage of the greater efficiencies that have been achieved, for example, in inpatient hospital services. In addition, the Administration is experimenting with new market-based approaches to pricing of Medicare services, in order to test whether competitive bidding is feasible.

Currently, just over 90 percent of all Medicare-allowed charges for physician services are billed by physicians accepting Medicare's payment rate as "payment in full"—an all-time high. Also, 96 percent of doctors responding to a 1994 Physician Payment Review Commission (PPRC) survey were accepting new Medicare patients, a percentage roughly equal to the percentage of doctors accepting new privately-insured, fee-for-service patients (97 percent). The PPRC's most recent Annual Report to Congress (1996) noted that 96 percent of Medicare beneficiaries surveyed in 1995 reported no trouble getting medical care during 1994. Finally, the vast majority of hospitals—more than 6,000—also accept Medicare patients.

In the Medicaid program, the President's plan is designed to limit the rate of cost growth on a per person basis, so that beneficiaries will continue to be guaranteed access to a meaningful benefits package as costs are moderated.

11. The budget outlook is heavily and increasingly dependent on projections of interest rates. The economic outlook underlying the President's budget projections must be described as optimistic. Rates on 3-month Treasury bills are projected to decline steadily from an average of 4.9 percent this year to 4.0 percent by 2000 and to stay there. Rates on 10-year notes are projected to decline from 5.6 percent this year to 5.0 percent by 1998 and to remain there. So the Administration's projection for 1996 is a full percentage point below current market rates on 10-year notes. It is 0.7 percentage point below CBO's forecast for 1996 and 1.4 percentage points below CBO's projection for 1998 onward. Do you think the Administration's budget forecast should allow for higher interest payments?

A. The economic forecasts described in the question are based on different policy assumptions. The Administration's forecast assumes that the President's balanced budget proposals are adopted. The Congressional Budget Office prepares a baseline forecast that assumes unchanged budget policies, and also prepares an alternate forecast that assumes a balanced budget within seven years. Both CBO and the Administration agree that interest rates will be lower with a balanced budget, and conversely that rates will be higher without one. There is little difference in their interest rate forecasts when based on the same fiscal policy assumption.

The question compares the CBO forecast under current policies to the Administration's forecast under a balanced budget. For instance, it says that CBO's 10-year note forecast of 5.4 percent in 1998 is 140 basis points above the Administration's assumption of 5.0 percent. The 6.4 percent figure for CBO assumes no change in policy. With a path toward a balanced budget, CBO assumes a 5.3 percent 10-year rate in 1998 (June O'Neill testimony of April 16th). Thus, the difference is only 30 basis points.

12. The retirement of the baby-boom generation promises to be the biggest fiscal challenge this Nation has faced since World War II, but it will last much longer than the four or five years of that war. If medical science continues to increase in effectiveness and cost, as it has in recent decades, the challenge may be even greater than now foreseen. This fiscal tidal wave is barely 15 years away. What guidance will you give the President in preparing for this challenge today? How do you foresee that the Nation can cope with entitlement claims that begin to soar between 2010 and 2015?

A. The demographic pressures of baby-boom retirement present a host of fiscal challenges, particularly for the Social Security and Medicare programs. OMB has published long-term projections that show that even with a balanced budget agreement, a deficit will reemerge around 2020 and will rise thereafter—though even by mid-century, it will remain far lower (as a

percentage of GDP) than it was in the 1980s. Other agencies—including CBO and GAO—agree that deficits will rise with the retirement of the baby boom. However, because a balanced budget in the near term will put us on a much more sound path for the retirement of the baby boom, we should pursue the first steps toward a responsible fiscal policy now, as the President has proposed. Then we still have time to make additional moderate structural changes in entitlement programs that will avoid the reemergence of the deficit.

13. Economists, including Federal Reserve Board Chairman, Alan Greenspan, have stated a belief that the consumer price index, which is used to adjust Social Security payments for inflation, overstates the rate of inflation, because it fails to recognize most quality improvements and innovations in the products, as well as efficiencies in how they are sold. Some economists have proposed that we trim inflation adjustments to Social Security benefits by as much as one percentage point annually, which would save increasingly large amounts over time. We also could calculate a price index specifically designed to reflect purchasing patterns of elderly households. What is your view of this line of thinking?

A. By design, the Consumer Price Index (CPI) is a measure of the change in the cost of purchasing a fixed market basket of goods and services. The fact that the CPI is based on a fixed market basket means that the CPI will tend to rise more rapidly than would a true cost-of-living measure. The Bureau of Labor Statistics (BLS) and other research puts the magnitude of this effect at about 0.1 to 0.2 percentage points per year. The BLS now produces, on a regular basis but with a lag reflecting the nature of the information needed for their calculation, experimental measures that take into account the substitutions that consumers make in their purchases as relative prices change. Given additional resources, the BLS could produce a measure or measures of this sort that have precision comparable to that of the ongoing CPI.

In addition, BLS researchers identified a subtle technical problem, which later became known as "formula bias" that added about 0.2 percentage point per year to the growth in the CPI. Once the BLS first uncovered this problem late in 1993, however, it moved quickly to correct it. It changed the procedures used to calculate the CPI in two steps, the first effective with the data for January 1995 and the second effective for June and July of 1996, that have fully corrected the "formula bias" problem.

The wild card with respect to errors in the CPI is how well changes in the quality of goods and services are reflected in the construction of the index. BLS makes a considerable effort to account for changes in the quality of the items it prices, but this is very difficult to do. Although many believe that the CPI is biased upward because quality improvements are not fully accounted for, it is possible that, at least in certain cases, quality adjustment problems lead to a downward bias in the CPI. Although various researchers have come up with estimates of the overall bias in the CPI, all have stressed the uncertainty surrounding those estimates.

The second part of the question has to do with the possibility of constructing a CPI for the elderly. The BLS in fact has been producing an experimental CPI for Americans 62 years of age and older since 1987. This index is constructed by reweighing the CPI data to reflect the spending patterns of the elderly across different broad categories of expenditure. Over the period from December, 1987 through December 1993, this experimental index grew slightly faster than either the CPI-U, the CPI for all urban consumers, or the CPI-W, the CPI for urban wage and clerical workers, which is the index used to adjust Social security payments. This is only experimental, however. Also, constructing additional CPIs could be expensive.

14. So long as U.S. economic accounts show a gap between low domestic saving and domestic investment, the United States needs net capital inflows from abroad. (This means, incidentally, that we also "need" the current account deficit that automatically comes with net capital inflows.) Can we assume that capital from abroad will continue to flow in at adequate rates? What would be the consequences if net capital inflows began to fall short of the amounts needed to bridge our saving-investment gap? Do you think it is important to reduce this dependency? What course of action would you recommend to do so?

A. For about 15 years, the United States has relied on an inflow of foreign capital to finance the excess of domestic investment over domestic saving; but the magnitude of the inflow has subsided in the 1990's. In 1987, the U.S. current account deficit was \$166 billion, or 3.5 percent of GDP. Last year, it was \$148 billion, or 2.0 percent of GDP.

The persistence of our net borrowing reflects a host of factors, including the very high household savings rates in countries such as Japan that have been persistently in surplus. In recent years, the U.S. economy has grown faster than most other major industrial countries, including those with current account surpluses. To some extent, that has contributed to our trade deficit, because U.S. consumers have been the most able to buy. Foreign investors have shown no unwillingness to continue investing in the United States, particularly in light of our success in reducing our budget deficit—which is now the lowest, as a percentage of GDP, of all the major industrialized nations.

The best policy to reduce the dependence of the United States on capital inflows from abroad is to continue to reduce the Federal budget deficit.

15. How do you view the idea of collecting user fees from government sponsored enterprises such as Fannie Mae and Freddie Mac for the benefits of their Federal charters? Could this be a significant source of Federal revenue?

A. As stated earlier, I will recuse myself with respect to any decision regarding the imposition of user fees upon Fannie Mae. However, to be responsive to the Committee's question, and only addressing GSEs generally, I can state as follows:

In creating the GSEs, Congress made an explicit decision to provide them with certain benefits to enable them to perform public missions. Congress can always change the balance between the two. In my view, it is preferable to either directly reduce the benefits or expand the mission expectations to achieve a new balance. If the purpose of user fees is additional revenue, then they should be measured for efficiency and policy implications as any other excise tax would be measured. Care should be taken that the imposition of user fees is not misconstrued as the equivalent of an insurance premium or guarantee fee, thereby creating a large contingent liability for the Federal Government.

#### IV. BUDGET PROCESS

In the past decade significant changes have been made in the Federal budget process principally as part of an ongoing effort to reduce the deficit. The Balanced Budget and Emergency Deficit Control Act of 1985 established declining annual deficit targets enforced by a sequestration process. The Act has been amended significantly on three occasions, in 1987, 1990, and in 1993. The 1990 amendments, known as the Budget Enforcement Act of 1990 (BBA), were enacted as part of a multi-year deficit reduction agreement that jettisoned the enforcement of annual deficit targets in favor of the enforcement (also by sequestration) of discretionary spending limits and a "pay-as-you-go" (PAYGO) requirement to ensure that the deficit reduction enacted under the multiyear agreement would be preserved. The 1993 amendments extended the discretionary spending limits and the PAYGO requirement through 1998 without significant substantive revision.

1. In terms of specific budget procedures adopted to reduce the budget deficit, could you comment on the effectiveness of the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) and the Budget Enforcement Act of 1990. Given your views, what type of control mechanisms do you believe should be adopted to keep us on a path toward a balanced budget?

A. I believe the BEA, particularly the PAYGO rules, has been relatively successful. I also believe that changes to the budget process cannot serve as a substitute for the efforts of the President and Congress to resolve important policy issues.

2. The PAYGO process under the Budget Enforcement Act has been criticized as ineffective in controlling spending because it does not apply to mandatory spending already in law. What are your views on strengthening the PAYGO process by imposing an annual cap on mandatory spending growth?

A. A mandatory cap is undesirable for several reasons.

- A cap by itself would not cut spending or address the hard choices that are necessary to restrain mandatory spending. It would simply leave that for future Congresses. This was one of the major defects of Gramm-Rudman-Hollings. The best way to reduce the growth of mandatory spending is for the Congress and the President to enact legislation that makes specific reforms in those programs.
- A mandatory cap would not necessarily focus on programs responsible for the rapid growth in mandatory spending. A sequester would reduce spending in many programs that are not experiencing rapid growth.
- Many mandatory programs are designed to be "automatic stabilizers"—that is, they increase more rapidly during economic downturns so as to offset the effects of slow economic growth. A mandatory cap could defeat this useful feature, with disproportionate effects on the most needy Americans.

3. The spending targets established in Title II of the fiscal year 1996 budget resolution reestablished the firewall between defense and domestic spending. Do you think that this distinction is important? Do you believe it is an effective way to restrain spending?

A. The firewall between defense and domestic spending in the budget resolution should not lead to a return to separate discretionary spending limits for defense and domestic spending in law. The caps on total discretionary spending, enforced by the Budget Enforcement Act procedures, are needed to help balance the budget and should be continued. However, within the total discretionary spending caps, we should retain as much flexibility as possible to allocate limited resources in the annual budget process.

4. Deficit reduction clearly has been the principal impetus behind recent budget process changes. But complaints about the budget process also extend to other areas. Many complain that the process is complex and confusing, that it consumes too much time and is needlessly repetitive. However, it is also clear that much of the complexity, confusion and repetition is related to changes made to strengthen budgetary discipline largely to reduce the deficit. In your view, what could be accomplished by budget process change? Can the different goals of various reforms be reconciled with the commitment to reaching a balanced budget?

A. Changes to the budget process should reinforce what the budget is intended to achieve in the first place—to help the President and the Congress decide: (1) What portion of the national economy is allocated to support the activities of the Federal Government; and (2) What those Federal activities should be and how much should be spent on them. Changes should also ensure that resource allocation is linked to program results. It is important to emphasize these overall goals because much of the complex and time-consuming nature of the budget process is linked to disagreements over policy, not the process itself.

Although rules cannot make policy, they can give impetus to policy goals. Three process reforms warrant highlighting:

(1) The discretionary spending caps and pay-as-you-go limits on mandatory programs and receipts should be continued. Returning the budget to balance will require several years. The discretionary spending caps and pay-as-you-go limits will help ensure that future legislative action does not compromise actions taken now to return the budget to balance. A budget agreement should include legislation extending the existing discretionary caps and pay-as-you-go limits.

(2) Biennial budgeting would reduce the amount of time now spent on the budget process to the detriment of other needs. The National Performance Review recommended that the Federal Government institute biennial budgeting, and the Administration has supported legislation that would move toward a biennial budget process.

(3) There should be a focus on implementation and improving program performance. Enactment of the Government Performance and Results Act is one of several changes that herald a new budgetary climate, with greater emphasis on identifying what the taxpayers' money is buying and ensuring that programs are effective and well administered. OMB is working with the agencies to integrate the new GPRA requirements into the budget process and eliminate or reduce outdated requirements.

5. Do you believe the practice of a current services baseline budget increases the level of Federal spending? Do you see any difference in the application of baselines for discretionary and mandatory spending?

A. The current services baseline is a very useful planning tool. It provides a reasonable estimate of what receipts and outlays will be unless programmatic changes are enacted. We need to know this before we can decide whether to restrain spending or to increase revenues, and if so, by how much.

Spending for mandatory programs is increasing because of the requirements of current law. The baseline estimate simply quantifies the cost of these requirements. The only way to alter the level of spending for these programs is to enact legislation that reduces the Government's commitments by changing benefit levels and/or eligibility criteria. Any other baseline would misstate the likely level of spending under current law and therefore would be an inaccurate starting point for making decisions.

The discretionary baseline is different because, unlike for mandatory programs, Congress must decide the level of funding for discretionary programs each year before new funds can be spent. The BEA requires that the baseline for discretionary budget authority be held constant in real terms (i.e., adjusted for inflation). Some have argued that this has encouraged expanding discretionary spending because it allows spending above the most recently enacted appropriations to be characterized as a reduction. There are at least two problems with this view. First, it ignores the fact that cuts from the discretionary baseline really are reductions in the services provided by Government. Even at today's relatively low 3 percent inflation rates, a nominal freeze in discretionary spending amounts to about a 20 percent reduction in real terms by the year 2002. Second, in comparison to mandatory spending, discretionary spending has been restrained considerably over the past decade, and particularly under President Clinton.

6. OMB and CBO frequently differ in their spending and revenue projections. Do you feel that such projections are too easily subject to political manipulations? How would you deal with differing projections?

A. President Clinton pledged to use realistic economic projections, and under OMB Directors Leon Panetta and Alice Rivlin, the differences between OMB and CBO have narrowed considerably as a result. So, unlike in previous administrations, OMB's economic assumptions are well within the mainstream of economic projections. I will continue this practice.

Estimates of revenue and spending are the result of numerous measurements and assumptions made by human beings. Often differences result from variations in the relative weight to be given to various factors. In my experience, the best way to narrow technical estimating differences is to develop a collaborative process for reviewing estimates. If Congress wanted to consider such a procedure as part of its budget process, I would be happy to work with the Committee on developing an approach.

7. Many of the detailed decisions on spending cuts necessary to achieve a balanced budget by fiscal year 2002 have been left unspecified and must be decided in the next few years. What mechanisms, if any, would you recommend to ensure that such actions are taken?

A. The President's fiscal 1997 budget calls for significant savings in discretionary programs over the next six years. The budget also proposes to enforce the savings by extending the annual limits on total discretionary spending.

Starting with fiscal 1991, Presidents Bush and Clinton and the last several Congresses have employed annual caps to limit discretionary spending. The caps have forced the President and Congress to make trade-offs among hundreds of programs within an annual overall limit. The President's 1993 economic program extended, through fiscal 1998, the caps that were then in place. The 1997 budget calls for making large savings in discretionary programs by extending the caps through 2002.

The 1997 budget contains the same specificity as prior budgets of this Administration and the budgets of previous Presidents. For the budget year (fiscal 1997), the Administration detailed every line item in the budget—thousands of pages that comprise the *Appendix* that OMB publishes each

year. For the subsequent years, OMB provided funding proposals at the levels of function, subfunction, and for program—as OMB always does.

Imbedded in these numbers, the 1997 budget maintains and expands the President's commitment to education and training and to the environment, proposing substantial new resources for those priorities through 2002. To fund those priorities and also reduce the deficit, the budget lays out a path for large savings in discretionary programs across much of the rest of government.

Budgets provide multi-year spending plans, but the appropriations process is an annual process. Presidents revisit their specific funding proposals in their yearly budgets, and Congress makes binding decisions about which programs to fund one year at a time through the 13 appropriations bills. President Clinton undoubtedly will make adjustments each year, while retaining his commitment to annual caps on total discretionary spending and to his investments in education and training and in the environment.

As you know, the President pledged to reach balance under OMB and CBO assumptions. The budget includes a "trigger" to fulfill that pledge. As I understand it, the "trigger" works like this:

- The President's 1997 budget caps discretionary spending at levels that, when combined with proposed changes to mandatory spending and taxes, would reach balance in 2002 using CBO's relatively conservative economic assumptions.
- But the budget also calls for a determination, at the end of fiscal 2000, whether the budget is on track to balance. If deficits are lower than projected because OMB's economic projections turned out to be more accurate than CBO's, the trigger calls for fewer cuts in discretionary spending in 2001 and 2002.

If the necessary determination is made at the end of 2000 that CBO's economic projections are accurate, the President is committed to making the additional cuts in discretionary programs to reach balance. On the other hand, OMB generally has proved more accurate in forecasting the economy than CBO during this Administration and therefore, additional cuts may prove unnecessary.

8. Do you think the budget resolution should be presented to the President for his signature? Do you think that this early involvement between Congress and the President on the broad outlines of budget policy would facilitate agreement on the details later on?

A. I believe that early involvement between Congress and the President on the broad outlines of budget priority might facilitate agreement on the details later. One means of achieving that might well be to make the budget resolution a joint resolution presented to the President for his signature. Other methods might also be found to achieve the goal and give appropriate weight to the views of the President and Congress in the budget process.

9. The Line Item Veto Act was signed on April 10, 1996 (P.L. 104-130), providing the President with enhanced rescission authority to cancel not only items of discretionary spending in appropriations laws, but also changes in direct spending programs and certain limited tax benefit provisions in revenue measures. Under what circumstances would you recommend that the President use his authority under the Line Item Veto Act? Could you suggest some specific situations as examples?

A. The Line Item Veto Act does not become effective until calendar year 1997. It conveys broad authority that would be applicable to any item of discretionary spending in an appropriations bill or report, as well as to any item of new direct spending and certain limited tax benefits. The purpose of the authority is to allow the President to reduce unnecessary or wasteful spending without vetoing the entire bill, and I would expect to recommend its use in those cases where it can effectively achieve those goals. This type of authority is completely new and has not even taken effect. We will need some experience with it to understand how it may best be used. Therefore, I do not at this time have specific situations to suggest as examples.

10. The Federal budget process is often criticized for its complexity and redundancy. Should actions be taken to streamline the process?

A. Much of the criticism stems from the outcome—or lack of outcome—from the process, rather than the process itself. For example, the process is not solely to blame for the repeated Government shutdowns and threats of shutdowns last fall or the 13 continuing resolutions for fiscal year 1996. They resulted from disagreements over substantive issues.

On the other hand, the current process is not designed for easy collaboration and compromise between the Executive and Legislative Branches. I would certainly be open to discussing new ideas with Members of Congress.

11. What would you recommend to eliminate or at least minimize the disruption in Federal Government operations, including agency shutdowns and employee furloughs, caused by funding gaps?

A. The Federal Government was required by law to partially shut down twice during the first half of fiscal year 1996 because neither a complete set of appropriation bills or a continuing resolution was enacted in a timely way. With certain exceptions, the Anti-Deficiency Act prohibits agencies from incurring obligations unless Congress has passed and the President has signed either an appropriation bill for the agency or a temporary appropriation known as a continuing resolution.

A shutdown of the Federal Government is obviously a very serious matter with substantial costs and significant dislocations for the American public. The clearest lesson to be drawn from the two partial government shutdowns is that it should not be allowed to happen again. Disputes over budget priorities should not be resolved in a crisis atmosphere where recipients of government services and Federal workers are needlessly harmed.

12. One criticism of current budget procedures is that sometimes diverse elements of the budget affecting the same types of economic activity are not coordinated. For example, tax expenditures and direct spending programs affecting the same type of activities—such as housing or business investment—are not considered in conjunction with each other. Do you favor any reforms which would promote more coordinated budget decision making?

A. I understand that OMB is taking steps to increase coordination on these decisions. For example, as directed by the Senate Governmental Affairs Committee report on the Government Performance and Results Act (GPRA), OMB and Treasury are developing a framework for performance measurement for tax expenditures. This framework should enable us to better understand the economic effects of tax expenditures and permit useful comparisons with outlay programs and other means of attaining desired outcomes. OMB has also undertaken joint fall and spring reviews of tax expenditure, entitlement and discretionary programs, using cross-cutting frameworks, in areas such as housing, business development, health, and retirement programs. In addition, OMB has been active in cross-cutting reviews of programs of Trade Promotion Coordinating Committee (TPCC) agencies. I believe OMB should increase this type of cross-cutting coordination and would hope that the Congressional budget process makes use of its results.

13. Legislation to control unfunded Federal mandates was enacted early in the 104th Congress (P.L. 104-4, approved March 22, 1995). How would you assess the initial impact of this law on the budget process?

A. The unfunded mandates statute amends the Congressional Budget and Impoundment Control Act by requiring the Congressional Budget Office to report significant non-Federal costs of all new legislation to the Congress, whether it is directly related to the Federal budget or not. The unfunded mandates law attempts to recognize the significant costs of Federal proposals on State and local governments or the private sector before decisions are made, an objective the President strongly supports.

The Federal budget process, on the other hand, focuses mainly on Federal taxes and spending, as opposed to the non-Federal activities of State and local governments and the private sector. In some instances, Federal budget decision-making has direct cost implications for unfunded mandates (e.g., Federal matching grants to States). In those cases, the Executive Branch budget decision-making process pays close attention to the effects of decisions on State and local governments and the private sector. Affected groups are generally consulted before final decisions are made. However,

the unfunded mandates law itself does not directly impose any new budget process requirements on the Executive Branch.

14. What are the advantages or disadvantages of presenting a separate capital budget for the Federal Government? Would such a budget facilitate decisions to promote capital investment?

A. The Administration has given a very high priority to increasing investments in the public and private sector that will contribute to long-term economic growth. These include:

- reducing the deficit to free up capital for private investment;
- increases in education and training to give Americans the skills they need to get high-wage jobs in the new economy;
- proposals to fund a balanced mix of basic research, applied research, and technology development—much of it through cooperative projects with private industry; and
- proposals to improve foreign trade by aggressively seeking to open markets in Japan and other countries.

A change in budget structure that distinguishes between capital investment and operating funds could classify as capital expenditures projects that are not truly capital in nature or that have little or no economic return. I am concerned that the adoption of a "capital" budget with a definition of "capital" that was very broad would merely become an alternative listing of certain budget priorities not subject to adequate review and comparison with other priorities.

The President has taken specific action to identify and fund only the most productive proposals. Specifically, the President issued Executive Order No. 12893 in February 1994, "Principles for Federal Infrastructure Investments," which provides guidelines for making investments in infrastructure that have the highest rate of return to the Nation's economy as a whole. In addition, for the third year in a row, OMB plans to pay special attention to fixed asset acquisition in this year's budget formulation process. The goal is to work with agencies of the Executive Branch to improve planning and budgeting for fixed assets, and to ensure that important acquisitions are treated equitably and receive sufficient attention in today's constrained budget environment.

Last year OMB issued Bulletin 95-03, "Planning and Budgeting for the Acquisition of Fixed Assets," which laid out guidance for planning and analyzing fixed asset acquisitions and required the submission of data that enabled OMB to focus more concerted attention on fixed asset acquisitions than in the past. The required planning and analysis is, in fact, the same method that private business calls "capital budgeting." The results of all this have been more analysis, better selection, and more investments.

In addition, a separate chapter in the budget includes considerable information and analysis on investment using a definition of investment as a whole: physical capital, research and development, and education and training (human capital). This permits analysis of the total investment across government programs and comparison of investments in human capital with other Federal investments.

15. The House recently passed H.R. 842 to remove the transportation trust funds from the unified budget. What do you believe is the proper budgetary treatment of trust funds? Should all trust funds be subject to the same budgetary treatment? What are your views on maintaining the unified budget generally?

A. The unified budget was first adopted for the Federal budget in fiscal year 1969, on the basis of recommendations from the President's Commission on Budget Concepts. The primary purpose of the unified budget is to provide a single, comprehensive measure of the Government's economic and financial plans. A unified budget also provides complete presentation to the capital markets of total government borrowing. Moving Federal activities out of the budget results in an incomplete and inaccurate measure of total spending and revenue.

In addition to moving four transportation trust funds off-budget, H.R. 842 would exempt from the spending controls of the Budget Enforcement Act expenditures from these trust funds, and open the door to increased transportation spending of up to \$50 billion over the next six years. This would

force much larger cuts in discretionary programs—e.g., defense, education, environment, science and technology, and law enforcement—to achieve balance by 2002.

A proposal to move transportation trust funds off budget could prompt requests for similar treatment of other trust funds, as it did during consideration of the fiscal year 1999 Congressional Budget Resolution. Ad hoc measures such as these, which do not take into account the impact on balancing the budget, could affect public confidence in the seriousness of the commitment to a balanced budget.

16. What do you consider to be the proper budgetary treatment for the Social Security Trust Funds?

A. Social Security is the largest program in the Federal budget, and I believe it is desirable to show it separately from other programs for certain purposes. In the Budget Enforcement Act of 1990, Congress created new pay-as-you-go rules that require increases in entitlement spending or tax cuts to be financed by cutting other entitlements or by raising taxes. To protect Social Security from being used to finance other proposals in the budget, Congress put Social Security "off budget" and exempted it from the pay-as-you-go requirements. Congress also implemented new procedural hurdles or firewalls that enable Members of Congress to raise points of order when a proposed bill would erode the balance of the trust fund accounts. I support this approach.

However, I also support the concept of a unified budget that enables the President and the Congress to consider total Federal receipts and expenditures, and their effects on the economy. Therefore, it is proper, for purposes of fiscal policy, to consider both on-budget and off-budget programs.

17. In general, what do you feel is the proper budgetary treatment of tax expenditures?

A. The treatment of tax expenditures is improving. The current approach involves: (1) reporting on tax expenditures for the budget year and out years in the *Analytical Perspectives* volume of the budget, and (2) ensuring that the costs of any new tax expenditures are offset under the PAYGO provisions of the Budget Enforcement Act. In addition, OMB and Treasury are developing a framework for performance measurement for tax expenditures, consistent with the Government Performance and Results Act (GPRA) of 1993. This framework should allow the Federal Government to better understand the economic effects of tax expenditures and permit improved comparisons with outlay programs and other means of attaining desired outcomes. As OMB makes progress on this framework, it will consult with Congressional units, including the Joint Committee on Taxation and the General Accounting Office, as directed by the Senate Governmental Affairs Committee report on GPRA.

Ultimately, improved information about tax expenditures will help the government implement better policies. I will look for additional means to ensure that tax expenditures receive the scrutiny their importance requires.

18. In considering deficit reduction proposals, increases in user fees and Medicare premiums are most often cited as spending "reductions." Do you believe that this is an accurate way to label and treat such changes?

A. Medicare premiums and many (but not all) user fees are classified in the Federal budget as offsets to outlays, based on the guidelines established by the 1967 President's Commission on Budget Concepts. That is, as opposed to taxes, these receipts tend to be voluntary or business-like payments from the public. To distinguish revenues generated by taxation from these business-like receipts and to measure the Government's net spending in a non-market capacity, they are offset against outlays. Therefore, it is technically correct to speak of increases in these kinds of fees as reducing spending of general revenues. However, it is important to remember that such fee increases differ from reducing services and government activities.

19. One of the recommendations of the Vice President's *National Performance Review* was biennial budgeting. What are your views on instituting a 2-year budget cycle? What are your views on the wisdom of 2-year budget resolutions, appropriations and authorizations?

A. The budget process consumes an enormous amount of time and resources each year in both the Executive Branch and Congress. With only slightly more effort every other year, the budget process (i.e., the President's budget, the budget resolution, and appropriations) could cover two years. Realistically, some issues would arise that demand supplemental appropriations or rescissions in off years. Nevertheless, biennial budgeting would reduce the amount of time and resources spent on hundreds of small and noncontroversial appropriations by generally providing appropriations that cover two years. More importantly, a reduction in the time devoted to the budget process would free Congress and the Executive Branch to focus on program implementation and improvement.

20. Are there any other changes in the Federal budget process that you believe should be pursued that have not been mentioned in these questions?

A. I intend to spend considerable time consulting with officials in the Federal Government as well as outside experts on the topic of the Federal budget process. I will be happy to share my conclusions with the Committee once I have had the opportunity to benefit from the views of others.

#### V. OMB MANAGEMENT ROLE

1. What do you see as the most significant management problems facing government today and what should OMB do about them?

A. The Federal Government faces a range of difficult management problems. The Administration's National Performance Review has stressed the need to provide a government that works better and costs less. With the significant budgetary constraints we face in the years ahead as we move toward a balanced budget, improving the performance of the government will be a real challenge. But we have to meet that challenge if we are going to restore the faith of our citizens in their government and its ability to "do the right thing most of the time." Thirty years ago an overwhelming majority of Americans said they could count on the government to meet that standard. Today, an overwhelming majority have lost confidence in government's ability to perform its functions.

Improving government performance involves a series of subsidiary management challenges in areas such as procurement, personnel, and organization. OMB can be a catalyst and supporter of improvements in these areas. It can encourage effective streamlining of operations, the deployment of appropriate resources to train our workforce and the effective utilization of information technology. OMB is also charged with overseeing the implementation of the Government Performance and Results Act to focus every agency on its missions, goals and performance measures. My experience has been that this focus is crucial to improved agency operations.

2. In 1993, Congress enacted the Government Performance and Results Act (GPRA) in an effort to promote a focus on program results and to strengthen accountability for performance. What are your views on GPRA as a tool for improving Federal management?

A. GPRA has the potential to improve significantly how the Federal Government is managed. With its emphasis on program execution, GPRA should lead to marked improvements in program effectiveness and achievement. This will help change the historical balance, which predominately has focused more on how much the Government is spending, and less on the effects and impacts of this spending. Managers and agencies will increasingly be judged on what their programs accomplish, and how well they are administering these programs.

A key GPRA feature is the requirement that strategic plans and performance information be shared with the public. This will highlight for the American taxpayers what they are actually getting for their money, the value of Federal spending and its effect on their lives and the country.

The beginning of government-wide implementation of GPRA is still more than a year away. Within the Executive Branch, and with Congress' support, we must work to assure that GPRA's potential is fully realized in the years ahead.

3. What is your assessment of the progress made so far in the various GPRA pilot projects to develop comprehensive and effective systems for setting performance

goals and measuring results? What lessons has OMB learned at this point from its oversight of implementation of the pilot projects?

A. I understand that the pilot projects have been a valuable aid for the agencies as they develop performance measurement systems and processes for goal-setting. The growth in agency capabilities and capacities for performance measurement over the past several years has been significant and widespread. Without the pilot project stage of GPRA, successful implementation of this Act would be greatly impaired.

A key lesson from the pilot projects is that the task of meeting GPRA requirements will not be quickly or simply done, and that OMB should engage agencies early in their preparations to assure submission of satisfactory GPRA plans and reports.

4. In September of next year, the requirements of GPRA are to be implemented government-wide. Do you believe that all of the non-pilot parts of the departments and agencies are paying adequate attention to the requirements of this law and preparing for its implementation? Will they be ready to issue comprehensive strategic plans and meaningful annual performance plans?

A. Within 4 to 6 months, OMB will be better able to gauge how well departments and agencies will meet the government-wide GPRA requirements for strategic plans and the initial annual performance plans. This assessment will be based largely on the summer and fall reviews conducted by OMB this year. These reviews are covering the substantive content of the strategic and performance plans as drafted, as well as each agency's progress-to-date, future schedules, and tasks leading to completion and submission. The reviews should help assure that departments and agencies successfully implement GPRA.

OMB is continually emphasizing the need for agency implementation efforts to begin early. In the departments and larger agencies, this effort should already be well-advanced. Smaller agencies also need to be preparing plans for the fall of 1997. OMB is currently exempting, as authorized by 31 USC 1117, very small agencies from GPRA requirements. The exemptions are being made now so that eligible agencies not receiving an exemption will have sufficient time to prepare their plans.

5. GPRA envisions a direct incorporation of program performance information into agency budgets, beginning with pilot projects in performance budgeting. What is your view of program performance budgeting? Has OMB made use of GPRA-type performance information from the agencies, in the development of the President's budget?

A. Performance measurement is a keystone of successful management. At Fannie Mae, performance was gauged not only by the traditional bottom line of business—profit and loss—but also by how well we were achieving very important goals and objectives. The goals and objectives were selected to align our management team with the mission and priorities of the company.

With respect to performance budgeting, GPRA calls for a set of performance budgeting pilot projects. The pilots—to start in several years—will test the feasibility and potential utility of performance budgeting. These pilots will identify the varying levels of performance, including outcome-related performance, that would result from different budgeted amounts. These pilots will require a certain sophistication in performance measurement as well as a cost accounting capability that may currently exist in only a few agencies. Given the complexity of these pilots, this is the only GPRA provision that does not lead to government-wide implementation. OMB is to report to the Congress in 2001 on the results of the pilots along with recommendations regarding any future legislation that would require the Executive Branch to submit a performance budget as part of the President's annual budget.

OMB is taking steps to accelerate the work being done across the Government to prepare for GPRA implementation. The forthcoming Summer Review on strategic plans (June-August 1996) and the Fall Review on proposed annual performance goals (September-December 1996) indicate the scope of OMB's efforts to assure that agencies will be ready to meet GPRA requirements for next year. The Summer Review will assess the progress

agencies are making in developing their GPRA-required strategic plans, and will look at selected parts of the plans as these are being drafted.

OMB has made use of performance-type information in preparing the President's budget. Beginning with the fiscal year 1996 budget, OMB specifically asked agencies to focus on providing as much performance information as possible with their budget submissions. However, with GPRA implementation, the importance and value of performance information in budget preparation should increase greatly. The pilot projects in performance budgeting do not begin under the statute until fiscal year 1998-9, and we should learn more from them in later years.

6. Do you believe that at some point in the near future—after effective implementation of GPRA, the Chief Financial Officers Act, and the Government Management Reform Act—Federal agencies will be able to generate and track unit-cost information for program performance? If so, when do you expect that this information will become available, and how might it be used by Congress and the Executive Branch?

A. Developing unit-cost information will require accounting and financial structures that facilitate matching program and cost information. There are activities—such as those of the Bureau of Printing and Engraving—that now use this data for managing their programs. As recommended by the Federal Accounting Standards Advisory Board, OMB recently issued Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standard for the Federal Government*, to provide information on the costs of specific programs and activities and the composition of, and changes in those costs.

One complicating factor is the state of agency accounting systems and the absence of cost accounting systems. The Joint Financial Management Improvement Program is working on guidance to agencies on the development of systems to accumulate accurate cost information.

The Administration would like to work with Congress to develop a process that would eliminate unnecessary duplication while providing more relevant information.

7. Do you have any ideas on how the systems created and information generated under GPRA could relate to efforts to improve Federal personnel systems?

A. GPRA could assist in several ways. Agencies might use performance data, including cost data, to examine organizational effectiveness and current deployment of personnel resources. Changes in skill mix, or a team approach might improve program outputs or outcomes. Organizational and individual incentives and rewards will be an important factor in improving agency performance. These can be used for motivation, additional training and career development, or in matching individual managerial flexibility or supervisory discretion with the performance that ensues.

Agencies could also use GPRA plans to measure the extent of customer satisfaction with human resources systems and processes, including government-wide systems such as retirement claims and benefits processing. Determinations on how well internal or external customer expectations are being met can lead to improvements in systems and procedures.

8. Various proposals for reorganizing the executive departments and agencies have been offered during the past several months, including the abolition and radical restructuring of some entities. In addition, there is widespread duplication and fragmentation in the performance of Federal missions across the Executive Branch. On average, about 7 agencies play a role in the performance of every Federal mission. The National Performance Review has not attacked this systemic waste, but has tended to reinvent functions "inside the boxes" of existing structures.

(a) What are your views on the need for government reorganization and consolidation, the potential budgetary implications, and OMB's role in such efforts?

(b) How would you propose to get at the problem of wholesale duplication and fragmentation across agencies with similar missions and functions?

(c) Would you support the creation of a government-wide restructuring commission, like the Hoover Commission?

A. OMB will continue to have a major role in organizational issues, because structures that are cumbersome and inappropriate can inhibit the President's ability to make and implement policy. But it is important to re-

member that organizational structure is a means to an end, not an end in itself. When it comes to organization, form should follow function. That is—we should first decide what we think Government should do, and then ask whether it needs the number of departments and agencies it now has and what changes to make. With that in mind, there are many reasons to eliminate, create, or keep a department. Organizing around a customer base, like the Veterans Affairs Department, allows the Government to coordinate programs that serve a particular group. Organizing around a problem may also make sense, as in the case of the Environmental Protection Agency. Or, an activity can be organized around a service, as in the case of the Social Security Administration.

The number of cabinet departments is also a consideration. With too many, the President's ability to work with his cabinet is diluted; with too few, the role of each cabinet secretary is unmanageably broad. If we eliminate a department, we will reap substantial savings only if we also eliminate the programs it operates. If we merely "move the boxes around," we will save the cost of the secretary's immediate staff and little else.

The tough question is what organization increases the chances of effective, efficient performance. OMB should be a leader in testing the rationale for current organizational designs and should suggest changes where appropriate. Under Phase II of Reinventing Government, the Vice President's National Performance Review (NPR) and OMB did address the question of "what" the Federal Government should do, including the analysis of duplication and fragmentation across agencies. The NPR and OMB set up teams to study every function and activity of government to decide which ones the Federal Government should continue to perform, which it should eliminate altogether, and which it should shift to the States, localities, or private sector. These teams worked closely with each major agency.

The first output of Phase II came in December 1994 when the President and Vice President announced the restructuring of five major agencies—the Departments of Energy, Transportation, and Housing and Urban Development, the General Services Administration, and the Office of Personnel Management. Later, the Administration announced the restructuring of six other major agencies as well as steps to continue our efforts to reform the regulatory system. Budgetary savings will result from the organizational changes proposed.

When considering the establishment of a new, government-wide restructuring commission, I think we need to look at the lessons to be learned from previous reorganization efforts. The clear lesson of the two Hoover Commissions in 1947-49 and 1953-54 is that it is essential to create a consensus if plans to reorganize the government are to move from recommendation to reality. The negative impact of the lack of consensus can be seen in the experience of the Ash Council, which convened in 1971-72. Like the first Hoover Commission, the Ash Council aimed its recommendations at structural changes to enhance the effectiveness of the President as manager of the government. The Ash Council proposed organizing the government around broad national purposes by integrating similar functions under major departments. It proposed that four superdepartments be created—economic affairs, community development, natural resources, and human services—with State, Defense, Treasury and Justice remaining in place. But the Ash Council could not gain the support of the Congress. Its recommendations would have drastically altered jurisdictions within Congress and the relationships between committees and the agencies for which they had oversight responsibilities. Congress was not convinced of the efficiencies to be derived from creating four superdepartments, was not readily willing to change its own structure to parallel the structure proposed by the Council, and was not eager to substantially strengthen the authority of the Presidency. Given this history, I am not convinced that another commission would be a productive use of our time and energy.

9. The Federal Government is the largest energy consumer in the Nation. It spends about \$4 billion per year to heat, cool, and power the buildings it owns and leases. Through a series of laws (including the Omnibus Reconciliation Act of 1985, and the Energy Policy Act of 1992), Congress has directed the Executive Branch to make energy conservation a priority. Current law and regulations require savings of 20 percent by 2000 and 30 percent by 2005. To assist in tracking performance,

the Act directs agencies to fully disclose energy costs in their budgets. However, OMB has not instructed the agencies to do so. Moreover, a significant barrier to reporting is the lack of an accounting system providing sufficient level of detail in energy costs.

According to OMB staff, GSA has a system with sufficient capability, which might be made available to other agencies on a cross-servicing basis. Please advise the Committee on the feasibility of: (1) directing Federal agencies to disclose their energy costs; and (2) making accounting services available, to facilitate achievement of the Nation's energy conservation goals.

A. Federal agencies have been making progress in improving the energy efficiency of their facilities, and are now more than halfway to the goal of a 20 percent reduction in energy costs by the year 2000 (relative to the 1985 level). The Administration even exceeded the interim statutory goal a year ahead of schedule.

I understand that OMB is encouraging more reporting and tracking of both energy costs and energy efficiency investments at Federal agencies. Currently, OMB requests that the Departments of Defense, Energy, Veterans Affairs, and the General Services Administration—four agencies that account for 86 percent of the Federal Government's energy costs—submit energy efficiency investment data. They do not submit data on energy costs per se. Historical energy cost data by agency are collected, however, by the Department of Energy.

I understand that OMB is considering additional data reporting measures while trying not to excessively burden Federal agencies. One vehicle might be an OMB Bulletin to collect information on energy costs and energy efficiency improvements in all agency budget submissions this fall. Finally, OMB is considering how GSA's centralized billing operations could be offered to help agencies obtain a better handle on their energy spending.

#### VI. FINANCIAL MANAGEMENT

1. Improved financial reporting for the Federal Government may lead to better decisions about agency budgets. What are the principal impediments to using financial reports for budget preparation and execution? What steps might OMB take to help agencies overcome these problems? How might agency financial reports help Congress make appropriations decisions?

A. There are currently two major problems that limit the usefulness of the data that agencies collect in financial systems for budget preparation and execution. The first problem is that standard data structures—such as a standard general ledger—that can allow data to be easily extracted from transaction-based systems for use in budget execution and formulation have not been adapted to budget reporting requirements. While standard data structures that better integrate financial and budget information are being modified, agencies can improve the existing use of cross-walks to transfer information from transaction processing systems to budget execution and formulation systems.

The second problem is the account structure used for budgeting. Both OMB and GAO have examined the existing account structures and found that they do not relate to the way in which agencies should do business. These structures have evolved over time and do not necessarily provide the kind of information needed for the financial management of a bureau or department. OMB and the CFO Council have urged agencies to examine their account structures and to discuss with their appropriations committees how they might be brought more in line with departmental operations.

To address these problems, OMB is beginning to test the direct transfer of budget execution data from agency financial systems to its central budget system. This should provide agencies an example of how to implement such data transfers within their own agencies and an incentive to be able to use information collected or input centrally for their own purposes. OMB is also working with the Treasury to accelerate work on extension of the Standard General Ledger to budget information. Systems efforts in agencies, form and content guidance for financial statements, and the work to implement the Government Performance and Results Act will all help to address the problems identified above and move the government to a real integration of financial and budget formulation.

2. The Federal Accounting Standards Advisory Board (FASAB) has completed its work in developing basic accounting and cost accounting standards and financial reporting objectives. The Board has identified some other projects on which work is starting. What are your views on its current agenda? What other projects might it undertake? Do you envision that the Board should continue to exist indefinitely?

A. The development of a comprehensive set of basic accounting and cost-accounting standards is a significant accomplishment for the Federal Government. These standards provide an infrastructure for reporting on the Federal Government's financial activities in an understandable, comprehensive, and consistent manner.

While the basic set of Federal accounting standards—two concept statements and seven Statements of Federal Financial Accounting Standards—is now complete, FASAB's work is not finished. FASAB recently completed, and the three FASAB principals (OMB, Treasury, and GAO) have approved, an additional accounting standard entitled, "Supplementary Stewardship Reporting," which will be sent to the House and Senate for review prior to issuance. I understand that FASAB is now working on several other standards relating to the cost of capital, natural resources, and social insurance programs.

I understand that OMB is actively involved in the projects on FASAB's agenda. OMB also recognizes that the development of accounting standards is an evolutionary process. It may be appropriate to undertake additional projects as circumstances and conditions warrant.

3. The Government Management Reform Act (GMRA) of 1994 calls for audited financial statements for the 23 agencies with Chief Financial Officers beginning in 1997 and an audited financial report for all Federal Executive Branch agencies the following year. Are these mandates feasible or will OMB likely need to grant some waivers (permissible in 1997 and 1998). Please review agency progress to date. What additional steps might OMB take to assist in preparation of these financial statements?

A. OMB, together with GAO and Treasury, met with all agency IG's and CFO's covered by the audit requirement to identify challenges agencies face in meeting the audited financial statement requirements of GMRA and to develop strategies to successfully overcome them. OMB indicated at these meetings that it was not planning to issue any waivers from GMRA's requirements for fiscal year 1997 or 1998. Based on the results of these meetings, I understand that OMB expects that the agencies will be able to comply with GMRA's audited financial statements requirements.

From fiscal year 1990 to fiscal year 1994, agencies made continued progress in obtaining "clean unqualified opinions" for their audited financial statements required by the CFO's Act. The 1995 data are not yet complete, but indications are that the percentage of reporting entities receiving clean opinions in fiscal year 1995 will be higher than it was in fiscal year 1994. However, for fiscal year 1996, the percentage is expected to decrease because of the newly-required agency-wide statements for fiscal year 1996, which will include activities not previously subject to the requirement for an annual audited financial statement.

Recognizing the complex issues involved in preparing and auditing the first ever United States Government financial statement, OMB, Treasury and GAO established the Government-wide Audited Financial Statement Task Force, consisting of representatives of the CFO Council, agency IGs, OMB, GAO, and Treasury. The Task Force meets regularly and has developed a plan and associated time lines for the preparation and audit of the financial statement, and is addressing substantive crosscutting accounting and auditing issues which will affect the agency-wide and government-wide audited financial statements.

4. What do you consider to be OMB's general role with respect to financial audits of Federal agencies? What specific responsibilities does OMB have?

A. OMB has a critical role in establishing policy for the preparation and audit of agency financial statements. As required by statute, OMB prescribes the form and content of agency financial statements. OMB's form and content guidance, along with the accounting standards, provide the criteria agencies are expected to comply with in preparing their financial

statements. OMB also builds on the existing auditing standards and provides additional policy guidance for auditors of agency financial statements.

While responsibility for correction of audit findings resides with the agencies, OMB clearly has an oversight responsibility in this area. OMB needs to ensure that agency follow-up systems are actually fixing problems and detecting problems before they occur. The annual audit process imposed by the CFO's Act requires auditors to report internal control weaknesses and compliance problems, including the status of uncorrected findings from previous years. This audit reporting process provides a means for OMB to monitor an agency's progress in correcting deficiencies. OMB's Resource Management Offices (RMOs) are actively involved in monitoring agency progress as well as in addressing the resource requirements to solve these problems.

5. Please describe your views on the importance of financial management improvement in general and the financial management requirements of the CFO Act and GMRA, in particular. How would you rank these efforts in relation to other priorities as OMB Director?

A. Achieving financial management reform is a high priority for me. The CFO's Act and GMRA set goals for agency financial management performance—single integrated financial systems together with the ability to issue financial statements in a timely manner and to receive unqualified audit opinions. The CFO's Act and GMRA provide the authorities that agency heads and CFO's need to achieve these and other goals.

In order to achieve financial management reform government-wide, a strong infrastructure is in place, both in the agencies and in OMB. In the agencies, there are well-qualified CFO's and Deputy CFO's in place. The Deputy CFO's are career managers who offer longer term continuity toward achieving reform. The CFO Council, authorized in the CFO's Act, has assumed a strong role, through its elected leadership structure and committees, in coordinating the work of the agencies and setting government-wide priorities. Through the work of the Federal Accounting Standards Advisory Board (FASAB), OMB, working with the Secretary of the Treasury and the Comptroller General, has issued, for the first time, a comprehensive set of basic accounting standards for the Executive Branch.

Finally, within OMB, the Deputy Director for Management and the Controller offer the leadership that is necessary for achieving the goals of the CFO's Act and GMRA. Through these individuals, and the OMB Program Associate Directors, financial management will continue to be an important priority for this Administration.

6. What is your impression of the condition of internal controls across government today? How well has the Federal Managers' Financial Integrity Act (FMFIA) been implemented? What would you do to improve the FMFIA?

A. Overall, it is my impression that there are good management controls in place in most Federal agencies and for most programs. Several critical pieces of management legislation were enacted over the past 15 years that strengthened management controls. These include the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Inspector General (IG) Act of 1978 and the 1988 amendments, the Chief Financial Officers (CFO's) Act of 1990, and the Government Management Reform Act of 1994. These statutes present a framework for agencies to develop, implement, assess, report, and correct weaknesses in management controls.

An important initiative of the CFO Council is to address how to best integrate these various requirements with the new provisions of the Government Performance and Results Act. The CFO Council's pilot program on agency Accountability Reports is testing how agencies can best integrate reporting requirements to better serve the public and Federal and Congressional decision makers.

The Federal Government continues to make progress in identifying both individual and systemic incidents of waste, fraud, abuse and mismanagement. The importance of management controls is enhanced as government becomes more performance-oriented. We are getting better at evaluating and improving systems of controls that can prevent widespread abuses and

loss of funds. Management controls are critical to maintaining confidence in the integrity of Federal programs.

7. Financial management improvements cost money and other resources. At a time when policy-makers are trying to reduce Federal budget deficits, how can these costs be justified? At what point should improvements be scaled back or postponed? What would you advise the President and the Congress about how to choose between program spending and financial reforms?

A. Although financial management improvements do require some resources, the payoffs should be much greater than the investments made in them. Some benefits may be difficult to quantify, such as better decision-making based on higher quality information, increased trust and confidence in agencies with strong audited financial statements, and an improved ability to focus on analysis and customer service rather than bookkeeping.

In addition to these benefits, some improvements may lead to reductions in resources needed for ongoing operations. For example, an interagency team established by the Joint Financial Management Improvement Program in 1994 looked at possible improvements in travel management. This team estimated that significant savings to the government are possible if all of its recommendations are implemented. Another example is the use of debit cards to deliver government benefits via Electronic Benefits Transfer (EBT). Currently, 35 States have selected EBT service providers.

The amounts budgeted for financial management are a small fraction of the total budget for the Federal Government. For fiscal year 1996, the 24 agencies covered by the Chief Financial Officers Act estimated that supporting key agency financial management activities will cost an estimated \$7.4 billion, or 0.5% of total budget authority. This figure includes financial management operations as well as improvements.

The CFO Council's financial management vision statement recognizes the need for program and financial managers to work in partnership in order to enable government to work better and cost less. Financial reforms can help program managers to be more efficient and effective in carrying out their programs.

#### VII. PAPERWORK REDUCTION AND INFORMATION RESOURCES MANAGEMENT

In 1980, Congress enacted the original Paperwork Reduction Act to better define OMB's oversight of the Federal Government's paperwork clearance process. The Act also created the Office of Information and Regulatory Affairs (OIRA) within OMB to develop Federal information management and Regulatory Affairs (OIRA) within OMB to develop Federal information management policy, information technology applications, and statistical methodology. Even though the Paperwork Reduction Act stresses the importance of a government-wide information policy, congressional hearings and GAO studies have consistently faulted OMB for neglecting this important issue. As a result, the Paperwork Reduction Act's last reauthorization, which expired in 1989, revived this debate and subsequent legislative attempts to reauthorize OIRA were unsuccessful for six years. As part of the House Republican Contract with America for regulatory and paperwork reform in the 104th Congress, the 1995 Paperwork Reduction Act (Public Law 94-13) authorizes OIRA for six years, strengthens its responsibilities for the reduction of paperwork burdens, and establishes policies to increase agency accountability for managing information resources.

1. What are your views on OIRA's record of implementing the Paper Work Reduction Act? What are the major problems involved in implementing such government-wide policies? What have been OIRA's greatest successes?

A. The Paperwork Reduction Act of 1995 (PRA) embodies very ambitious goals. It establishes policy and OMB responsibilities for the review and approval of the collection of information by Federal agencies; information dissemination; public access to information; statistical policy and coordination; records management; privacy, confidentiality, security, disclosure, and sharing of information; and the acquisition and use of information technology. Many of these OMB responsibilities are supplemented by the Privacy Act of 1974, the Computer Security Act of 1987, and the Freedom of Information Act (as amended in 1987). In addition, they have more recently been refined and extended by the Information Technology Management Reform Act of 1996 (ITMRA).

In implementing the Act, OIRA carries out various government-wide IRM and statistical policy responsibilities and assists OMB's Resource Management Offices (RMOs) in monitoring and managing their portfolios of information technology investments. For example, over the last few years, OIRA has undertaken a major effort to enhance government dissemination of information, and to prepare orders and draft legislation establishing confidentiality and data sharing for statistical agencies.

In addition, OIRA staff review approximately 3,500 information collections each year. OIRA's inventory of approved information collections impose a total burden on the public of roughly 6.9 billion hours each year, about 75 percent of which is associated with IRS information collections. In deciding whether or not to approve these collections, OIRA staff are, in general terms, to balance the public utility and need of an agency for the information against the burden imposed on the respondents. OIRA staff are also, among other things, to consider the validity of the statistical methodologies that will be used, evaluate the clarity and potential bias in individual questions, and assure that the methods used for regulatory monitoring will serve their intended purpose.

The major problem in implementing the PRA's specific percentage reduction of information collection burden is that we are in an information age—even an information revolution, where the government relies increasingly on information both to plan its policies and to implement them. Similarly, the public relies on the Federal Government to provide information. The demand for information from the Federal Government is thus increasing steadily rather than declining, putting extraordinary pressure on the basic goal of the PRA to reduce the burden of information on the public.

2. What will be your role to help OIRA more effectively meet its statutory mandate?

A. I will be working with the OIRA Administrator to make sure that OIRA meets its statutory responsibilities and that they are integrated into the work of the rest of OMB.

3. The Paperwork Reduction Act gives OMB significant authority to conduct reviews of Federal agency paperwork requirements in proposed rules. Critics of OMB's paperwork clearance powers maintain that OMB has too much discretion in determining agency record-keeping requirements, and has used its authority in a selective and political manner to control the government's information collection activities. Other critics believe that its review of rules and reports enables OMB to control too much of the entire regulatory process. Do you think these perceptions are fair? How do you respond to such criticisms?

A. In its review of paperwork requirements, as in its budget and other policy reviews, OMB seeks to provide a dispassionate, objective review for consistency across Executive Branch agencies. The PRA does not override specific statutory requirement. Moreover, the PRA provides safeguards from OMB using its authority in a selective or political manner by providing mechanisms for openness and accountability.

4. The Paperwork Reduction Act of 1980 created OMB's Office of Information and Regulatory Affairs (OIRA) with a mandate to reduce government paperwork burdens on the American public and to improve Federal information resources management (IRM).

a. What are your views on furthering the goals of the Act to reduce government red tape?

*Answer.* Reducing red tape has been one of the important goals of this Administration, and is part of the reason President Clinton supported the 1995 PRA. As the President stated on May 22, 1995, on signing that bill into law:

"The legislation recognizes that the private sector is the engine of our prosperity, that when we act to protect the environment or the health of our people, we ought to do it without unnecessary paperwork, maddening red tape, or irrational rules."

I strongly support the goals of the Act, which, as I noted above, are ambitious ones, and will do my best to ensure that they are met.

b. What are the major IRM challenges facing the Federal Government generally, and OIRA in particular?

*Answer.* There are formidable challenges facing the government across almost all aspects of information resource management. For example, how can we reduce and minimize burdens when so much of the government's legitimate responsibilities require information? How can we ensure privacy and the security of sensitive information in an electronic age? How can we maximize the use of information technology, while ensuring that costly information technology investments are wise and do not "automate the mess"? How can we ensure that our national statistics are timely and accurate? All of these challenges face OIRA as well as the government at large.

c. What priority to you intend to place on OMB's role in this area?

*Answer.* IRM is an important responsibility because information management is an increasingly important government activity. I intend to ensure that the OIRA Administrator has the support she or he needs to accomplish OIRA's responsibilities.

5. What are your views on the role played by information in the Federal Government? What are the costs and benefits of government information? What is the government's obligation to its citizens with regard to government information activities?

A. The Paperwork Reduction Act of 1995 strikes a balance between the costs and benefits of government information. The Act directs agencies to collect or create only information that is necessary for the proper performance of agency functions and that has practical utility. It seeks to maximize the usefulness of information collected, used and disseminated by the Federal Government, while minimizing the Federal and private costs of providing and managing that information.

There is no question that there are costs to the public and to the government of obtaining and using information. It is my understanding that Federal agencies spent over \$25 billion in 1995 on information technology to manage Federal information. Federal agency requests for information and record keeping impose very substantial burdens on the public. Americans spent some 6.9 billion hours complying with such requests in fiscal year 1995.

Ultimately government information enables agencies to perform their functions and serve the public. Improving the public health and safety through regulatory compliance data and disclosure, ensuring fair and efficient tax collection, and developing more accurate weather forecasting for farmers are examples of Federal functions that depend on timely and accurate information collection, management, and dissemination.

6. While the 1995 Paperwork Reduction Act does contain provisions pertaining to OMB's use of electronic information technology, some critics believe that a more detailed set of dissemination policies are needed in statute. With this in mind, legislation was passed unanimously by the House on April 24, 1996, which would require OMB and the Federal agencies to promote the use of electronic technology to the maximum extent possible in the maintenance, submission, and disclosure of government information. What are your views on the wisdom of this approach? On the ability of OIRA to fulfill such a statutory mandate? Does OIRA have the resources to do this?

A. The Administration's Statement of Administration Policy issued prior to House passage of the April 24th legislation did not object to House passage, but observed that a great deal of law and policy have recently addressed electronic transmission of information to and from the Federal Government. Recent policy and legislative developments include enactment of the Paperwork Reduction Act of 1995 (PRA), President Clinton's PRA signing statement explicitly directing the agencies to move promptly to electronic reporting, issuance of OMB Circular A-130, and, most recently, enactment of two additional statutes—the Information Technology Management Reform Act of 1996 (ITMRA) and the National Technology Transfer and Advancement Act of 1996.

While movement to electronic reporting has not been as quick as some have hoped, I do not believe the problem is a lack of policy. Rather, the problem is one of sometimes high expectations and limited agency re-

sources. Integrating information technology is neither easy nor free. As the ITMRA reflects, its use requires careful planning and development, often at significant expense. Electronic reporting needs to be tailored carefully to provide the benefits of burden reduction to the public and facilitate public access to data without imposing unreasonable costs or technological burdens.

OIRA will continue to assist in this transition by working with the rest of OMB and the agencies to identify promising applications that can be implemented in a most effective and efficient manner. The recent full-scale implementation of the Securities and Exchange Commission's Electronic Data Gathering and Reporting (EDGAR) system, which has automated the filing and dissemination of all corporate regulatory disclosures, and the Internal Revenue Service's highly successful Telefile program for Form 1040EZ filers are two such examples.

7. Attorney General Reno issued an October 1993 memorandum advising department and agency heads of new Freedom of Information Act litigation standards encouraging the disclosure of requested records. In February 1994, she approved new Justice Department procedures to expedite FOI Act requests involving matters of extraordinary interest to the news media and, in September 1995, she made the efficient handling of FOIA requests part of the job description of Justice personnel involved in such processing and a factor to be considered in their performance evaluations. However, she apparently has not pursued improving FOIA Act management practices on a government-wide basis. Do you foresee the OMB Director playing a role in this regard in fulfillment of responsibilities mandated by the Paperwork Reduction Act of 1995?

A. OMB's role in promoting government information dissemination affects FOIA management practices because the more information that is made freely available, the fewer requests that must be handled through the time-consuming and less efficient FOIA processes. I understand that OMB is encouraging agencies to make as much information available as possible and to take advantage of new technologies, particularly the Internet, to accomplish this. For example, the Government Information Locator System (GILS) is being developed as a "virtual card catalog" to the government's major information holdings, to take advantage of new search and retrieval techniques on the Internet.

I also understand that the Justice Department has been demonstrating and recommending to other agencies a number of innovative FOIA management techniques. For example, it recently expanded its expedited access policy to include requests in which there is widespread media interest and which involve possible questions about the government's integrity that may affect public confidence. In addition, the Justice Department sponsored a National Performance Review "reinvention laboratory" to develop an automated FOIA processing system and to infuse principles of customer service throughout the processes of FOIA administration.

8. The Information Technology Management Reform Act of 1996 amended the Paperwork Reduction Act by mandating Chief Information Officers in the executive departments and agencies. What do you envision will be your actual working relationship with these officials?

A. OMB expects to work closely with agency Chief Information Officers (CIOs) on agency specific and government-wide matters. Just as it does with CFOs, I understand that OMB is evaluating the placement, duties, and qualifications of the proposed CIO selections of the major agencies. These CIOs will need to be at the table whenever major information technology or policy issues are discussed with the agencies. Their influence in the agencies will help ensure that information technology is being used in an appropriate, strategic, and efficient manner.

I also understand that OMB plans to convene a CIO Council for the agencies listed in the Information Technology Management Reform Act. The Deputy Director for Management at OMB will chair this group. This Council will advise on overall Federal information technology policy, procedures, and standards.

9. The management responsibilities of the OMB Director prescribed in the Paperwork Reduction Act make no exception for information under security classification protection. What do you envision will be your working relationship with the Infor-

mation Security Oversight Office and the Security Policy Board concerning the management of information having a security classified status?

A. As with other management responsibilities, the information management responsibilities in the Paperwork Reduction Act do not make a specific exemption for information under security classification protection. Rather, the Act presumes that additional requirements may be imposed to assure that classified national security information is appropriately protected. For example, agencies use filing cabinets to store most unclassified paper documents, but use safes for the storage of classified documents.

OMB continues to have a good working relationship with the Information Security Oversight Office and the Security Policy Board. OMB's Associate Director for National Security and International Affairs is a member of the Security Policy Board. That official works closely with the OIRA Administrator to assure that agency management practices for classified information are as consistent as practicable with overall information management policies.

10. Some Federal agencies, particularly law enforcement agencies, have exempted themselves by regulation from certain requirements of the Privacy Act. Should OMB's Office of Information and Regulatory Affairs review these regulations, to ensure that the privacy rights of individuals are not unreasonably trampled?

A. The Privacy Act authorizes law enforcement agencies to promulgate rules, issued after public notice and comment, to exempt systems of records about individuals from certain sections of the Act. The Act requires that agencies report to OMB, the Senate Committee on Governmental Affairs, and the House Committee on Government Reform and Oversight, in advance of any new exemptions. OMB reviews each of these rulemakings under procedures prescribed in OMB Circular A-130, which requires inclusion of the proposed ruling in the agency's report.

11. Some FBI regulations, for instance, draw no distinction between traditional law enforcement file activities and those involving files on law-abiding citizens seeking employment or White House access. In neither case does the subject have the right to review his or her file, to rebut any unfair or inaccurate information contained within, or to know who has requested or been granted access to the file. Do you think this policy makes equal sense with respect to criminal investigations and to background checks?

A. Under the Privacy Act, an individual is entitled to request access to a file that is about him or her; to request the amendment of information in the file which the individual believes is not accurate, relevant, timely, or complete; and generally to obtain a copy of the accounting of those who have been granted access to the file. However, Congress also included in the Act specified exemptions to the Act's access, amendment, and accounting requirements. These exemption provisions make certain distinctions between law enforcement files and background investigation files, and also between criminal law enforcement files and civil law enforcement files. Under the Act's exemption provisions, an individual who has undergone a background investigation has the access, amendment, and accounting rights described above, except to the extent that compliance with those requirements would reveal the identity of a confidential source.

12. Do you think Federal agencies have a responsibility to follow the spirit, as well the letter, of the Privacy Act? Unless a criminal investigation or national security would be jeopardized, should agencies be required to protect an individual's rights to review their files, to rebut any unfair or inaccurate information contained within the files, or to know who has requested or been granted access to the file?

A. As with all laws, agencies should follow the spirit, as well as the letter, of the Privacy Act. Agencies should and do give individuals, in most cases, the right to review and request amendment of their files, and to know who has been granted access to the file. However, the Privacy Act also provides that, in specified situations, an agency may exempt systems of records from certain sections of the Act. This exemption authority in the Act includes criminal investigations and national security. As to background investigations, an individual generally has the right to review files, request amendment, and know who has been granted access, except to the extent that this would reveal the identity of a confidential source.

13. Another area of exemption from Privacy Act requirements is in "routine" agency use of the files. Do you believe "routine use" should be narrowly construed, to place individual privacy above bureaucratic expediency?

A. Under the Privacy Act, an agency may establish "routine uses" under which information may be disclosed. Congress authorized agencies to establish "routine uses" out of recognition that it would be impossible for Congress to list, in the Act, all the appropriate uses of records about individuals. However, Congress was also concerned that agencies not create overly broad "routine uses." The Act therefore provides that a "routine use" must be "compatible" with the purpose for which the information was collected. Through this compatibility requirement, the Act ensures that agencies narrowly apply their "routine use" authority. In addition, the Act also requires agencies to seek public comment on a proposed "routine use," and to provide advance notice to OMB and Congress.

#### VIII. REGULATORY AFFAIRS

Since 1981, OIRA has reviewed Federal regulatory activities, first under Executive Orders. The review process extends from pre-rulemaking to final regulations. It involves the application of cost benefit analysis and review of old rules (E.O. 12866), as well as direction such as E.O. 12606 (The Family), E.O. 12612 (Federalism), and E.O. 12630 (Governmental Action and Interference with Constitutionally Protected Property Rights).

Throughout the development of this regulatory review process, questions have been raised regarding its propriety, scope, and effectiveness. Issues have included the extent to which OIRA may properly control agency rulemaking decisions, the parameters of presidential supervision of Executive Branch agencies, the scope of rulemaking authority delegated to agencies by Congress, and public disclosure and accountability.

1. What are your views on the proper role of OMB in the Federal regulatory process?

A. President Clinton established OMB's role in the Federal regulatory process when he issued Executive Order No. 12866, "Regulatory Planning and Review," on September 30, 1993. Then-OMB Director Panetta summarized this Order at a press briefing after the signing.

*"The Executive Order that the President signed is not prerogation and it is not antiregulation, it's smart regulation—regulations that achieve their objectives with the least possible burdens on society. It says first that regulations are to be adopted when and only when they are really necessary. They are to be based on the best reasonably available scientific and technical data. . . . The Executive Order reaffirms that the agencies have the leadership role in developing Federal regulations, as they should. They're the agencies that are responsible for implementing the laws. . . . At the same time, it reaffirms the legitimacy and the necessity for having a centralized review system.*

I believe that the principles embodied in the Executive Order define an appropriate role for OMB in the Federal regulatory process.

2. Do you believe that OMB has the authority to require an agency to revise, cancel, or postpone a proposed or final regulation that it has developed under authority delegated to the head of the agency by Congress?

A. It is—in general terms—clear that agencies, not OMB, have the statutory authority to issue regulations. On the other hand, the President has the Constitutional responsibility to oversee and manage the Executive Branch. OMB, as authorized by a number of statutes and Presidential directives, supports the President in carrying out his Constitutional responsibilities.

3. To the extent you think OMB should have a regulatory review role, please describe the guiding principles that should govern that review.

A. These guiding principles are set forth in E.O. 12866, most specifically in section 1. These principles were well summarized by then Director Panetta as quoted above, in my answer to question VIII-1.

4. OMB exercises considerable power over Federal agencies because of its budget and management authority. It also wields extensive powers to set the Federal Gov-

ernment's regulatory agenda under E.O. 12866. Do you believe that OMB has adequately and properly used its authority to help ensure that the regulatory process is efficient, rational, and fair? Can you suggest improvements?

A. The Executive Order articulates sound principles of regulatory review, the procedures and time-limits under which the review is conducted, and extensive disclosure requirements that ensure that the regulatory process is efficient, rational and fair. It also establishes a Regulatory Working Group composed of agency representatives and White House advisors at which government-wide regulatory issues may be discussed, including ways to improve the regulatory process.

As I become more familiar with how OIRA carries out its responsibilities under the E.O., I will work with the OIRA Administrator to continue to improve the process.

5. Abolishing unneeded regulations and revising regulations in need of revision have been suggested to reduce the cost and burden of Federal regulations. What role do you think OMB should have in agency review of existing regulations?

A. E.O. 12866, in section 5, sets forth agency and OMB responsibilities for the review of existing regulations. Agencies are also reviewing existing regulations and existing regulatory programs as a result of Presidential initiatives and recommendations from the National Performance Review. As these agency initiatives proceed, OMB participates through its various components—as a routine matter in evaluating the budgetary financial, regulatory, IRM, and other aspects of these efforts. This is a traditional and accepted OMB role that should continue.

6. There is considerable controversy over what the proper balance should be between the benefits of regulations designed to protect the environment and the public health and safety, and the costs those regulations impose on the economy. How do you believe that balance should be determined? How do you believe that OMB can help to achieve that balance?

A. E.O. 12866 sets forth regulatory principles designed to help inform regulatory decision-makers. Ultimately, however, the balancing that has to be made depends upon the judgment, common sense, and experience of the regulatory decision-makers.

By statute, regulations are issued by the responsible agency head. As a matter of the President's constitutional responsibility to manage the Executive Branch, however, the more important a regulation—the greater the benefits, the costs, the overall social impact—the more likely it is that a variety of Executive Branch officials will contribute to the decision-making process.

7. How much weight to give to risk analysis and cost-benefit analysis when developing regulations and when reviewing existing regulations has generated a great deal of controversy. How do you think risk analysis and cost-benefit analysis should be used by agencies in rulemaking and by OMB in evaluating that rulemaking? In instances where an agency disagrees with an OMB's evaluation, how do you think that disagreement should be resolved?

A. Risk analysis and cost-benefit analysis are well-established methods for evaluating—in both scientific and economic terms—the direct and indirect impacts of possible regulatory action. With greater or lesser precision and level of detail, these analytic tools have been developed and used at agencies for many years. These analytic tools are, however, just that. Risk analysis and cost-benefit analysis can be very helpful, and in many cases critically important. But ultimately, such analysis can only inform reasoned decision-making, not substitute for it.

E.O. 12866, in section 7, specifically prescribes how an agency should seek to resolve a disagreement or conflict between an agency head and OMB. Basically, such a conflict is to be "resolved by the President, or by the Vice President acting at the request of the President." As a general matter, however, agency regulatory decision-makers and OMB management—including the OIRA Administrator—talk and meet with each other very frequently. Only in rare instances will a disagreement not be resolved through these informal discussions and meetings.

8. The Small Business Regulatory Enforcement Fairness Act (Title II of P.L. 104-121) passed earlier this year seeks to reduce the regulatory burden on small entities—business, State and local government, and other organizations. It also provides for congressional review of new nations and their reaction by joint resolution. What do you foresee as OMB's role to help make this Act effective? How do you think OMB can help Congress to evaluate new regulations in order to determine if they should be rejected?

A. Title II provides a role for OMB in two specific ways. Under new 5 U.S.C. 609(b), the Small Business Advocate, OIRA, and either EPA or OSHA are to participate in a review panel concerning certain rulemakings. Under 5 U.S.C. 804(2), OIRA is to find whether a final agency rule is "major" and thus is to take effect only after 60 days, unless that 60-day delay is waived by the President under 5 U.S.C. 801(c) or by the agency under 5 U.S.C. 808(2). Otherwise, Title II directs SBA and the regulatory agencies generally to undertake a number of specific actions to improve or analyze rule-making, some of which codify initiatives developed under the National Performance Review or in the course of the White House Conference on Small Business. To the extent that issues arise relating to Title II, OMB will work with the SBA and the agencies to help the agencies implement the Act. As most of Title II did not take effect until June 28, 1996, however, neither OMB, SBA, EPA, nor OSHA have very much experience implementing this new legislation.

With respect to the Congressional review provisions of the Act, considerable data are to be supplied to Congress by the agency issuing the rule. Should a Committee reviewing the rule seek information or assistance from OMB, it would certainly fulfill its traditional role of responding to that request.

9. The same Act provides that regulations issued by the Environmental Protection Agency and the Occupational Health and Safety Administration be reviewed by a panel to consider the impact of those regulations on small entities. The panels are to consist of officials from the Office of Information and Regulatory Affairs, the Office of Advocacy in the Small Business Administration, and the agency issuing the regulations. Given OMB's power, do you think participants from the other agencies will be assured of an equal voice in decision-making? How do you think disagreements over the impact of these regulations should be resolved?

A. The review process in new 5 U.S.C. 609(b) takes place before the notice of proposed rulemaking is published for general public comment. OIRA, the Small Business Advocate, and either EPA or OSHA are, as "a review panel," to "report [to either EPA or OSHA] on the comments of the small entity representatives and its [the panel's] findings" as to certain issues related to the Regulatory Flexibility Act involving a draft proposed rulemaking. This report is to be "made public as part of the rulemaking record."

This report will consist of the views of the panel. If an individual agency wants to make specific recommendations in this report—or in an attached "separate statement"—it will be able to do so. In any event, interagency disagreements on the text of such a report will presumably be worked out in the informal, collegial manner in which such issues are normally resolved.

10. Until 1993, in its annual *Regulatory Program of the United States Government*, OMB provided very useful statistics on the number of regulations it reviewed and actions it took on such regulations, as well as on statistics on the number of regulatory documents and pages in the Federal Register prepared by the office of Federal Register. Do you know why the statistics are no longer provided? If you are confirmed, would you be willing to include those statistics in the yearly edition of the bi-yearly edition of the *Regulatory Plan and the Unified Agenda of Federal Regulations*.

A. Consistent with the disclosure requirements in E.O. 12866, OIRA maintains a daily log of those regulations submitted for its review, and places this information in OIRA's public docket room and on the Internet. A monthly and annual summary of OIRA's actions is also compiled and placed in OIRA's public docket room. Numbers of regulatory pages and regulatory documents published in the Federal Register are available from the Office of the Federal Register.

I am informed that the statistics are not published in the way they used to be because it was believed that the current system provides more useful

and timely information. If additional information is needed, I am confident that we could satisfy legitimate requests in a way that is both informative, timely, and cost-effective.

#### IX. PROCUREMENT POLICY

The Office of Federal Procurement Policy (OFPP) was established within OMB in 1974 to provide overall direction of procurement policies, and to coordinate programs to improve the quality and performance of agency procurement personnel. In 1988, Congress enacted the Office of Federal Procurement Policy Act Amendments (109 Stat. 4055), which permanently established OFPP within OMB, and clarified the Administration's authority to initiate government-wide procurement policy and to issue implementing regulations.

The 103rd Congress enacted the Federal Acquisition Streamlining Act (FASA), a comprehensive procurement reform effort designed to streamline the \$196 billion civilian and military acquisition process (108 Stat. 3423). Briefly, enactment of FASA revises several hundred existing statutes in an effort to streamline and simplify the government's procurement requirements. The simplified acquisition threshold of \$100,000 and the increased use of commercial products will provide greater flexibility to procurement officials' efforts to buy goods quickly and economically. Micro-purchases, under \$2,500, can now be made in paperless transactions with the use of purchase cards.

1. In addition to involvement with promulgation of regulations, will OFPP take an active role in developing guidelines for the implementation of FASA?

A. I understand that OFPP had a very active role in the development of the regulations for implementation of FASA. An expedited process was used to develop those regulations, which allowed interagency teams to work directly with OFPP staff. A similar approach is now being used to develop new regulations governing the negotiation of contracts awarded on the basis of quality and other non-price factors as well as price (the process used to award most large contracts) and to establish simplified competitive procedures for purchasing commercial products. I support direct OFPP involvement in the development of important regulatory changes.

2. Has OFPP begun to use electronic dissemination for purchase transactions? How successful has this been?

A. OFPP is heavily involved in promoting electronic dissemination via such mechanisms as electronic catalogs, purchase cards, Federal Acquisition Computer Network (FACNET), and Acquisition Reform Net (ARNET). Use of electronic catalogs, such as GSA Advantage and DLA catalogs, help to maximize item visibility, facilitate customer learning about available products, and simplify the ordering process. They have the capability to provide quick and easy government-wide access to a wide variety of commercial products. We hope to place links on ARNET to these electronic catalogs so that they can be easily accessed by our buyers. The FACNET goal of issuing solicitations, receiving proposals, and making awards electronically has proven to be more problematic than first thought. ARNET—a project jointly initiated by the National Performance Review, OFPP, the Council for Excellence in Government, and Lawrence Livermore National Laboratory—already provides procurement officials in the public and private sectors with ready access to a large amount of procurement information including best practices guides, policy letters, and training courses. Many contracting activities have home pages linked to ARNET where advance procurement information (including RFI's and draft RFQ's) and forecasts are electronically available, which is especially helpful to small businesses.

OFPP is also working with OIRA and OFFM to better integrate procurement and finance operations so that more of the business processes are covered by electronic commerce.

3. How can OFPP be further revitalized to meet the major challenges facing Federal procurement, and what role will the Administrator play within OMB?

A. During the Clinton Administration, with the support of the Vice President's National Performance Review and of this Committee, OFPP has pursued an ambitious and effective procurement reform agenda and has contributed substantially to bringing about changes in procurement law, regu-

lation, and policy that are considered to be the most significant since the enactment of the Competition in Contracting Act of 1984. I understand that OFPP's expertise has frequently been relied upon by this Committee and others to facilitate the kind of productive analysis and discussion of issues that are key to making procurement reform a bipartisan success.

OFPP Administrator Steve Kelman has been particularly concerned about making sure that reforms reach the front line. He has leveraged OFPP's resources by securing agency pledges to implement reforms on particular contracts, working with agencies to identify best practices, and providing a forum for front line procurement professionals to share their ideas and reactions with him and his staff directly.

OMB has begun to succeed in making procurement reform an integral part of the work of each of the RMOs, as envisioned by OMB 2000. I understand that procurement reforms have been used as a source of budget savings and mission enhancements and that agencies' progress in implementing procurement reforms is being measured as part of OMB's implementation of the Government Performance and Results Act.

I fully support the OFPP Administrator in his efforts to bring about procurement reform and ensure it takes hold on the front line. The OFPP Administrator must continue to play a prominent role within OMB as the focal point for the Administration's efforts to ensure the procurement process is responsive to the needs of agency missions. In this regard, I will continue to promote the OMB 2000 goal of integrating OFPP initiatives with OMB's other work to enhance OMB's overall effectiveness.

4. With enactment of FASA, an agency can now consider a contractor's past performance, management skills, and workmanship in its decision to award supply and services contracts based on best-value procurement, instead of lowest price. How will OFPP educate the Federal civilian acquisition workforce to implement the new regulations?

A. The common commercial practice of using contractor past performance, including management skills and workmanship, in the selection process for new contracts has been an OFPP priority. The OFPP Administrator established a pledge program with 20 agencies to use past performance in the award of 60 contracts in January 1994. The passage of FASA was welcomed as the statute eliminated any doubts the agencies had about using past performance. The new policy was implemented in the Federal Acquisition Regulation in March 1995 and "A Guide to Best Practices for Past Performance" was published the same month. Over 3,000 copies of the guide have been distributed by OMB with agencies, and OFPP is providing training to government and contractor personnel. Over the last year, the use of past performance in source selection has become an accepted procurement practice across the government.

OFPP is leading an interagency team to revise the "best practices" guide to reflect lessons learned during the initial implementation process. OFPP staff has also conducted training sessions as well as promoted the initiative through the President's Management Council. As past performance has become a more important factor in determining who receives contracts, the private sector has responded by offering training courses.

A major task for OFPP in the future will be to ensure that past performance is used to streamline the source selection process and that the contractor reports required at the completion of every contract are completed in a timely manner.

5. How do you respond to critics who believe that FASA gives too much discretion to the procurement official in the final decision to award a contract?

A. I am not aware of any provision in FASA or any other recent acquisition reform legislation that gives procurement officials too much discretion. The enacted reforms have streamlined the contracting process both by eliminating many of the provisions that make government procurement unique from commercial contracting (e.g., submission of detailed cost information with every proposal) and by adopting successful commercial practices (e.g., consideration of past performance in source selection).

In the past, the Federal Government sought to develop rules governing every conceivable circumstance. Whenever the system failed to produce ac-

ceptable results, the response was to make the rules more detailed. Procurement officials' discretion eroded to the point that it became difficult to hold them accountable when a procurement failed. We basically developed a process where officials were much more likely to be called to task because they failed to follow the proper procedure than because they made the wrong decision.

There now is a clear consensus in favor of changing this culture and focusing on results rather than process. I support this change, which has been a theme of the Vice-President's National Performance Review as well as of this Committee's work as reflected in the Government Performance and Results Act and the FASA Title V mandate for agencies to establish and achieve cost, schedule and performance goals for acquisition programs. If we are going to succeed in shifting to a results focus, we must give procurement officials the discretion necessary to exercise sound business judgment and common sense. Only then will we be able to hold them accountable. In this vein, I note that OFPP, with OMB support, has been working with the President's Management Council to develop measures for gauging agencies' progress in increasing the responsiveness of the procurement system to agency mission and taxpayer needs.

6. Sixteen months after the 1994 passage of FASA, Congress passed the Federal Acquisition Reform Act of 1995 as an amendment to the fiscal year 96 DOD Authorization bill. This law authorizes additional reforms to the current acquisition process by allowing agencies to procure items "cheaper, faster and better."

(a) What initiatives will OFPP take to oversee and implement the acquisition process for Executive Branch agencies leading to the next century?

(b) What is your position on the prudence of doing government-wide procurement reform on a defense bill?

A. The enactment of the Federal Acquisition Reform Act of 1996 (FARA) represents another key milestone in our ongoing effort to create a customer-oriented, commercial-style procurement system. Together, FASA and FARA have laid an important foundation that will enable us to transform our procurement system into one which emulates many of the most successful commercial buying practices.

Even before the passage of FASA and FARA, OFPP has been working actively and aggressively with the agencies to promote successful commercial practices. Many are now beginning to take hold, including use of past performance as an indicator of a contractor's potential in the selection process, contracts that hold contractors accountable for performance, and alternative approaches to dispute resolution. OFPP will need to continue to work with the agencies to make sure these initiatives are long lasting.

These accomplishments notwithstanding, the findings of the NPR remind us that, in striving to work better and reduce costs, we would be ill-advised to assume that the current way the government does business is optimal. We must constantly question our procurement processes and ensure they reflect the best economic thinking, are right for current circumstances, and consistently produce the most in terms of mission results for taxpayer dollars. One of the best ways to verify the caliber of our procurement process is to compare them to those used in the commercial world. Locking to commercial buying practice for ideas and benchmarks is becoming common in government procurement. In doing so, we must also work hard to avoid our past obsession with process, eliminate those processes with low value, and concentrate on results. These are trends that I strongly endorse as key to raising our procurement system to the level of world class companies as we enter the next century.

The Administration will concentrate on the merits of procurement reform legislation, working with the Governmental Affairs Committee and other committees with expertise. The Administration will defer to the Congress on the specific legislative vehicle used to enact procurement reform.

#### X. INTERGOVERNMENTAL RELATIONS AND GRANTS MANAGEMENT

1. In the past, many experts have recommended that OMB should be the "point" agency in leading and coordinating the Federal Government's federalism and inter-governmental relations policies. In recent years, the agency has appeared to give lit-

the attention to this role. How would you define OMB's position? Would you organize the agency to better perform this function?

A. OMB's recent activities in the area of intergovernmental relations have been significant. The Clinton Administration is forging a new partnership with States and local governments, and OMB has been at the center of this activity. These efforts include giving States flexibility to experiment with the operation of Federally-funded programs such as Medicaid and Food Stamps through "waivers"; creating Empowerment Zones and Enterprise Communities as the beginning of a 10-year experiment in community-based decision making; developing performance partnerships that provide increased flexibility to States and local governments on how programs are run in exchange for increased accountability for results; and supporting the Oregon Option to design and test a results-oriented approach to intergovernmental service delivery.

OMB has played a key role in the development and implementation of each of these efforts. During my tenure as Director, OMB will continue to be a catalyst for a new State-Federal partnership, with all partners working to develop clear performance goals for government programs and accountability for achieving results. Consistent with OMB 2000, I expect staff from each of OMB's Resource Management Offices to be involved in these cross-cutting efforts.

2. Currently, the buzz word in intergovernmental, especially Federal-State relations, is "devolution." How do you view devolution? What is your opinion on the appropriate role for the Federal and State governments as the United States approaches the 21st century? If devolution extends to State-local as well as Federal-State relationships, how will local governments be affected?

A. Devolution is a major theme of world-wide public sector reform. This includes devolution of responsibilities to other levels of government, as well as moving decision making from the center to operating departments.

Devolution is based on the view that decisions made closer to their actual point of impact by people with greater knowledge of likely results are likely to be better decisions. There has long been a debate whether to centralize or devolve authority. I believe we must now be willing to move in both directions—devolving many operating functions while centralizing critical policy making responsibilities. For example, there needs to be a strong capacity at the center of government to determine areas of involvement and the general strategies to be followed; to allocate resources to reflect strategic policy; to monitor progress; to intervene in exceptional circumstances; and to manage the overall reform process.

At the same time, it is equally important to devolve more of the operations of government to those closest to the problems. This means replacing highly centralized, hierarchical organization structures with a system that moves decisions on service delivery closer to the point of delivery, where greater relevant information and feedback from clients and other interest groups is available.

In intergovernmental programs, this means moving toward more flexible funding arrangements, such as performance partnerships. Performance partnerships consolidate existing Federal programs into a broader, performance-based grant, where State and local administrators are given increased flexibility in exchange for achieving defined results that embody the national purpose justifying the use of Federal funds.

The best example of the performance-based approach is the "Oregon Option" where Federal officials are working to suspend most Federal administrative procedures. In return for this flexibility, State and local officials would agree to meet a set of specified outcomes. The Oregon model clarifies the national purpose underlying Federal funds by requiring a results-oriented process that defines goals important to Oregon citizens: healthy children, stable families, and a highly-trained and competitive workforce.

3. Considerable emphasis has been placed by this Administration on the use of waivers as an alternative to major restructuring of the Federal grant system. Waivers have been granted in major welfare and Medicaid program experiments, and are a significant component of the empowerment zone/enterprise community program and the Local Empowerment and Flexibility Act (H.R. 2086; S. 88), which the Ad-

ministration has endorsed in principle. What are your views with regard to waivers? What principles would you use to govern approval or denial of waiver requests? Does this surge of interest in waivers indicate that the system needs fundamental overhaul?

A. Waivers are requested for two basic reasons. One is to tailor national programs to the specifics of State or local situations. Waivers of this type are available under a wide range of authorities. The purpose of waivers is to make the delivery of Federal assistance more efficient without undermining the integrity of the Federal programs or increasing Federal costs.

A second reason is to test new ways of meeting the goals of programs. The most broad-ranging research and demonstration waivers are probably in Medicaid and welfare programs. The Administration has encouraged States to propose demonstrations to test new ways of meeting the goals of AFDC and Medicaid. The Administration's experience with these waivers was a major factor in shaping its Medicaid reform and welfare reform policies.

In Medicaid, the waiver process has provided States with enhanced flexibility to test ways to redesign and manage their programs, while maintaining the Federal Guarantee of coverage and benefits to categorically eligible populations and ensuring budget neutrality. For example, several States are testing ways to expand coverage while not increasing costs. When all of the currently approved demonstrations are implemented, nearly 2.2 million individuals who did not receive Medicaid coverage will be eligible for services. This Administration has approved 12 statewide demonstration waivers—11 more than had ever been approved before.

Based in large part on its experience with waivers, the Administration has proposed a carefully designed and balanced plan to reform Medicaid. The President's plan gives States flexibility to meet the needs of the people they serve while preserving the essential guarantee to coverage for pregnant women, children, people with disabilities, and elderly Americans who depend on it. It would also maintain shared financial responsibility with the States; and preserve the Federal Guarantee of a mandatory benefits package; and provide States far greater flexibility to manage their programs to pay providers of care and to operate managed care and other arrangements.

In welfare programs, States are testing new and innovative ways of helping low income families become economically independent. The Administration has encouraged States to propose welfare reform approaches to test. It has granted research and demonstration waivers to 40 States—far more than any previous Administration. The Administration's policy of encouraging experimentation has undoubtedly contributed to the ongoing rapid decline in welfare caseloads. Based on this experience, the Administration is committed to comprehensive welfare reform that gives States more flexibility, increases work, and protects children and other vulnerable individuals.

Until comprehensive welfare reform is enacted, I support continuing to use the waiver process to give States the flexibility to test new approaches as long as children and other vulnerable individuals are protected and costs are not increased. Similarly, I support expanding the number of States that receive Medicaid waivers that promote the Administration's vision of Medicaid reform and do not increase Federal costs. I would expect the Administration to continue using the AFDC/Medicaid waiver review principles and procedures that were developed in consultation with the States and published in the Federal Register in 1994.

States and localities are also using waiver flexibility to test new models of community and economic development service delivery—through the Empowerment Zone and Enterprise Community (EZ/EC) legislation proposed as part of the President's 1993 economic program and subsequently enacted by Congress. Under the EZ/EC legislation, designated localities have submitted requests for waivers designed to help implement their local strategic plans. These local requests, often developed as part of a comprehensive review of city, State, and Federal rules and regulations affecting the local plan, provide an opportunity to test alternative local approaches and provide performance information on the outputs associated with the local strategies.

4. The Tenth Amendment Enforcement Act of 1995 would require the Executive Branch and agencies, when proposing to act through the rulemaking process in a manner that preempts State law, to provide all affected States notice and an opportunity for comment by duly elected or appointed State and local government officials. How would the Executive Branch and OMB comply with this requirement?

A. Agencies already provide an affected parties notice and an opportunity to comment on all regulations of general applicability under the Administrative Procedure Act (APA), unless good cause is shown. Using this APA process, State governments frequently comment on regulations that affect them, and agencies encourage such comment when important issues, such as preemption of State law, are involved. Moreover, Title II of the Unfunded Mandates Reform Act requires agencies to engage in meaningful and timely consultation with State, local, and tribal governments on rules containing significant intergovernmental mandates. In addition, Executive Order No. 12865 specifically states:

"Whenever feasible, agencies shall seek views of appropriate State, local, and tribal officials before imposing regulatory requirements that might significantly or uniquely affect those governmental entities."

The report on the first year of implementation of the Unfunded Mandates Act, issued to Congress on March 22, 1996, details many examples of meaningful agency consultation with their intergovernmental partners. OMB and the agencies should continue to ensure that the perspective of State government on issues that affect them, including preemption issues, is given proper consideration prior to issuing any regulatory action.

5. What does OMB do to keep the Federal Government from intruding into areas of traditional State and local authority? How can OMB's efforts be improved?

A. One of the central principles of Executive Order 12865 is that Federal agencies should harmonize their rules with State, local, and tribal government policies and programs, and should consult with other levels of government on issues that affect them. Moreover, under E.O. 12875, Federal agencies are to consult with State, local and tribal governments regarding rules that impose costs on them. These activities were reinforced by the provisions of the Unfunded Mandates Reform Act; the first-year report on the implementation of that Act, submitted to Congress on March 22, 1996, details many examples of successful consultation.

6. Does the OMB review proposed legislation and agency rules to ensure that they fall within the constitutional authority of the Federal Government and—in the case of rules—the authority given to the agency by statute? How can OMB's review of proposed rules and statutes be improved in this regard? When dealing with policy affecting areas of concurrent jurisdiction with State and local government, does OMB contact State or local governments or their representatives?

A. OMB coordinates the review of statutes and rules that raise constitutional issues with the Department of Justice. With respect to statutory authority for regulations, as noted above the agencies have primary responsibility for assuring consistency with statutory provisions. OMB may raise issues during the review process, but ultimately the agency is responsible for the regulatory action. With respect to areas of concurrent jurisdiction, see answer to X.5. Finally, I understand that while ordinarily OMB does not initiate contacts on specific issues, it does meet with affected entities that contact OMB and over the past few years has had several such meetings with State and local officials.

7. When dealing with policy affecting areas of concurrent jurisdiction with State and local governments, does OMB contact State or local governments or their representatives?

A. This question is similar to the previous question. As stated in the answer to that question, I understand that while ordinarily OMB does not initiate contacts on specific issues, it does meet with affected entities that contact OMB and over the past few years has had several such meetings with State and local officials.

8. The Unfunded Mandates Reform Act of 1995 (P.L. 104-4) required Federal agencies to include State, local, and tribal government officials in the Federal rule-making process and to consider the impact of regulations on the public and private

sectors. Has OMB been involved in the implementation of this Act? What has the Executive Branch accomplished since the Act went into effect?

A. Pursuant to a Presidential delegation, OMB issued guidelines and instructions to agencies regarding their implementation of Section 204 of the Unfunded Mandates Reform Act on September 21, 1995. This guidance, which followed initial general implementing guidance from OMB to agencies on March 31, 1995, requires agencies to provide State, local and tribal governments an opportunity to participate in agency development of regulations that contain significant intergovernmental mandates.

In addition, during the past year, Section 205(c) of the Unfunded Mandates Act required OMB to certify to Congress agency compliance with the "regulatory alternatives" requirements of Section 205 of the Act, and Section 208 required OMB to submit a report to Congress discussing Executive Branch compliance with Title II of the Act. OMB submitted the certification and report on March 22, 1996. The report details the steps that agencies have taken to ensure that State, local, and tribal governments can participate meaningfully in the regulatory process, and demonstrates that agencies have taken seriously their responsibilities under the Act.

9. Considering your past role as an adviser to the District of Columbia on various issues, the current fiscal problems facing the District of Columbia, and the borrowing authority of the District against the Treasury, what role do you anticipate playing as the Director of OMB in efforts to assist the District? What do you view as the Federal Government's financial responsibilities to the District?

A. OMB continues to play its primary role as coordinator and facilitator for various Administration efforts related to the District's financial situation. OMB worked closely with Congress and the Treasury Department to draft the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (P.L. 104-3), which created the District of Columbia Financial Assistance Authority. The Authority's primary role is to assist the District government in developing a multi-year financial plan to attain budgetary balance by fiscal year 1999. OMB staff have provided support and assistance to the Authority as it begins its operations.

At the President's request, Director Rivlin chaired an interagency working group on the District that met every 4 to 6 weeks. If confirmed, I would chair this group, through which representatives from relevant Cabinet Departments provide immediate technical assistance to their District counterparts; assess resource constraints; and identify long-range solutions to structural problems of the District government in their program areas.

#### XI. GOVERNMENT SPONSORED ENTERPRISES

GSEs are chartered by act of Congress to accomplish public purposes, with the two most important being Federal National Mortgage Association (Fannie Mae) and Federal National Loan Mortgage Corporation (Freddie Mac). The Federal Government implicitly guarantees nearly a trillion dollars of enterprise obligations and mortgage-backed securities.

In 1988, President Reagan's Commission on Privatization recommended that both Fannie Mae and Freddie Mac be fully privatized. In subsequent years, other studies have made similar recommendations. Most recently, the Congressional Budget Office (CBO) concluded that whatever need there may have been for them has largely been met and that Congress should consider ways and means of severing Federal ties to these privately owned corporations. As an officer of Fannie Mae, you have been opposed to altering the current relationship with the Federal Government. Given this, your views on GSEs generally and Fannie Mae in particular are important.

1. What are your views on the recommendations of the recent CBO report?

A. In answer to an earlier question, I noted that, if confirmed, I will recuse myself from participating in any particular matter directly and specifically affecting Fannie Mae or in which it is a party or represents a party. Therefore, if confirmed, I will not participate in policymaking related to the CBO report as it may affect Fannie Mae.

However, to be responsive to the Committee's question, and only addressing GSEs generally, I can say that it is unwise to generalize about government sponsored enterprises and proposals to change them. Each type of

GSE has a different mission, structure, set of benefits, and management approach. What they have in common is a Congressional determination to marshal private capital and management to achieve a public policy purpose. If Congress no longer wishes to confer the benefit to society or it discovers a better way to provide the benefit, then the special arrangement with the GSE should end.

2. Are GSEs a necessary and useful option for the performance of public actions; and if so, under what conditions?

A. In particular instances, a GSE may be the best tool to pursue an important public purpose. In such instances, there is a need for careful oversight to keep the Federal Government's potential exposure to an absolute minimum, and to ensure that the GSE remains focused on achieving its primary public purpose. In the past, GSEs have played pioneering market roles that have produced important benefits to society in transforming financial markets.

3. Some critics contend that GSEs are inherently an unwise option because they create a special category of organization with advantages in the market that encourage monopolistic behavior and special financial protections for drive management and stockholders. What is your response to this criticism?

A. Over the years, GSEs have played an important and valuable role in promoting important public purposes. Nevertheless, concern about their unique character warrants carefully crafting GSEs' charters and regulating GSEs to ensure that they remain focused on their public missions and operate in a safe and sound manner. The Congress and the Administration must periodically review the balance of public purpose and private benefit to ensure that the GSE remains the most efficient way to achieve the public purpose.

4. What type of Executive Branch oversight is presently functioning for GSEs?

A. All of the GSEs are currently subject to financial safety and soundness regulation and program regulation to ensure that they remain focused on their public purposes. The agencies charged with regulating the GSEs are responsible for monitoring the progress and risks undertaken by the GSEs, and for ensuring that the GSEs remain financially strong enough to carry out their public purposes.

5. What role, if any, does OMB play in this oversight?

A. Title XIII of the Budget Enforcement Act of 1990 requires that the President's annual budget submission include "an analysis of the financial condition of the GSEs and the financial exposure of the Government, if any, posed by GSEs." This analysis is prepared by OMB.

6. In your view, is the current oversight of GSEs generally, and Fannie Mae in particular, adequate to protect the public interest? If not, what changes would you recommend?

A. Several changes in the last few years have improved the ability of the Executive Branch to oversee the GSEs and to protect the public interest. In particular, the Office of Federal Housing Enterprise Oversight was created to monitor the financial safety and soundness of Fannie Mae and Freddie Mac. Last year, the Administration proposed to reform and modernize the Federal Home Loan Bank System. Among other things, this proposal would have created capital standards for the Federal Home Loan Banks to enhance the safety and soundness of the System.

7. Should Fannie Mae and Freddie Mac be fully privatized? If not, why?

A. As I indicated above, I have recused myself from issues directly and specifically affecting Fannie Mae and therefore will not be participating in discussions of this issue. However, to be responsive to the Committee's question, and only addressing GSEs generally, I have set forth the above general principles that should govern changing the status of GSEs.

8. To what extent should GSEs be able to lobby Congress and Executive agencies on behalf of favored policies?

A. GSEs are special entities with private ownership created pursuant to public statute. Changes to the relationship with the Federal Government are obviously of great importance to shareholders with billions of dollars at

risk. Therefore, these entities should have the same freedom of expression as other business enterprises and be subject to the same regulation of their legislative affairs activities.

9. In the recent CBO report on Fannie Mae and Freddie Mac, the agency noted that the two firms employed 12 registered lobbyists and a number of political consultants, and noted "Fannie Mae in particular makes no secret of its attempts to influence Federal policy . . . as a means of controlling political risk." As Director of OMB, what will be your view towards GSEs seeking to persuade agencies regarding policies that may affect the interest of their shareholders but may be contrary to policies and directives of the OMB?

A. As Director of OMB, I will faithfully execute OMB policies and directives. Also, note my statement of recusal regarding matters related to Fannie Mae in answer to an earlier question.

10. Proposals have been made to revise the Government Corporation Control Act so as to include standards and conditions for GSEs and the newly proposed "performance based organizations" (PBOs). The purpose of such proposals would be to provide centrally reviewable criteria to be met prior to the establishment of corporations and enterprises and accountability standards to be enforced by OMB.

(a) Does OMB have the capacity to design appropriate and financially sound government corporations and GSEs and oversee their creation and operation? If not OMB, whom do you believe should perform such management review functions?

(b) Discuss the merits of a general management law to provide standards regarding functions, financing, and personnel to apply to government corporations and enterprises.

A. OMB has the capacity to deal with these types of issues. OMB frequently receives proposals to create new GSEs and government corporations, from existing agencies or otherwise. For example, last year OMB developed guidance to agencies providing a set of issues and presumptions they should consider when analyzing whether programs could benefit from different operating and financial flexibility and the other normal attributes of government corporations. The result was a document entitled "Specifications for Creating Government Corporations," which was distributed to agency heads.

11. GSE securities are assigned "agency status" and thus are nearly as safe as if a Federal Government agency had issued them. As the nominee to head OMB, how do you view the following CBO conclusion:

*"Since the housing GSEs have achieved their original objective, policymakers must weigh the desirability of continuing to provide the current subsidy against alternative policies. On the one side is the uncontrolled subsidy that goes annually to management and shareholders. . . . On the other side is the off-budget contribution of housing GSEs to the Nation's affordable housing goals. . . . Is the retained subsidy worth the gain that Fannie Mae and Freddie Mac are adding to increased home ownership?"*

A. The issues involved in measuring both the benefits received by any GSE and its contribution to public purposes are particularly complex, and it is possible to reasonably disagree about the sizes of these measures. In light of the complexity of the issues and the uncertainty surrounding them, Congress should take all of the different perspectives into account as it examines these important questions.

I believe it to be ill-advised for a potential Director of OMB to agree with the statement that GSE securities are as "safe" as securities issued by Federal agencies secured by the full faith and credit of the United States. GSE securities have no such guarantee and holders should not assume otherwise. To state otherwise would create a very large unintended contingent liability that the GSE structure is intended to avoid.

There have been numerous estimates of the benefits provide to the housing GSEs and the benefits received by home buyers and renters. Congress must determine whether the GSEs deliver the benefits that Congress intends.

## XII. RELATIONS WITH CONGRESS

1. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

A. Yes.

2. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

A. Yes.

Chairman STEVENS. You have also submitted a letter to the General Counsel of the Office of Management and Budget with respect to resignations, divestitures, recusals to be executed upon confirmation. I want to put that letter in the record as well, along with the opinion of the Office of Government Ethics to the effect that you are and will be in compliance with the applicable laws and regulations governing the conflicts of interest as you carry out the letter that you have submitted.

[The letters submitted by Mr. Raines follow:]



United States  
Office of Government Ethics  
1201 New York Avenue, NW, Suite 500  
Washington, DC 20005-3917

May 28, 1996

The Honorable Ted Stevens  
Chairman  
Committee on Governmental Affairs  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Franklin D. Raines, who has been nominated by President Clinton for the position of Director of the Office of Management and Budget.

We have reviewed the report and have also obtained advice from the Office of Management and Budget concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed are a letter dated May 22, 1996, from Mr. Raines to the ethics official at the Office of Management and Budget detailing Mr. Raines' agreements with respect to resignations, divestitures, recusals, and certain other matters, and a letter from counsel for Mr. Raines, also dated May 22, to the agency ethics official explaining certain benefits that Mr. Raines' current employer may extend to him prior to his entry into Government service.

Based thereon, we believe that Mr. Raines is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

*Stephen D. Potts*  
Stephen D. Potts  
Director

Enclosures

## FRANKLIN D. RAINES

May 22, 1996

Robert G. Demus, Esq.  
General Counsel  
Office of Management and Budget  
Old Executive Office Building  
Room 262  
Washington, D.C. 20502

Dear Mr. Demus:

In connection with my nomination for the position of Director of Office of Management and Budget, I hereby inform you that, if confirmed to that position, I will take the following actions.

A. Upon confirmation, I will resign from the following positions listed on Schedule D to the Executive Branch Public Financial Disclosure Report on form SF-278 (the "SF-278") which I am filing in connection with my nomination:

Item	Position Held
7	Vice Chairman and Director, Federal National Mortgage Association
8	Director, Federal National Mortgage Association Foundation
10	Director, Robert Wood Johnson Foundation
11	Director, Pfizer, Inc.
12	Director, Manpower Research and Development Corporation
14	Director, Rockefeller Foundation
15	Director, The Boeing Company
16	Director, Mitratec Systems, Inc.

B. Within 90 days of taking office, I will divest my interests in the following property listed on Schedule A to the SF-278 ("Schedule A"):

Item	Asset
16	Circuit City Common
17	General Motors Class E Common
18	MSR Exploration Common
19	Carden State Cablevision, Inc. Stock (in process of liquidation)
32	District of Columbia municipal bond - 7.37% 2005/6
40	District of Columbia GO municipal bond 9.375%
70-78	Corporate Partners, L.P. and LFXR Partners, L.P.
80	CCI Partners, L.P.

C. As noted on the SF-278, I currently own Federal National Mortgage Association ("Fannie Mae") common stock (see item 14 on Schedule A) and options to purchase Fannie Mae common stock options (see item 21 on Schedule A). Also, subsequent to termination of my employment with Fannie Mae, I will continue to participate in certain pension and deferred compensation plans maintained by Fannie Mae. Benefits under these plans are available generally to specified categories of Fannie Mae employees.

Specifically, beginning at age 55, I will be entitled to receive an annual pension benefit under the Federal National Mortgage Association Executive Pension Plan/Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law (the "Pension Plans") (see item 102 on Schedule A). The amount of this benefit will be determined according to a formula set forth in the Pension Plans, based on my compensation during the 36-month period ending on the date of termination of my employment with Fannie Mae.

Fannie Mae also maintains a deferred compensation plan, the Federal National Mortgage Association Elective Deferred Compensation Plan (the "Deferred Compensation Plan"), for certain employees (see item 12 on Schedule A). Pursuant to this plan, I have elected to defer receipt of a fixed portion of my compensation from Fannie Mae. I am advised that Fannie Mae intends to amend the Deferred Compensation Plan to permit

participants to elect to defer receipt of deferred compensation balances beyond termination of employment. If the Deferred Compensation Plan is so amended, I intend to elect to defer receipt of my account balance until age 55.

Fannie Mae will also continue to administer a 401k account on my behalf. Funds in this account are invested in "excepted investment funds," as such term is defined in the 37-278. Fannie Mae will not make any contributions to this account after termination of my employment (other than contributions required to be made in connection with the final period of my employment, which may be made subsequent to the actual date of termination, consistent with Fannie Mae's ordinary payroll accounting practices).

In addition to the employee benefits described above, I am advised by my counsel that Fannie Mae is considering vesting certain benefits, pro-rated to reflect my employment service to date, prior to my entrance into government service.

In order to address the issues raised by these Fannie Mae interests, if confirmed I will take the following actions:

1. As noted above, I will resign all positions with Fannie Mae.
2. I will divest all of the Fannie Mae common stock I own (see item 14 on Schedule A).
3. I will divest all of the Fannie Mae stock options I own (see item 21 on Schedule A).
4. I intend to insure Fannie Mae's obligations to me under the Pension Plans and the Deferred Compensation Plan by purchasing a policy of insurance or similar guarantee from a nationally-recognized insurance company.
5. I will recuse myself from any particular matter directly and specifically affecting the Federal National Mortgage Association and from any particular matter in which the Federal National Mortgage Association is a party or represents a party. This recusal does not include matters of policy, budgeting or regulation affecting the housing, financial services or mortgage banking sectors generally.
6. As a Director of the Boeing Company ("Boeing"), I have received director's fees, Boeing common stock (see item 15 on Schedule A) and options to purchase Boeing common stock (see item 103 on Schedule A). Pursuant to Boeing's Deferred Compensation Plan for Directors, I have elected to defer receipt of the director's fees (see item 11 on Schedule A). Under this

Plan, I will receive a lump-sum payment of these deferred fees upon termination of my directorship.

In order to address the issues raised by these interests, if confirmed I will take the following actions:

1. As noted above, I will resign from the Board of Directors of Boeing.
2. I will divest all of the Boeing common stock I own (see item 15 on Schedule A).
3. I will divest all of the Boeing stock options I own (see item 103 on Schedule A).
4. I will recuse myself from any matter in which the Boeing Company is a party or represents a party for one year from the date on which I take office.
5. As a director of Pfizer Inc. ("Pfizer"), I have received director's fees and grants of restricted Pfizer common stock (see item 22 on Schedule A). Pursuant to Pfizer's Nonfunded Deferred Compensation and Unit Award Plan for Non-Employee Directors, I have elected to defer receipt of the director's fees (see item 13 on Schedule A). In lieu of payments due to me under this plan beginning in 1997, I will receive a lump-sum payment upon termination of my directorship. Under the terms of Pfizer's Restricted Stock Plan for Non-Employee Directors, the restricted Pfizer common stock I hold will become unrestricted six months after termination of my directorship. In order to address the issues raised by these interests, if confirmed I will take the following actions:

1. As noted above, I will resign from the Board of Directors of Pfizer.
2. Upon lapse of the restrictions on the Pfizer common stock I hold, I will divest all of such stock (see item 22 on Schedule A).
3. Until I have sold all of my Pfizer stock, I will recuse myself from any particular matter having a direct and predictable effect on Pfizer. In addition, I will recuse myself from any matter in which Pfizer is a party or represents a party for one year from the date on which I effect such sale or the date on which I take office, whichever is later.

F. So long as I remain a member of the Visiting Committee of the John F. Kennedy School of Government, I will recuse myself from any matter in which the John F. Kennedy School of Government is a party or represents a party.

Yours truly,



FRANKLIN D. RAINES

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Old Executive Office Building  
Room 262  
Washington, D.C. 20502

Re: Franklin D. Raines

Dear Mr. Damus:

We represent Franklin D. Raines in connection with his nomination for the position of Director of Office of Management and Budget. Mr. Raines has asked us to communicate to you certain information regarding payments that Mr. Raines may receive from the Federal National Mortgage Association ("Fannie Mae").

As an employee of Fannie Mae, Mr. Raines is entitled to benefits under the Federal National Mortgage Association Stock Compensation Plan of 1986 and the Federal National Mortgage Association Stock Compensation Plan of 1991 (the "Stock Plans"), and the Federal National Mortgage Association Annual Incentive Plan (the "AIP"). Pursuant to the Stock Plans, Mr. Raines has received grants of (i) options to purchase Fannie Mae common stock ("Options"), (ii) restricted shares of Fannie Mae common stock ("Restricted Shares") and (iii) grants of performance share plan awards payable in shares of Fannie Mae common stock ("PSP Awards"). The Options vest, and the Restricted Shares become unrestricted, subject to schedules established under the Stock Plans at the time of granting. In addition, pursuant to the Stock Plans and the AIP, Fannie Mae has established various schedules under which Mr. Raines will be entitled to PSP Awards and AIP bonus payments (the "Incentive Payments") if Fannie Mae achieves specified financial goals. However, under the terms of the Stock Plans and the AIP, all of Mr. Raines' rights with

Page 2 - Robert G. Damus - May 22, 1996

respect to unvested Options, Restricted Shares subject to restrictions, and future Incentive Payments will be forfeited upon termination of Mr. Raines' employment with Fannie Mae.

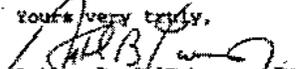
We are advised by Fannie Mae that when other senior executives have resigned from Fannie Mae, arrangements have been made by Fannie Mae, in recognition of past service to the company, to give the executives the economic value of various benefits that otherwise would have been forfeited because of their departure from the company. We are further advised by Fannie Mae that, in accordance with this established practice, it is likely that the Fannie Mae Board will adopt a resolution giving Mr. Raines certain of the benefits that he would otherwise forfeit upon leaving Fannie Mae's employment. In other words, it is anticipated that some portion of the unvested Options held by Mr. Raines will be vested prior to their contractually scheduled date of vesting, that some portion of the Restricted Shares held by Mr. Raines will become unrestricted prior to their contractually scheduled date of unrestriction, and that Mr. Raines will receive some portion of the Incentive Payments that would have been due to him on a date subsequent to his actual date of termination. We wish to emphasize, however, that the Board of Directors of Fannie Mae has made no decision with respect to giving Mr. Raines benefits that would otherwise be forfeited, and there is no assurance that Mr. Raines will receive any such benefits.

Assuming that Fannie Mae's Board decides to follow established practice and permit Mr. Raines to receive certain of the benefits that would be forfeited, the estimated value of (i) unvested Options held by Mr. Raines, (ii) Restricted Shares held by Mr. Raines the restrictions on which have not lapsed and (iii) Mr. Raines' rights to receive Incentive Payments, in the aggregate and pro-rated to reflect Mr. Raines' employment service to date, would have been reported as between \$1 million and \$5 million, if such assets had been reportable on Schedule A to Mr. Raines' Executive Branch Public Financial Disclosure Report on form SF-278.

Finally, we are advised that any action by Fannie Mae in this respect will be taken prior to Mr. Raines' entry into government service, and that any payments made to Mr. Raines as a result of such action will be made prior to Mr. Raines' entry into government service.

Thank you for your consideration in this matter.

Yours very truly,

  
Arthur E. Cavanaugh, Jr.  
of O'MELVENY & MYERS

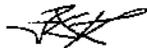


EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

September 13, 1996

THE DIRECTOR

MEMORANDUM FOR DARRELL JOHNSON  
DESIGNATED AGENCY ETHICS OFFICIAL

FROM: FRANKLIN D. RAINES   
DIRECTOR

SUBJECT: Recusal With Respect to Certain Matters

In connection with my confirmation, and in the interest of avoiding even the appearance of any conflicts of interest, I agreed to recuse myself from participation in certain matters. In compliance with that agreement, I hereby recuse myself from:

- (1) any particular matter directly and specifically affecting the Federal National Mortgage Association and any particular matter in which the Federal National Mortgage Association is a party or represents a party. This recusal does not include matters of policy budgeting or regulation affecting the housing, financial services or mortgage banking sectors generally;
- (2) any matter in which The Boeing Company is a party or represents a party (this recusal is effective for one year from today);
- (3) any particular matter having a direct and predictable effect on Pfizer (this recusal is effective until I have sold all my Pfizer stock); in addition, I recuse myself from any matter in which Pfizer is a party or represents a party for one year from the date on which I effect such sale or from today's date, whichever is later; and
- (4) any matter in which the John F. Kennedy School of Government is a party or represents a party (this recusal is effective for so long as I remain a member of the Visiting Committee of the John F. Kennedy School of Government).

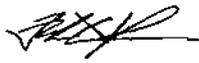
By this memorandum, I am advising OMB officers not to refer such matters to me. In this regard, doubts of OMB staff should be resolved in favor of non-referral pending consultation with and approval by OMB Counsel's Office. Further, by this memorandum, I instruct OMB officers to handle all such matters without my involvement.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503  
December 9, 1996

THE DIRECTOR

MEMORANDUM FOR: Darrell Johnson  
Designated Agency Ethics Official

FROM: Franklin D. Raines   
Director

SUBJECT: Appointment Matters

This is to notify you, pursuant to 5 CFR 2634.804(b), I have taken the following actions to comply with the ethics agreement accompanying my form SF-278:

1. I have divested myself of my holdings in the following investments:

Circuit City Common  
General Motors Class E Common (now known as "Electronic Data Systems")  
MSR Exploration Common  
Garden State Cablevision, Inc. Stock  
District of Columbia municipal bond - 7.37% 2005/6  
District of Columbia GO municipal bond 9.375%  
LFXR Partners, L.P. (Including Corporate Partners, L.P.)  
CCI Partners, L.P.  
Federal National Mortgage Association (FNMA) common stock  
FNMA stock options  
Boeing Company common stock  
Boeing Company stock options

2. I have resigned from the following positions:

Vice Chairman and Director, Federal National Mortgage Association  
Director, Federal National Mortgage Association Foundation  
Director, Robert Wood Johnson Foundation  
Director, Pfizer, Inc.  
Director, Manpower Research and Development Corporation  
Director, Rockefeller Foundation  
Director, The Boeing Company  
Director, Mitretec Systems, Inc.

3. I executed a recusal on September 13, 1996, carrying out the disqualifications referenced in the ethics agreement.

4. I have purchased the insurance policy referenced in my ethics agreement.



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503  
December 11, 1996

MEMORANDUM FOR: Darrell Johnson  
Designated Agency Ethics Official

FROM: Franklin D. Raines *FDR*  
Director

SUBJECT: Appointment Matters

This is to notify you, pursuant to 5 CFR 2634.804(b), I have taken the following actions to comply with the ethics agreement accompanying my form SF-278:

I have divested myself of my holdings in the following investments:

Centre Capital Investors, L.P.  
MLP Holdings, L.P.  
JP Holdings, L.P.

Chairman STEVENS. Senator Thompson, did you have a statement, or are you waiting to ask questions?

Senator THOMPSON. No statement; if the Chairman would proceed with questions, I think that would be fine.

Chairman STEVENS. If you have voted, why don't you ask your questions, and then I will come back.

OPENING STATEMENT OF SENATOR THOMPSON

Senator THOMPSON [presiding]. All right.

Mr. Raines, welcome. I mainly wanted to come by and show my respect for you and the office that you are up for here and look forward to working with you in the future. I did not realize I was going to be cast into the middle of this thing quite this way, but since I am—

Mr. RAINES. We could talk about Tom Clancy novels or something like that.

Senator THOMPSON. Well, that might be interesting, too.

One of the things, though, that I have been concerned about are some of the statements that have been made in some of the other hearings concerning the budget and the budget process in the out-years. We have been paying quite a political price, many of us who have been trying to cast tough votes, to come up with a realistic balanced budget and to read in effect that the President is coming up with his balanced budget based on purported substantial cuts in the out-years, not having to pay any price now, during an election year—no cuts now; in fact, increasing in some areas—and supposedly making drastic cuts in the out-years, which many people say they know is not realistic. And we have people come up here and say, "We have been told basically not to pay any attention to those out-year cuts because they will never happen."

I just want to express my concern about that. I think that that just adds to the cynicism that we see around this place. We are trying to do something that is real, and the President's is not the only budget that relies substantially on the out-years; he does more than some of the rest of us do, but it has gotten to be a game that I certainly do not appreciate, and I would welcome your comments on what you intend to do from your standpoint to make this a realistic and honest process.

Mr. RAINES. Well, Senator, I agree with you that there is a need to restore confidence among the American people about the seriousness of carrying out a solid fiscal policy over the long run, and I think that the Congress and the administration have much to be proud of in what they have achieved in the last 3½ years, reducing the budget deficit by 60 percent in the first 4 years of what will prove to be a 10-year plan to balance the budget. And I, too, am somewhat chagrined that the jockeying over future budgets has begun so early in a way that we are used to Washington—there is always jockeying over budgets and trying to gain position for future arguments—but I think it is unfortunate that the jockeying has begun so early with regard to budgets that we will not see for 2 and 3 and 4 years.

The President's budget plan as I understand it lays forth a path to get to a balanced budget that requires many difficult decisions. It is going to require real cuts in real programs. I view it as my

responsibility if I am confirmed to ensure that we keep on the path toward a balanced budget in the year 2002, and as well that we try to build support among the American people for the difficult decisions that all the elected officials are going to have to make to make those budgets a reality.

I intend to work with the other members of the Cabinet to ensure that we move forward in this in a responsible and professional manner and, as much as possible, try to achieve a broad-range agreement on the need to make these cuts so that the American people can see that the sacrifices necessary to achieve a balanced budget are being shared, but also that the benefits that come from a sound fiscal policy are being shared as well.

Senator THOMPSON. I think we all realize that there are tough decisions that are going to have to be made in both branches of government, and I think what many of us are calling for is simply facing up to that and making sure that we are dealing with honest commitments.

You are chagrined about discussion of out-year budgets and so forth, but balancing the budget is an out-year proposition; I mean, it is all based on what we are going to do in the out-years, and that reflects on what we do in the current fiscal year.

So for the benefit of the Chairman and the Ranking Member, I simply raise my concern on some of the reports we had gotten in some of the testimony from various agency heads that basically, the drastic out-year budgets cuts that we have heard about, they really do not have much intention to abide by; they are not really real numbers. And that does not do much for the process.

I will ask one more question. I am presiding right now, but I got somebody to sit in for me for a couple minutes. As you know, the Committee is charged with overseeing the Government Performance and Results Act, which I think still probably a lot of people are not aware of. But I think it is very important in measuring the results that we are getting from some of these programs.

Do you know how any of the pilot projects have been going? It has not yet been fully implemented, of course, but there are several pilot projects; are you familiar enough with them to know of any noteworthy successes yet, and how useful do you think this legislation will be for us?

Mr. RAINES. Well, Senator, I think the legislation will be very useful. I think it is vitally important that the agencies not only develop strategic plans, but also develop the means to monitor their performance, and that is going to require a lot of work because historically, agencies have only been required to monitor their spending and not their results. They will have to develop the internal systems necessary to track actual performance, to define what the performance should be ahead of time so that it can be tracked in the future. But I think it can be done.

One example of an agency that I think has a head start is the Social Security Administration, which already produces an annual statement which has not only financial statements, but also a list of what they consider to be their major performance attributes and how they are doing against them. They range from speed of answering the telephone all the way to how quickly they are adjudicating cases. And other agencies I understand are looking to their

example and are working with them in the various councils that OMB brings together.

But I believe that the Act is very important and one that I have a significant interest in because this is the way we run our company, by setting goals and objectives at the beginning of a 1- to 3-year period, and then measuring against those goals. And we compensate against those, we report to our board against those, and it is a tremendous management tool and one that I hope, as we fully implement the Act, will become ingrained in the government in a way that other techniques have not become ingrained, because this is an Act, it is not just a preferred approach by one administration.

So I am very optimistic, and I intend to work very closely with the deputy director for management.

Senator THOMPSON. I appreciate that. Thank you very much, and good luck to you. I will turn it back to the Chair, Mr. Chairman.

Chairman STEVENS. Thank you very much for coming; I know you were coming from another duty, and I appreciate it.

Mr. RAINES, my personal experience comes from the days of Sam Hughes, when it was the Bureau of the Budget, when Eisenhower established a definite policy of no political activity on the part of the people at Bureau of the Budget. I am constrained to say that you are starting off on a very political level in your statement. To what extent do you intend to be involved in political activities in this election?

Mr. RAINES. Mr. Chairman, I think traditionally the OMB Director has not been an active participant in political activities, and I would expect to continue that tradition. But I would also say that I hope my statement would move the discussion on these issues more toward what I think has traditionally been the case with OMB and the Congress, and that is to look for areas of agreement and areas focused heavily on the policy implications and less on those that might be simply for political advantage.

Chairman STEVENS. Well, I think the number of people leaving the Congress and particularly the Senate reflects the fact that that has not been the situation in the past 4 years. We have found that the majority in the Senate in particular is frustrated—either my friends on the other side of the aisle stop bills through filibuster, or the President vetoes them. We have only had two important bills passed in 2 years.

I think it is very much of a concern to my colleagues as I have talked to them on the floor about my having this hearing today, over whether you should be confirmed just to add another political arm to the President's campaign. So I would urge you to consider that as we try to get this nomination confirmed.

The tradition of this office has been totally nonpartisan, and the statement you just made is very partisan.

Let me go on. We have had reports now from GAO on the wholesale duplication of fragmentation of functions in the executive branch. On the average, responsibility for performing major Federal missions is scattered now in six or seven agencies, the GAO has said. Our Committee recently held hearings examining whether natural resources areas have been spread across four agencies—the Forest Service, the Bureau of Land Management, the Fish and

Wildlife Service, and the Park Service. They actually have, within each of those functions, duplicating agencies to the other three—and you can add the Corps of Engineers beyond that.

Now, I have been told that, in answer to previous questions that have been submitted to you, you have expressed skepticism about the usefulness of a bipartisan restructuring commission. My predecessor, Senator Roth—I had hoped he might be here—and Senator Glenn have repeatedly sponsored such a proposal, and Senator Glenn and I are still trying to see if we can get one through this Congress.

Am I to take it that you have expressed an opinion that you would report to the President that you would recommend against a bipartisan restructuring commission?

Mr. RAINES. No, Mr. Chairman. My view on restructuring issues in the Federal Government is that it is important that we focus on the purposes that we are trying to achieve by a structure of the government. It is not always clear that you will want to have functions that are organized according to one particular form.

Let me give you an example. When the Environmental Protection Agency was created, the theory was that it was important to have all of those entities that were most important in the environmental enforcement field working together in one agency, and President Nixon led the effort to create the Environmental Protection Agency.

On the other hand, the Veterans Department was created, and the Veterans Administration was created not around a problem such as health or environment, but around a group of beneficiaries—veterans. We believed that it was appropriate to organize so that veterans had the focus, and they were not just simply part of working on health or on pensions or on education across the board.

So that the form of departments I think has to depend on what it is that you are trying to emphasize. My point is that you have to look at those on a case-by-case basis.

It may be that a commission is an effective way to do that. At least one of the Hoover Commissions had a substantial effect; the other did not. In the Carter administration, there was a substantial effort made and a lot of energy expended on reorganizing, and in fact, the number of government agencies increased as a result of that effort.

My only point is a caution that whatever mechanism is chosen, it is carefully designed to reflect what ends Congress seeks from the particular programs so that we do not end up with a situation of a commission or a President making proposals that Congress rejects because they emphasize the programs in a way that Congress does not intend.

Chairman STEVENS. Well, I really have some questions about that, but I do not know if this is the time to go into it in detail.

Do you know Arnold Penzias at Bell Labs, the astrophysicist who received the Nobel Prize? Are you familiar with his book, "Harmony," that talks about the power of information technology as a restructuring tool in private industry?

Mr. RAINES. I am not familiar with that particular book.

Chairman STEVENS. He points out that private industry has been able to implement new technology at a far greater rate than the

executive branch. We are having a series of hearings on the IRS Modernization Program, TSM. I am not sure you are familiar with that—are you familiar with it?

Mr. RAINES. Yes, I am.

Chairman STEVENS. I think it has cost us several billions so far, and by the time they got the computers installed, the computers were out-of-date. They are worse off now than when they started. They have been advised by several entities to desist and to get some outside advice, and they continue to indicate that they are capable of doing it themselves. But the real problem is that had they been an arm of any major company, they would have failed in this period of time. And the real problem with restructuring is that we do not see any indication that there has been an implementation in the executive branch of the technologies that have swept private industry in the last 4 to 5 years.

Mr. RAINES. I agree with you totally. I think the Federal Government, which in the 1960's was a leader in the use of information technology, is now lagging badly, and as information technology improves, the Federal Government is only getting further and further behind.

I think it is vitally important for an organization such as the government, which deals primarily in information and dollars, to master these technologies. It is something that we have done in our company that has made a tremendous difference in our ability to actually perform for our customers and for homeowners.

So I view it as one of the roles of OMB to try to lead the effort to improve the use of information technology throughout the executive branch. We have to find some cases where we can get some successes and then build on those successes by example to the other agencies.

But I also know that it is very hard. The Carnegie-Mellon University has done a study indicating that 90 percent of the major information technology projects in the private sector fail. Mastering these technologies is not easy. Trying to do that in programs as large as the Federal Government is harder still; but nevertheless, we do not have a choice. Unless we do so, the level of service to our citizens is going to decline, the costs of government are going to be too high, and the dissatisfaction with performance is going to continue.

Chairman STEVENS. Well, I hope you will keep an open mind about the commission. I believe we will send the President a bill this year to create such a commission, which will have really sweeping powers. I hope that will be the case. We will have to wait and see.

Let me ask you a series of questions, and then Senator Glenn will be back in a moment, I am sure, and Senator Akaka is here as well.

The President issued Executive Order 12868 on September 30, 1993 requiring agencies, whenever feasible, to seek the views of appropriate State, local and tribal officials before imposing regulatory requirements that might significantly and uniquely affect those government entities. I am informed that that has not been followed. Are you familiar with it?

Mr. RAINES. I am somewhat familiar with it, Senator. The indications I have are that there have been a number of cases in which that opportunity has in fact been made available, but there is a lot of encouragement to OMB to keep working harder to ensure that all of the relevant entities are made aware of their opportunity to participate. It is something that I know OMB is working on and will continue to work on to ensure that the opportunity to participate in those matters is accorded to them.

Chairman STEVENS. There is another Executive Order 12875, enhancing the intergovernmental partnership, in October of 1993. It does not seem to have been made a priority by OMB. I have suggested that we implement the President's suggestion by law, and that has met with some resistance here. I cannot quite understand why the President would issue an Executive Order which has the effect of law, but there people here who refuse to make it a law.

I would urge you to take a look at that because I intend next year to introduce legislation to assure that this will become law, because I do not think the actions that have been suggested by I think three recent Presidents, that the views of State, local and tribal officials should be obtained prior to the issuance or even publication of proposed regulations and changes—I would hope you would take a look at those and see what might be done to enforce them without a law.

Mr. RAINES. I will do so.

Chairman STEVENS. Now, we have a lot of problems coming at us now with the baby boom generation and whatnot. I am interested in trying to work out the relationship between the National Performance Review and the Office of Management and Budget. It seems to me that your agency has lost leadership to the National Performance Review, and I would like to ask you about that when I get back. I will yield to Senator Glenn now.

Senator GLENN [presiding]. I apologize for the truncated nature of the way things are going around here, but this is not a very usual day.

Let me address the management function at OMB briefly. We have some examples of where there has been increased management emphasis. This administration really getting into the implementation of the CFO Act is one example. The Vice President's National Performance Review; John Koskinen and his work with the PCIE; the President's Management Council; Alice Rivlin's OMB 2000 Project to integrate OMB management oversight with the OMB budget review process—and that has been a difficult thing to bring together and do meaningfully—would you comment on those and on what you plan to do with the "M" in OMB; because it has been something that I have emphasized for a long time around here, or tried to, and I do not think they do enough of it yet. I know the pressures over there in the office you are going into. You have got to get the budget out—that is something that has certain deadlines and so on—and too often, no matter what the intentions are, I think management issues are things that can be set aside while the pressures of the budget are met.

Can you give us your views on how you plan to deal with the "M" in OMB?

Mr. RAINES. Senator, I believe that the management responsibilities of OMB are tremendous and will only increase as the effort moves forward to balance the budget, because many of the savings and improvements necessary to balance the budget in a realistic way are going to come from managing the government better, from being able to do more with less, to ensure that we can achieve our goals without having to spend as much money as we have spent in the past, and also to help evaluate programs so that hard decisions can be made by the President and Congress.

So I think it is vital. I think every business in the United States has learned this lesson in the last 5 to 10 years. They used to focus a lot on revenue—if we could just get enough revenue, all of our problems would be solved. What they learned when they become part of a global economy was that seeking revenue alone was not enough; they had to seek the kinds of efficiencies and continuous improvements so they had a product that was a superior product that would ultimately produce revenue, but not one that they would simply send out with defects, get the revenue in the short run, and end up trailing the marketplace.

I think the Federal Government has historically focused a lot on revenue and outlays—how much comes in, how much went out—with very little attention to what happened as a result. I do not think the American people are going to permit that anymore, and I think it is important to respond to that, and I think OMB has to take the lead. There is no one else who has the government-wide perspective that OMB has; there is no one else that has the career staff with the institutional memory that OMB has; and most importantly, there is no one who has all of the resources that are available to agencies together with the management expertise and that can bring them together.

So I think it is important; I think it is a vital part of the OMB Director's job, and it is a part that I am going to spend a great deal of time on.

Senator GLENN. I am glad to hear that because we look forward to working with you on these areas. You mentioned revenue and spending, and very seldom do we ever concentrate on that big gray area of efficiencies of government—and I do not say that as something that is an oxymoron-type statement; I think we can have efficiencies in government, whether anybody else does or not. We have given OMB the tools. Ten or 12 years ago, OMB was sort of out there on their own, and they could do it or not do it. Now, we have the tools. It is in law. It is there. It is required. And that is the reason I think you just have a golden opportunity to go ahead and do some of these things to get better efficiencies in the government.

One of the areas that is of biggest import right now, too, and is just in an expanding mode all over the place is information resources management, IRM. I do not know if you have any thoughts about how we are going control this, but in this area of computers and Internet and international trade and flow of data and money, and just all kinds of things, we are in a time period where the flow of information is almost inundating.

Just as I was walking out, the Chairman was referring to how we are going to cope with some of these things. IRS has big problems managing our tax system and modernizing it. That comes at

least partially under OMB's direction, through the Treasury, of course. But do you have any ideas in that area? You have been involved in information resources management in some of your previous incarnations already, so could you share some of your views on that IRM area with us?

Mr. RAINES. Yes, Senator. I spent the last 5 years leading an effort at Fannie Mae not only to totally revamp our use of information technology, but to revamp how information technology is used throughout our industry. One example is that we set for ourselves a goal to reduce the cost of originating a mortgage by \$1,000, or 40 percent. And we did that at a time when we did not know exactly how we were going to get it down by \$1,000, but we knew that information management was going to make a difference.

What we have done is restructure and create new processes and then automate these new systems so that we now have the capability to take an application and give someone an approval on their loan within 30 minutes. When we began 5 years ago, it was 2 weeks to 3 weeks. We are now down to 30 minutes. I might point out that we are also now getting complaints that it is taking a long time because once people see that they do not have to wait, that things do not have to take that long, then their demand for improvement continues.

I think what we have to do in government is pick some areas where we can have some successes, where the public will feel the success, and showcase those as areas where it can be done. Then the rest of the government will begin to see that it can be done and see examples of it being done, and follow.

The most important observation that I have made over the past 5 years in this whole area is to focus on producing some real functionality in a short period of time. I simply do not believe that it is possible to design a system today to be completed 10 years from now and be happy with that system when you get to the end of the 10 years. Things change too quickly, as you mentioned. So we have to design components that can work together and that can be made useful for managers very quickly, and that is going to require a sea change in how the government procures and implements information technology, just as it is requiring the same change in business.

One advantage we have is that business is paving the road, so we have an idea of which way to go; we just have to begin to implement it.

Senator GLENN. Another area that you are going to be involved in is coordinating the views of different departments and so on. We get into some real quagmires here sometimes. Last summer, this Committee was informed by the fiscal 1996 transportation appropriations bill that they wanted full waivers of procurement and personnel laws for the FAA, for one department. We were told that these provisions were requested by FAA and had the support of OMB, yet they conflicted with the work that the OFPP, Federal procurement people, had done to help pass reasonable procurement reforms like the 1994 Federal Acquisition Streamlining and Reform Act.

There were bipartisan concerns on this Committee about these waivers, how they were proposed, and I do not know how you get

your arms around that one, but somehow, under this management function, you really have to coordinate these different functions of government to make sure that stuff like that does not get over here. It makes the administration look dumb to begin with, plus it just flat conflicts with a lot of other laws.

I do not know what your comments would be on that, but I hope you will work on that, and work with the Committee. Your tentacles are going to go into every place in government, and they have got to understand that you are not going to have stuff like that come up again. When we have to pull it out and make an issue out of it here, it makes OMB look stupid, number one, and it makes everybody else behind that, who did not coordinate with other people, look stupid, number two. So I hope you can coordinate things like that over there, too.

Mr. RAINES. Senator, I appreciate your caution there, and I will certainly do my best to ensure that that happens. I would also hope that the Members of the Committee, when they see us about to make a big mistake like that, would give me a call, so that we can turn it around as quickly as possible, because sometimes these things do not appear as quickly on the screen as we would like—

Senator GLENN. May I give you a personal assurance—when I hear about them, you will get a call. [Laughter.]

Chairman STEVENS. Senator Akaka.

#### OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I am delighted to have Mr. Raines here.

I am pleased with your straightforwardness and your complete resume, where you point out where you started working in a grocery store and finally at Fannie Mae, the largest corporation, which tells us that you have great experience in this area of management, and I am pleased with that.

I also want to tell you that I was pleased that OMB held a hearing in Hawaii, which we did in July, 1994, relating to Directive 15. I know you recently talked to one of my staff about Directive 15, and I am pleased about that, too.

What interests me is your background, where you came from in the private sector, and now back into the agency. With all of that, I wonder—you also mentioned that performance is more important than vision—my simple question is what do you expect to do in the next 6 months as OMB Director?

Mr. RAINES. Well, Senator, I think OMB will keep going the way OMB does through all elections, which is to begin preparing for the next budget, which has to be presented to Congress at the beginning of the year. So if I am confirmed, we will be working throughout the summer and the fall, putting together that budget. Instructions have already gone to the agencies, so a review process will begin.

Being a professional agency, OMB is focused on its job of getting that budget together, but also on continuing the range of activities that have begun over the last 3½ years on the management side. I think one of the important things about OMB is that it provides a sense of continuity to the government, and the fact that it is predominantly a professionally-staffed agency I think gives it the op-

portunity to assist the sitting President or an incoming President in fulfilling their function to have a budget ready shortly after the next Congress is seated.

Senator AKAKA. Thank you. I also want to welcome your family.

Mr. RAINES. Thank you, Senator.

Senator AKAKA. Thank you, Mr. Chairman.

Chairman STEVENS. If I could get back to my question, Mr. Raines, you mentioned the National Performance Review, and it seems to some of us that the management agenda has now been moved over to the National Performance Review rather than to OMB. Do you contemplate bringing it back?

Mr. RAINES. Well, Senator, I believe that in the natural course of things, in a sense, OMB's role has expanded in the last year or so. National Performance Review staff has declined. OMB has provided support for the National Performance Review all along, but I think the percentage of support that it provides is greater now than it was at the beginning.

I think they have had a history of working well together with the National Performance Review, and I think the Vice President has done a good job in highlighting management issues, which sometimes do not get the kind of attention and sustained attention—

Chairman STEVENS. Well, there are some of us who believe that the administration has not followed the law. The National Performance Review really was not contemplated by Congress. It really is a concept, I think, at least to the extent that it has gone, in taking over the management function.

Mr. RAINES. Well, I think what the National Performance Review really has done is to galvanize the attention of the administration around a management agenda, which is often very hard to do. And the fact that the Vice President has taken the lead in saying to the Cabinet, "You must focus on management issues," I think has been very helpful. But I think OMB has statutory responsibilities and statutory offices for management and has to perform those statutory functions based on its best ability.

Chairman STEVENS. All right. What about the Office of Information and Regulatory Affairs at OMB; are you familiar with that?

Mr. RAINES. Yes, sir.

Chairman STEVENS. It has theoretically had the job, as I understand it, of carrying out those two Executive Orders that I mentioned before, but to my knowledge, there has been no report submitted to Congress with regard to what this Office of Information and Regulatory Affairs has done.

I am contemplating putting an amendment on a bill that is pending before the Appropriations Committee, as a matter of fact, to require OMB to report to Congress periodically on the operation of the Office of Information and Regulatory Affairs so that we can really know how these Executive Orders are enforced. What would you think about that?

Mr. RAINES. I have no objection to the office providing periodic reports or testifying before the Committee or giving informal information. I think it is vitally important that the Committee have access to what OMB is doing and how well we are carrying out our job.

Chairman STEVENS. Senator Glenn, do you have any further questions?

Senator GLENN. No; I just have about a 30-second comment.

Chairman STEVENS. Well, let me make this statement. Senator Domenici is a Member of the Committee now, and he has asked for an opportunity to present questions to Mr. Raines. He is involved in managing this bill on the floor, and we are either going to have to reconvene later this evening when this bill is over, or set the matter for further consideration tomorrow at 4 o'clock. I have got to consult with him about what his plans are, but he is entitled to ask questions. But I do think that it is the prerogative of a Member of the Committee who is also a chairman to ask for some consideration, so I will consult with him upstairs.

Senator GLENN [presiding]. I was going to comment on the idea of the commission. I have backed this for some time, and I do not think it is something that we should be scared of in government. The Hoover Commission is probably the only one of these commissions that really has worked the way I think they should work, and it changed the direction of government and the organization of government to a considerable degree.

We had the Ash Commission, as you mentioned, back in the Carter years, and the Grace Commission got over into policy matters more than efficiencies of government, and I think that is where they foundered and went astray.

If we were starting over again to organize the Federal Government, I do not have much doubt we would organize a lot more along functional lines than we are right now. We have functions of government split up and proliferated all over a dozen different departments and agencies of government, and they have to coordinate. We just waste an awful lot of time and effort and money trying to even locate where all the different responsibilities are.

So I see a commission, and the only debate back and forth that we have had on this Committee has been whether it should be something where you say, OK, they have 6 months, or they have 8 months, or they have a year to do this and get a report in, setting certain dates and times for it.

My view of it has been a little different. I think that if we are going into this thing, we should go into it with enough resources and people and expertise, and let them really get into the meat of this thing and maybe come up with some real, Hoover Commission type recommendations.

So that is what we are looking for, or I am looking for, certainly, out of this whole thing, is something that will let us reorganize hopefully along more functional lines. And I am under no illusions that we will come out with the neat, little boxes that we might like to see. You know, you can say everything should fit under five or six different boxes—human resources, natural resources, defense, economics of the country, and so on—you can make about five or six boxes here and come up with those functional alignments, and everything else we have today falls under one of those, so it makes a different way of managing it.

Now, what you cannot do and what I do not think we should do is just sort of rearrange the deck chairs and put a new level of control up here. All we have done is complicate things, and that does

not do anybody any good. So we have to guard against doing that. I would rather see us stay the way we are now than to put another level of control in there that does not do any good as far as streamlining things.

Now, at the same time, the Vice President's National Performance Review is moving somewhat toward trying to simplify some of these things, and we have been working with them on this Committee also.

So I just wanted to put your mind at ease, at least as far as I am concerned, about the nature of this commission once it gets going. I am hoping that we can keep it on a bipartisan and a big target basis here of redoing a lot of the functions of government more into functional areas, which I think would be far more efficient than anything we have right now.

That is a statement and not a question, obviously. I do not have any further questions, really. The Chairman mentioned early on about how we run into filibusters or vetoes these days, it seems, and that he was concerned about your statement being a little too political. I think your job over there is political in one respect, to the nth degree—just as political as it can possibly be—and that is that the President has stated certain objectives for this administration, and he was elected on that basis, and you will be one of the key persons to carry out those promises to the American people—and that is politics. Now, the other type of politics that I think might be what the Chairman was referring to, as far as you going out and trying to make a 50-State tour on the political bandwagon and giving speeches in the back of the campaign train or something like that, I would hate to see anybody at OMB doing that, too. But I think there is a difference there, in politics of one kind and politics of another kind, and I just wanted to make a comment on that also.

Chairman STEVENS. Have you concluded, Senator?

Senator GLENN. Yes.

Chairman STEVENS. Mr. Raines, I have conferred with Senator Domenici and confirmed that they are going on now to debate other matters on the floor, and he cannot come down here at this time. I do not know if other Members of the Committee wanted to be here—this is sort of a sudden thing, we thought we could get through. But I will have to ask you, if you will, to return at 4 o'clock tomorrow afternoon in room 342 in the Dirksen Building, which is our regular hearing room. Hopefully, we will not be jack-in-the-boxed tomorrow and we can all be there at the same time.

Thank you very much.

Mr. RAINES. I will be there. Thank you, Mr. Chairman.

[Whereupon, at 5:37 p.m., the Committee was adjourned, to reconvene on Wednesday, July 24, 1996, at 4:00 p.m.]

## NOMINATION OF FRANKLIN D. RAINES TO BE DIRECTOR OF THE OFFICE OF MANAGE- MENT AND BUDGET

WEDNESDAY, JULY 24, 1996

U.S. SENATE,  
COMMITTEE ON GOVERNMENTAL AFFAIRS,  
Washington, D.C.

The Committee met, pursuant to notice, at 4:11 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Committee, presiding.

Present: Senators Stevens, Domenici, Glenn, and Lieberman.

### OPENING STATEMENT OF SENATOR STEVENS.

Chairman STEVENS. The Committee will come to order.

Mr. Raines, I appreciate you coming back. Senator Domenici and Senator Glenn are here. I am going to have to leave, unfortunately. I have been called to another meeting now.

Before I yield to Senator Domenici, I have one question to ask. You said that you recounted the changes that had been brought about by the administration in the National Performance Review. I asked our staff to look at that last night. The administration claims credit for 272,000 FTE reductions, and 65 percent of those were in the Department of Defense through cuts that we made, Congress made, and reductions in the Department of Defense, but it is certainly not an NPR accomplishment.

Actually, in our opinion, as we looked at it, my staff indicated, and I believe it is right, that Senator Glenn and Senator Roth probably deserve credit rather than NPR because the Government Performance and Results Act came from this Committee, and it really has resulted in the restructuring of the whole Government. The compliance for that Act is certainly not an initiative of this administration.

So what I want to ask you is how do you recite that the administration takes credit for things that happen before the administration really came into office.

### TESTIMONY OF FRANKLIN D. RAINES, NOMINATED TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. RAINES. Senator, I don't believe that I actually cited the statistics.

I know that the NPR has done an annual report, in which they have indicated what their accomplishments are. But I think that as I have read their reports, they indicate significantly greater at-

tention on the executive side to the kinds of issues that this Committee has been dealing with over the last 5 to 10 years. So it is that, that I applaud, which is that the Vice President has given attention to management questions which I think have not gotten sufficient attention at the White House level in the past.

Chairman STEVENS. In our relationship, your office and this Committee probably have the closest relationship, as I indicated yesterday. I do hope that you are confirmed. I think you have the background to take this office.

I am just talking to put a few shots across your bow and suggest to you that Leon Panetta is a very good politician. I hope you are a good manager and a good administrator and that politics stays out of OMB during your period as its director because we have got to work things out somehow in these collisions that take place, and in the past, they have been worked out when we have had a non-political OMB. Politics and the White House and politics in the leader's office, that is fine, but when it comes right down to it, we have to work it out in the final result. So I hope we can keep it on a non-political rhetoric basis.

Mr. RAINES. I agree with you totally, Mr. Chairman.

Chairman STEVENS. Thank you very much.

I am going to leave this, and if you gentlemen will excuse me, I will go to a meeting concerning some problems that have come up. I would ask that you have indicated when we go out that, of course, we have a meeting tomorrow morning. Thank you very much.

It is my intention to take this up without any further fanfare tomorrow morning after this is over.

#### OPENING STATEMENT OF SENATOR GLENN

Senator GLENN. I have just one remark before we start with Senator Domenici, and I have to go to another meeting, also. So, Pete, you are going to wind up as the sole hearing here.

We talked briefly when Senators had gone up to vote yesterday afternoon about politics. You and I discussed that very briefly. I think there are two kinds of politics over at OMB. One is carrying out the politics of the President. That is politics, of course. He was elected to do certain things. People elected him, and he is trying to carry those out. It is your job to put it together with the dollar figures involved.

The other, as I said yesterday, was getting on a whistle-stop train someplace and having the head of OMB out doing a campaign stop in the back end of a train or something, and I think that is the kind of thing that I would be critical of, too.

I don't think the idea that politics has entered into OMB is anything brand-new. All one has to do is go back a few years and read the David Stockman book if you want to see how bad things can really get. I hope we use that as a thing never to be repeated over there again because that is where there was deliberate deception of the Congress, admitted after the fact, admitted, and I just think that was bad stuff. That was one of the bad chapters of American history over at OMB.

So there are two different kinds of politics to me. One is carrying out the President's policies. That is what you are charged with

doing. The other is doing the traditional straw-hat-type campaign stop which I think the head of OMB should probably stay out of.

As to the 272,000 figure, the figure I had was that there were about 240,000 jobs that had been reduced, with the objective by the end of this year of 272,900, which was the original objective of what the National Performance Review thought they could get down to.

I think while some of the things we did here on this Committee on buyout legislation did help with some of that buydown, I think it has been the policy of this administration, and a good one, to move ahead with that, and I think they have done basically a very good job with it.

Senator Domenici, you are chairman.

#### OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI [presiding]. Thank you very much.

Mr. Raines, let me first say it has been my pleasure to know you in the past, not as well as some have, and I certainly don't intend to question the justification for your appointment in terms of background and information skills and capability. That is not the purpose of my inquiry today, and I apologize for the one additional day of delay.

Our Chairman has indicated he wants to get the matter concluded, get the vote on your confirmation or not, and as I have already indicated, I will finish whatever I have here this evening, but I am concerned about some treatment of a Republican budget versus a Presidential budget in terms of what is said about the two and where the administration would seem not to want to admit what their budget really means, but would like to say that ours means what ours means, even though that is in future years, for if this President and the Democrats did not avail themselves of our 6-year budget numbers in the discretionary accounts, they would not be able to say we have cut education because it is our 6-year budget with education numbers in, albeit we have to appropriate every year, that permit the attack on our budget.

Now, what disturbs me greatly is that this administration has a budget, also, and this President takes great, great delight in saying, using the same economics that you use, we are in balance like you are, and that is impossible without cutting some discretionary accounts using the same definition of cutting that I just used about education, without using the same definition of cutting veterans or cutting the Environmental Protection Agency or cutting National Institutes of Health. All of these must be cut by you in your budgets in the same manner over 6 years that we cut ours, and one can say the administration chooses to say, oh, we are not really cutting them yet because the year hasn't arrived yet.

If that is the case, it is improper for you to say we have cut education for the year has not yet arrived for those cuts.

Having said that, I guess I want to ask you what your instructions are going to be with reference to your budget, to those putting your budget together out there in the minions of the agencies. What are your instructions going to be to them with reference to what percent must they cut in the year 2001 and 2002? Is it 20 percent or 10 percent? What percent?

Mr. RAINES. Senator, as you know, I have not been part of this debate up until now and am new to this discussion. However, I am aware of the long and important leadership that you have provided on these very questions for a number of years, going back well before this administration, and particularly focussing attention on the long-term impact of the budget deficits and the need to confront the long-term impacts. So I would just like to begin by recognizing that long experience of yours.

With regard to future budgets and budgets that I will have a role in if I am confirmed, the first step has to do with the instructions that OMB gives the agencies as they plan for the next fiscal year and the out-years. They have released that guidance to the agencies and have indicated that they need to not only suggest what their desires are in terms of spending, but have also indicated that they need to show what would happen if there were cuts of 5 or 10 percent in all the agencies of the Government, not just selected agencies in the Government. So it will give the President a range of choices as to how he can meet the out-year challenge that remains, which is a substantial challenge and will require substantial action to bring the budget into balance by the year 2002.

The President's ultimate decisions with regard to his budget will be driven not just by the expenditure side, but also by what occurs on the revenue side. As we have seen in the most recent mid-session review, there has been good news on the revenue side which has caused the budget deficit in 1996 to be substantially lower than anyone has projected as recently as 2 or 3 months ago.

So, as we move from projections of economic activity to actual performance of the economy, we will have a better idea of how deep the cuts will be. There is absolutely no question that substantial reductions are going to have to be made in discretionary spending between 1998 and the year 2002 in order to balance the budget under anyone's economic assumptions.

Senator DOMENICI. What I want to ask you is what we have put up here on this one, the National Institutes of Health. Here is what it says down here. You can't read this. So I will read it to you.

"The President's budget as we estimated by the Congressional Budget Office includes the President's discretionary trigger." Now, the trigger says that this is what you are going to do in your budget to the National Institutes of Health. Whacko.

Now, this is what is reported out by the Senate. There are two reasons for this by the conference: One, the President balances the budget using the same economic assumptions and the same CBO estimates as we do by saying in these years we will have to do this to them to get in balance.

I ask you, would it be just as fair for me to say to the American people that the President contemplates reducing the National Institutes of Health's funding to come to a balanced budget in the same manner that the Congress did, would have to reduce it by 20 percent which is what that red line says? If it is not fair for me to say that, why is it fair for you to say that the U.S. Congress contemplates reducing education by 20 percent, whatever the number is, when, as a matter of fact, it is exactly the same kind of reduction to get to balance as that, just as objective and just as loose?

Mr. RAINES. Senator, as you know, I have not been part of this debate nor in setting the terms of the debate. I understand that your chart is merely illustrative with CBO taking numbers and then extrapolating them to the National Institutes of Health, because the President has not actually shown a number like that in his budget. But the big difference here is what will the economy look like when we get to 2000, 2001, and 2002.

Senator DOMENICI. That may be the difference as to what that red line looks like ultimately, what you just said, but it is not the difference when the President says what our budget will do using a set of economic assumptions and we turn around and say let's use the same economic assumptions on your budget, Mr. President, and it shows that has to happen.

What I am saying is that is just as real under that set of assumptions as the allegations about a 6-year Republican budget, is it not?

Mr. RAINES. Again, Senator, it is very hard for me to comment on the back-and-forth on this issue not having been part of it, but I think what I can say is that if you look at the range of estimates of economic estimates, CBO is on the more conservative end of the range. OMB is on the more moderate end of the range, and the performance to date has exceeded both the expectations of CBO and OMB.

So I think in terms of what is the likely outcome, and we all know that economic estimates this far out are subject to great variability, the likely economic outcome is likely to be that there will be a need for fewer cuts than the CBO estimates call for, in which case the trigger would not require cuts as great as they are shown on the chart, and the Congress when it gets there will not have to make as great of cuts, and the budget resolution won't have as large a cut in them as well.

Senator DOMENICI. It might be the same for the discretionary accounts that Republicans have put on their budgets?

Mr. RAINES. I am sorry. I didn't understand.

Senator DOMENICI. Would that not be the same for the extent of discretionary cuts required by the Republican budget, that premise?

Mr. RAINES. Absolutely, Mr. Chairman. If we could find a mechanism where we could agree on the estimates, I think a lot of this problem would go away. If we could have a common starting place as opposed to having one analytical agency in the Congress and a different analytical agency with the President, having different numbers, and then our trying to work them out in public as to what does this number mean and that number mean. I think if we had one set of numbers, this would become a lot clearer issue and we could then focus all of our attention, our mutual attention, on actually causing a balanced budget, which I think is the hard thing.

The process of estimating 6 or 7 years out is relatively easy. We are talking about \$11 trillion of spending between now and then, and estimating a difference of 1 percent is \$100 billion. Just 1 percent in the last year is \$100 billion. These numbers are all very large. They are all subject to very large changes. I would love it if we could have a circumstance where we can agree on a path so

that the OMB, the CBO, the administration, and the Budget Committees have a common basis. I think much of the difference that currently exists could be eliminated.

Senator DOMENICI. No, that really isn't true because the President ended up saying I don't agree with your economics, I want to use my own. He said that all the way through, and then he finally said, OK, you have forced me, I will use yours. So he used ours, OK?

What I am asking you, since the President used the same economic assumptions as we did to get to balance and a credit for saying it is in the exact same way the Republicans have done it, I ask you if you will return to your office and provide for us by tomorrow morning when you are going to be either confirmed or not, you go to your book and your computers and you do that. You take the President's triggered budget, which is exactly based on the same assumptions as ours, and you tell us the following.

If it is hard for you to remember this, it will be transcribed, and we can hand that to you. You tell us, assuming that you are going to hold harmless the four programs that you want to protect, so that you can say that you are not cutting them, and you know which ones they are, education, environment, whatever the ones you have said, you hold them harmless in the manner the President has said he is going to hold them harmless, and then you tell this Committee how much the remaining discretionary accounts are going to have to be cut under your budget in the year 1998, 1999, 2000, 2001, and 2002. Will you do that for us?

Mr. RAINES. Senator, as you know, I am not at OMB. So I don't have the ability to command the resources of the agency, but I will make the request.

Senator DOMENICI. Are you over there at all?

Mr. RAINES. No, sir. As I said to the President, I was going to keep my day job until this one came through.

Senator DOMENICI. Do they have an acting director over there?

Mr. RAINES. There is an acting director.

Senator DOMENICI. Would you communicate with that acting director tonight? It is a very simple request. Tell him that Senator Domenici understands that he can come up with a bunch of fru-fru, but he can do this. This is a very simple calculation. Just tell us what percent the discretionary accounts of this Government are going to be cut under the President's triggered budget. The triggered budget uses the same economics as we do. What percent are they going to have to be cut if he intends to hold harmless the accounts he said he is going to hold harmless?

Now, I don't want to give him an out. So let me just add, if they don't intend to hold them harmless, indicate which ones they don't intend to hold harmless and give us the percentage cuts.

Mr. RAINES. I will be happy to make that request.

Senator DOMENICI. All right. You might tell the acting director that I am mischievous enough on this one to say don't approve him until that acting OMB director tells us that in writing because they have been escaping that and dancing around that and saying to veterans we won't have to cut anything, and we are not saying you have to cut anything. We are asking what the budget says would have to be cut, OK?

Mr. RAINES. Senator, I hope the fate of my nomination is not going to hinge on one question being asked to OMB.

Senator DOMENICI. It may not. Nobody may be interested in what I have to say around here.

Mr. RAINES. No, I think everyone has a great interest in what you have to say, but I would just like to say on my own behalf, separate from a debate that I have not been a party to, that my only desire here is to respond to the President's request to serve my country.

He has asked me to take on this assignment. I said yes. I said yes on April 12th of 1996. I would like to begin taking on that assignment. I would be happy to work with you on all of these issues once I am confirmed. But I can't do anything. I can't make any progress on this, I can't influence policy; I can't in any way move this discussion along as long as I am unconfirmed.

Senator DOMENICI. OK.

Mr. RAINES. So my only request is that I would like to work with you, but I can't do that until I have a position.

Senator DOMENICI. I understand. Maybe what I would do is tomorrow, if we don't have that, I may ask the Chairman if he wants to confirm you subject to your giving us that answer in your first week in office. Maybe we will do it that way.

We just need in writing what the cuts will be percentage-wise, OK? You listen once more, so as you communicate it, that we just need to know under the President's triggered budget how much veterans will have to be cut by the year 2002 in any quantifiable terms they want to give it, OK?

Mr. RAINES. Let me see if I understand. As I understood what you said previously, it was that you want to know if you take the accounts that the President is not holding harmless, what are the aggregate cuts in discretionary spending necessary to be made to balance under CBO assumptions. If that is the question, the aggregate cuts in discretionary spending, then, I will communicate that immediately, but also, in the event that I am confirmed, I will see that you are able to get that number.

I don't know if I can do it all in the first week, but I will assure that you will get that number.

Senator DOMENICI. OK. I guess what I am going to have to add to it, because you are very, very sharp—you have just seen how that can be answered and be as meaningless as possible in the answer. So let me say if the administration intends for any of the remaining accounts to be held harmless in any way against that aggregate percent, indicate which ones, and then indicate the cuts that will have to occur in the rest of them.

I might say to everybody listening this is arithmetic. This is not a question of picking and choosing. This is almost a matter of arithmetic.

Mr. RAINES. I understand the question.

Senator DOMENICI. OK. What I would show you, just so you will know, this is what I think they are. I think National Institutes of Health, under the triggered budget, you have to cut it 20 percent in each of the last 2 years, and I believe the National Science Foundation—this is one week we keep saying President is for science. I think what has to happen is that is the way you have

to cut it, which is in the last 2 years, 20 percent, in order to get to balance.

My good friend, Kit Bond, has pushed hard and long to see how much veterans get cut, but it will look very much like that since it was not one that was held harmless.

Having said that, I have one more series of questions for you, and I appreciate your patience. You are sufficiently familiar with budgeting to know that we estimate a lot of things, right?

Mr. RAINES. Yes, sir.

Senator DOMENICI. And that we regularly engage in correcting estimates, and the process by which we correct estimates, various kinds of estimates, is called technical adjustments. Is that the correct word? Technical re-estimates. I believe that is nomenclature that OMB uses and CBO uses.

From 1993 to 1996, we asked the Congressional Budget Office to look at the budget and to assess for us how much the deficit had annually gone down versus what was estimated in 1993, and cumulative, how much the expected debt was reduced. You know the number that is being bantered around is \$407 billion as the cumulative deficit savings of 1993 versus 1996.

I asked my staff to compare the 1993 and 1996 deficit figures to those forecasted by CBO in 1993, and then attributed the resulting deficit reductions to three sources.

Let us go back and talk about technical re-estimates. That is one category that we asked them to look at, improved economic conditions and legislative changes.

They went to the Congressional Budget Office, and here is what they were told. The technical re-estimates amounted to 48 percent of the deficit reduction from 1993 to 1996. That service was reduced a little bit because of an interest change, 3 percent, \$12 billion. The economic assumptions, because we had already been assuming pretty good economics, that would be the delta. The improved economics was 13 percent, or \$51 billion.

If this is correct, I just added this up, and it looks like what is left out is 30 percent of the deficit reduction, and that came from tax hikes.

I am going to ask you, would you agree that the technical re-estimates which are led by \$81 billion that were not needed for the savings and loan bailout, that the technical readjustments or technical re-estimates would have happened whoever was President, or maybe if we didn't even have a President?

Mr. RAINES. No, Senator, I would not agree with that. Most of the technical re-estimates, as I understand them, actually are driven by underlying economic conditions. So the extent to which a President—

Senator DOMENICI. Are you telling us that the \$81 billion in savings and loan overestimated cost is because of economic changes?

Mr. RAINES. Yes, sir. The major reason for that difference in estimate is that the underlying economic conditions that the S&L faced in the market improved dramatically during the period, and the value of their collateral, the ability of the Government to close S&L's and sell the collateral was substantially better than anyone had projected earlier on in the period. So that underlying economy

had a great deal to do with reducing the cost of the RTC and the S&L bailout.

Senator DOMENICI. That is not what we understand. Maybe we will clarify that and get somebody up. We will ask the CBO tomorrow to tell us how much of that technical re-estimate came from the economy.

We believe they are going to tell us we just overestimated how much it would cost.

The tax hikes, you will take full credit for reducing the deficit by the tax hikes, will you not, on behalf of the President?

Mr. RAINES. Indeed, Senator Domenici, the tax increases that were in the deficit reduction legislation that were proposed by the President and approved by Congress produced even more revenue than was estimated. As I recall from the press, there was a lot of talk that the tax increases wouldn't produce any revenue. In fact, it was suggested they might cause a recession, but, in fact, they had the desired effect and produced more revenue than was estimated at the time the taxes were approved.

Senator DOMENICI. I don't ask whether they were effective. Some around here said they weren't effective. I am giving you full credit for reducing the deficit by increasing taxes.

Spending cuts up there, I regret to tell you, we like to refer to them as in green because they seem to be what would really drive a deficit reduction.

We are told by the Congressional Budget Office that in that whole period of time, the astronomical amount of \$26 billion in actual spending cut baselines occurred, and that all of that is appropriated accounts, and that all of that occurred because of spending caps imposed by the Congress.

Mr. RAINES. I think your category of spending cuts is only looking at the discretionary reductions in spending and not entitlement reductions.

Senator DOMENICI. That is correct.

Mr. RAINES. They are actually included, I think, in your technical re-estimates or reductions in spending for Medicare and Medicaid, which I don't think show up in your spending cuts, but do represent—

Senator DOMENICI. They are represented here.

Mr. RAINES. That is right. They do represent less spending during that period.

Senator DOMENICI. Right.

Mr. RAINES. In fact, as much as \$93 billion is lower spending on those entitlements as a result of improvements in economic conditions, improvements in the medical inflation rate.

So, depending on how you want to count cuts, if you are only going to count discretionary cuts, you end up with one number. If you count all reductions in spending off the baseline, you get a substantially larger number.

Senator DOMENICI. Maybe I would say those spending cuts up there of 6 percent, \$26 billion, are the result of a positive policy change. I don't believe any of the entitlements that go along with the \$81 billion in S&L—I don't believe there was one single policy change in Medicaid, Medicare, or any of those programs that caused the reduction.

Mr. RAINES. I think it depends on how you define a policy change. If a policy change is Congress passing a statute—

Senator DOMENICI. Changing those laws, that is what I mean.

Mr. RAINES [continuing]. Then I think that may well be true, but there are a lot of policy changes in how programs are implemented and the kinds of pressures there are on the vendors.

Everyone involved in the health care industry was under enormous amount of pressure during this period to improve their productivity, to show that they could operate much more cheaply, and that pressure came as a result of pending legislation. It came also through policy actions by the Department of Health and Human Services.

So, if you think again of policy as being broader than legislation, there are policy reductions there.

Senator DOMENICI. Knowing you, I wouldn't think you would sit there and even implicitly say that this administration made significant changes in the way Medicare was administered and, thus, saved the few billion dollars that come about by way of a technical adjustment on the reduction of Medicaid cost, would you?

Mr. RAINES. I don't say this administration alone, but I think that the tightening of administration of Medicare over the last several years has had a substantial impact on the actions of providers. Many of them have announced that they were going to reduce their cost increases.

The entire pharmaceutical industry announced they were going to keep their cost increases below the rate of inflation for the first time in a decade.

So I think that there are things the Government can do other than pass laws that have an impact on behavior, and I think in that case, it is not just the administration, but the administration and Congress had a substantial impact on the behavior of medical providers. A 1-percent change in how they change their cost is an enormous number.

I also point out, within the technical changes, there is another one that is, I think, a particularly interesting one. It shows up as a technical estimate change, but it is also additional revenue that occurred, not from a tax increase, but from the fact that because the economic conditions were improving for corporations and for individuals, that more of the total income was made up of corporate income and therefore, more tax revenue was available. Now, that is the result of an improved economy.

Similarly, capital gains during this period had been substantially higher than were estimated. Again, that is not a tax increase. It is simply that capital gains were occurring and were being realized by individuals. Both of those are counted under technical, but they could just as easily be counted under economic because it is the underlying economics that cause corporate income to be higher. It is the underlying economics that cause the stock market to rise. It is the underlying economics that reduce interest rates that cause bond prices to go up.

Senator DOMENICI. We think that is 3 percent, or \$12 billion, according to what we have got. Those technical readjustments are \$12 billion according to what I am seeing on this chart.

Mr. RAINES. My number is substantially higher. Mine is \$70 billion. Again, we can try to resolve the different bases of the numbers.

Senator DOMENICI. All right. In your written responses to questions from the Committee, you expressed a strong support for the concept of a unified budget. Some Democratic Senators continue to argue that the President and the Congress are raiding Social Security by using a unified budget. How do you respond to those accusations?

Mr. RAINES. The purpose of the unified budget is to give one expression of the impact of the Federal Government on the economy. It is one place where you add it altogether, the income and outgo, and you determine what the overall impact on the economy is. That is really the only purpose of a unified budget. To that extent, the impact on the economy is what the underlying deficit numbers show them to be.

I understand the concern that Senators have that when we talk about a balance budget, we are including trust fund balances in that calculation, even though everyone knows those balances are not available to finance other parts of the budget. I think that is a valid concern.

What it says to us is that as we move toward a balanced budget, even then we can't assume that all of our problems are solved; that there are other challenges facing us out past the year 2000 that are generational, caused in large part by my generation, that we are going to have to deal with.

So that, getting to a balanced budget is our interim goal, but our longer-term goal is to have a national economy, to have a national budget, that meets all of our needs and is consistent with a strong and growing economy.

Senator DOMENICI. I don't have any further questions, and I really want to compliment you. I would guess and my intuition tells me you will be an excellent OMB director. I want to be helpful.

Mr. RAINES. Thank you.

Senator DOMENICI. I very much want to repeat that I don't expect very much in terms of what I am asking for, but I believe if an administration is going to take a 6-year discretionary budget that Republicans put together and tell the American people that the sum total of those years of caps are effective for Republicans and, therefore, they can be blamed for the cuts that occur, I believe it is fair that the President of the United States tell us how much he must cut to get to balance in some way that is comparable. I don't ask for anything different. I just ask that they tell us over that same period of time what will that triggered budget cost in cuts, in any way that they want to describe it.

What they have done that is interesting is they have said education will not be cut, no matter what it says. So you put that in going out, and they say this account will be cut, so it is going up, but then they don't want to take the blame for how much those others will be cut by letting their particular department head say, uh-oh, we don't intend to cut veterans, we will take that up year by time. Well, at some point, that cannot be the right answer, and you understand this quickly, I see, by your demeanor that you understand, and I believe we should just get officially what those per-

centages will be. Then we will all be gung ho to have you part of this budget team.

Mr. RAINES. Thank you.

Senator DOMENICI. I have no further questions.

Mr. RAINES. Thank you, Senator.

#### OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thank you, Senator Domenici.

Mr. Raines, I am sorry I am late getting here, but I am glad I came by because I witnessed it and heard you in dialogue with Senator Domenici. There is nobody who understands the Federal budget in the Senate better than the Senator from New Mexico, and he can be a little tough sometimes. I don't know if you had noticed that, but he is very fair. The fact that at the conclusion he said he thought you would be a good OMB director and he looked forward to working with you, I think, is about the highest compliment you could get at this time.

If I might say so as not exactly a dispassionate observer, I think if the two of you work together, it will be good for the country as well.

I probably should leave my remarks for that, allowing you to conclude this experience on a high. I do have a couple of questions relating to the DOD budget that I would like to submit to you for the record, but I do hope we can all work together in light of, one, your extraordinary experience in the public and private sectors and, two, the real need as we come to the end of this administration, a time of transition either to a new administration or to a second Clinton administration. There is a real need to have somebody full time at the helm of OMB as soon as possible. So I hope we can make that happen.

I thank you for your willingness at what I know is considerable expense to come back into the public sector and serve your country, and I, too, look forward to working with you.

Thank you.

Mr. RAINES. Thank you.

Senator DOMENICI. Thank you very much.

We stand in recess until tomorrow. If there are any written questions, we will leave them open, then, until tomorrow.

Thank you. Thank you, Mr. Raines.

Mr. RAINES. Thank you, Senator.

[Whereupon, at 4:52 p.m., the Committee adjourned.]

## APPENDIX

#### PREPARED STATEMENT OF SENATOR COCHRAN

Mr. Raines, I am glad to see you here today before the Governmental Affairs Committee.

I believe the President made a wise choice in selecting you to head the Office of Management and Budget. From our meeting and from your responses to the Committee's questions, I can tell you have spent a good deal of time thinking about the issues related to the management side of the job. That part of the Director's job is many times forgotten by all except the Members of this Committee, which have to address these management issues. I will look forward to the opportunity to work with you on management reform, particularly financial and accounting reform. I believe your expertise gained in the private sector will be extremely helpful.

I would also like to address the budget side of the job. Through the balanced budget debate of last year, it was clear that the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) were not on the same page. The budget debate turned from focusing on policy and spending changes needed to reach a 7 year balanced budget, to disagreements regarding technical economic assumptions used by CBO and OMB in the formulation of the two budgets.

I would hope that as Congress continues to work towards a 6 year Balanced Budget through the Budget Reconciliation process, CBO and OMB will both use conservative economic assumptions in order to make any budget plan more credible. The President and the Congress agreed this year to enact legislation to achieve a balanced budget no later than the year 2002 using the most recent economic and technical assumptions of CBO. I would hope that as OMB Director you would be willing to continue to work under this agreement.

As a member of the Appropriations Committee, I have serious concerns about the President's discretionary budget. Many of the cuts in the President's budget are back loaded. The tough decisions are put off for another day. It makes little sense for the Congress to increase funding and create a larger program infrastructure, if the programs are going to be cut in half or eliminated in just a few years. I hope that as OMB Director you will work with the Secretaries and others to give to the Congress and the Appropriations Committee a much more realistic view of what programs the President will and will not support. We need a better sense of the Administration's priorities if we are to do our job for the American people.

Thank you for coming. I appreciate your willingness to serve in government, and I look forward to working with you in the future on a wide range of issues.

#### ANSWERS TO QUESTIONS FROM SENATOR COHEN

1. Do you believe that agencies should be compelled to demonstrate that they have analyzed and restructured the way they do business before spending money on technology which automates existing processes?

A. Agencies are accountable for delivering systems that produce mission-related results and I understand that OMB is responsible for holding them accountable. I believe the Information Technology Management Reform Act (ITMRA) appropriately emphasizes agency responsibilities in this context by establishing a strong voice within each agency to be advocate of intelligent use of IT—the agency chief information officer (CIO). Under ITMRA, the CIO becomes the proponent of the strategic view before investments are made by asking three important questions: Should the government be performing this function, or can it be privatized? Can another agency perform the function? Has the process to be supported been re-engineered? In other

words, agencies should focus on reengineering how the work is being done, even asking whether the work needs to be done at all or can be done better by someone else. Only after completing these analyses should agencies consider IT acquisition strategies. Of course, there will be situations where short-term investments are required to assure that existing IT systems continue to support an ongoing mission. I expect the number of such cases to decline as sound capital planning becomes the norm in Federal agencies.

2. The ITMRA requires that IT investments have a measurable, positive return on investment. Should agencies have to demonstrate to OMB and Congress that their IT investments are expected to produce mission-oriented cost or performance improvements before these IT systems are funded? Will you require agencies to identify measurable performance objectives, e.g., reducing the time it takes to perform a particular function, measurably improving productivity, or producing hard dollar savings? What, in your view, is the best way to ensure that ITMRA management reforms results in measurable cost or performance improvements, not just paperwork or procedural change?

A. It is my understanding that OMB staff are revising their guidance to agencies to help implement ITMRA. OMB staff has developed a revision, known as Part 3 (*Planning, Budgeting, and Acquisition of Fixed Assets*), to OMB Circular A-11 to encourage agencies to conduct a capital planning process for fixed assets, including information technology systems. Part of the purpose of these revisions is to integrate requirements to measure the performance of fixed assets so that agencies are not required to respond to several different requests for similar types of information. For example, the Government Performance and Results Act (GPRA) requires agencies to relate the acquisition of assets to the performance of agency missions. The ITMRA requires that the performance of large IT systems be tracked. The Federal Acquisition Streamlining Act (FASA V) requires agencies to develop performance measures for all procurements and to track them. Circular A-130 discusses the need for planning for information technology as does OMB's Fixed Assets Bulletin.

Part 3 will ask agencies for a single submission of information about the justification for and performance of their proposed major IT systems. OMB defines major systems as those that require special management attention because of their importance to an agency mission; their high development, operating, or maintenance costs; or their significant role in the administration of agency programs, finances, property, or other resources.

Another goal of Part 3 has been to assure that the information OMB collects is derived from information that is useful to the agencies. It is my understanding that the participation by agency and GAO representatives in the development of Part 3 has helped OMB develop a more workable process of data collection. I believe that this will provide a sound basis for reform and emphasis on results in IT systems management.

3. In your view, what should OMB do to foster and improve the government-wide and agency management of information technology? What incentives—both rewards and penalties—will be most effective in encouraging agencies to comply with ITMRA? How would you balance OMB oversight with agency autonomy?

A. I understand OMB is putting in place a number of mechanisms to improve information technology management. First, the interagency groups established by Executive Order No. 13011, "Federal Information Technology," are expected to play a major role. The Chief Information Officers Council will be the principal forum to improve agency practices on such matters as the design, modernization, use, sharing, and performance of agency information resources. The Government Information Technology Services Board will provide opportunities for cross-agency cooperation in using information resources to support common operational areas and to develop shared intergovernmental resources and information infrastructure services, and will make recommendations regarding technical standards to be adopted government-wide. The Information Technology Resources Board will advise agencies and OMB regarding the development, acquisition and management of major information systems. A major goal of this structure is to facilitate both agency autonomy regarding information technology management and effective oversight by OMB in a complementary manner.

Second, I understand that OMB intends to evaluate agency information resources management practices and programs and, as part of the annual budget process, analyze, track and evaluate the risks and results of major capital investments for information systems. Using the budget process will provide incentives for those agencies that demonstrate that particular levels of investment can be expected to yield identifiable benefits, and will serve as a disincentive to those agencies that cannot show that capital investments in their information systems are achieving the results intended. Ultimately, the incentive must be improved mission performance, and a recognition of that improvement by all interested parties.

4. Do you agree that there needs to be a strong link between the management and acquisition of information technology and the budget process? How would you change the budget review process to accommodate the ITMRA focus on measurable results?

ITMRA forges links between information technology management and acquisition and the budget process. I believe that the budget process provides the opportunity to engage the agencies in a dialogue early enough in the life of a project to have an effect on its direction. Recently released Part 3 of Circular A-11 requires agencies to provide a summary of fixed asset acquisitions, their full cost and the expected return on investment, to evaluate alternative acquisitions, and to provide a justification for the selected acquisition.

5. How do you think successful implementation of ITMRA will complement implementation of other critical management reform initiatives such as the Chief Financial Officers Act and the Government Performance and Results Act?

A. Part 2 of OMB Circular A-11, *Preparation and Submission of Strategic Plans*, published September 1995, requires agencies to prepare and submit an agency strategic plan that describes how an agency will achieve its mission and what goals it hopes to achieve.

Part 3 of OMB Circular A-11, *Planning, Budgeting, and Acquisition of Fixed Assets*, recently published to address the need for the management of fixed asset acquisitions, including major IT investments ties the objectives of ITMRA to the budget process. Part 3 includes components of the reporting requirements of the CFO Act, GPRA, FASA V, and ITMRA by requiring agencies to report the impact of full funding of fixed assets, including information technology, and to develop a fixed asset plan.

6. As you are aware, ITMRA establishes agency CIOs. In your view, how important is it for the CIOs to be part of the senior management team? What balance of technical knowledge and skills versus the amount of management expertise should CIOs have?

A. It is very important for the CIO to be part of the senior management team. Each agency head is expected to select a CIO to ensure the effective acquisition and use of IT and to carry out the agency's information resources management responsibilities. While the organizational placement of the CIO is to be determined by the agency head, the person selected should report to the agency head directly, and not through another official. It may be more efficient in some agencies for the CIO to work on a daily basis with the Chief Operating Officer of the agency, as long as it is clear that the CIO has direct access to the agency head whenever the CIO deems that appropriate. The CIO should actively participate, with the agency head and other senior agency officials, in planning and budgeting deliberations, support of work process redesign in areas being considered for IT investment, and the development of information technology program performance measures.

The CIO should have extensive knowledge of concepts, trends, and technical issues such as information resources management, systems acquisition, and software development. The CIO should have the necessary knowledge of information systems capabilities to advise the agency head and senior program managers on the potential of information technology to create new program objectives and advise them on the associated risks and techniques for minimizing those risks. Ultimately, management experience is more important than technical knowledge, but a vision of technology as a strategic tool is essential to a CIO's success.

## ANSWERS TO QUESTIONS FROM SENATOR LEVIN

*Procurement and Acquisition Policy*

The Office of Management and Budget plays a key role in establishing government-wide procurement and acquisition policy through the Office of Federal Procurement Policy and through the budget process. The Competition in Contracting Act provides the statutory foundation for the Federal procurement process, requiring full and open competition for government contracts with only limited exceptions.

a. Do you agree that competition in government contracting is necessary not only to obtain low prices, but also to avoid favoritism and conflict of interest, and to provide all offerors with a fair chance to compete for government contracts?

A. Yes. The Administration is committed to a procurement system firmly rooted in competition and impartiality and to the success of a bipartisan effort to rely less on bureaucracy and more on streamlined, customer-oriented practices. Many of the recently enacted reforms—including the ability to apply simplified source selection procedures to a larger range of commercial item acquisitions and the general authority to implement competition in a manner consistent with the need to fulfill efficiently the government's requirements—will provide agencies with the tools needed to realize the same types of lower costs, higher quality, and greater innovation routinely secured by private firms that take maximum advantage of the vigorous competitive forces of the commercial marketplace.

b. Do you support the statutory standard of "full and open competition," with its objective of maintaining a level playing field for all offerors?

A. Yes. As you know, the Administration has remained committed to preserving the full and open access that has become a hallmark of our Federal procurement system. The reason is simple: the vigorous competition that comes with giving all responsible sources an opportunity to participate can translate into better prices and higher quality. The main challenge of our recent reform efforts has been to ensure that the benefits of competition can be reaped more efficiently so that agencies can carry out their missions in a more timely and effective manner. Together, we have made great strides in meeting this challenge and I look forward to working with you to build upon this important progress. We need to continue to work to ensure the openness and allow the streamlining that will enable agencies to deliver the value owed to our taxpayers.

c. Will the Office of Management and Budget, under your direction, work to ensure that contracts continue to be awarded on the basis of full and open competition, except in the limited circumstances permitted by statute?

A. Yes. We must strive not to avoid competition, but to take advantage of its many benefits in a more effective and efficient manner. This has been, and should continue to be, a major goal of our procurement reform efforts.

2. In the last Congress, this Committee held hearings on contract off-loading—a practice by which Federal agencies have sought to avoid competition and contract oversight requirements by entering contracts through other agencies. Because neither agency accepts full responsibility for negotiating and administering the contract, off-loads have resulted in considerable waste and inefficiency. Do you agree that it is important to assign clear lines of responsibility to avoid abuses in interagency contracting and that OMB has a special role to play in this area because of the involvement of multiple agencies?

A. It is important to make sure there are clear lines of responsibility for interagency acquisitions. Improvements in that direction have recently been incorporated in the Federal Acquisition Regulation as a result of the Federal Acquisition Streamlining Act of 1994. For example, the regulations have been revised to improve provisions governing the exercise of Economy Act authority for Federal agencies to purchase goods and services under contracts entered into or administered by other agencies. For instance, the new regulations prescribe that appropriate contracting officials of the ordering agency approve in advance purchases entered into or administered by another agency.

OMB has a role to play because of the involvement of multiple agencies. For example, section 5112(e) of the Information Technology Management Reform Act encourages interagency acquisitions of information technology,

subject to appropriate management controls. Properly managed, these contracts can leverage the government's buying power in a dynamic market, permit agencies to choose from a broad variety of current technology offerings, and reduce overhead and transaction costs to the government as a whole.

3. Congress and the Administration have worked closely together in recent years to streamline procedures for purchasing commercial products and to encourage the use of such products in place of government-unique products. The Federal Acquisition Streamlining Act of 1994 and the Federal Acquisition Reform Act of 1996 exempted commercial item procurements from a broad range of statutory requirements, including the Truth in Negotiations Act (TINA) and the Cost Accounting Standards (CAS). However, many products purchased by Federal agencies are unique to the government and cannot be purchased commercially. Many of these products are purchased under sole-source contracts in which the final price depends on the costs incurred by the contractor. Do you agree that statutory requirements such as TINA and CAS still have an important role to play in protecting the taxpayers' interest in sole-source purchases of government-unique products?

A. Yes. However, I hope that in the future the agencies will find less and less need to make purchases on a sole-source basis. For example, the Department of Defense is working very hard to limit the use of military specifications in favor of commercial standards. The goal is to allow companies to use the same design and production processes for their military work as they do for their commercial work. As we move closer to an integrated industrial base serving both commercial and government needs, we should see an increase in the categories of products and services where competitive forces operate to ensure reasonable prices.

*Regulation and Dispute Resolution*

4. The Senate Governmental Affairs Committee is spearheading efforts to reauthorize the Negotiated Rulemaking Act and Administrative Dispute Resolution Act, two laws which promote innovative efforts by Federal agencies to develop regulations and resolve dispute without courtroom battles. President Clinton has promoted both laws through executive orders encouraging greater agency use of these approaches. If reauthorized, both laws may call on OMB to take action, including eliminating red tape in the establishment of negotiated rulemaking committees, and possibly overseeing development of Federal policy on the use of binding arbitration.

a. What priority would you place as OMB Director on encouraging agency use of negotiated rulemaking and alternative dispute resolution methods?

A. I am very comfortable with the Administration's current policies concerning both regulatory negotiation and alternative dispute resolution (ADR). Both procedures can have enormous potential in the right instances. As President Clinton recognized in E.O. 12866: "Each agency also is directed to explore and, where appropriate, use consensual mechanisms for developing regulations, including negotiated rulemaking" (section 6 (a)). My general approach would be of support for all types of consensual procedures.

b. In your view, how does agency use of negotiated rulemaking affect OMB's role in overseeing the development of Federal rules? Should OMB give added deference to proposed rules that have been developed using this process and which enjoy broad support among all the parties interested in the rule?

A. A regulatory proposal that has been developed as a result of negotiated rulemaking and that enjoys broad support among all the parties interested in the rule deserves special deference as long as it is consistent with broad Federal policies and the specific concerns of other agencies.

c. Do you think it is constitutional and useful for Federal agencies to have the option of agreeing to use binding arbitration to resolve certain disputes, such as those that do not involve significant policy questions?

A. As to whether it is constitutional for Federal agencies to have the option of agreeing to use binding arbitration to resolve certain disputes, I have been informed that the Justice Department's Office of Legal Counsel (OLC) issued a formal opinion in September 1995 on this subject, which concluded that there is no general constitutional impediment to the voluntary use of binding arbitration by Federal agencies. If confirmed as OMB Director, I would defer to OLC's views on this constitutional issue.

As to whether binding arbitration would be useful for Federal agencies, I think that the answer would depend on the particular circumstances of each kind of dispute. Not all disputes between private parties are resolved through binding arbitration, and I would suppose that the same would hold true for disputes involving the Federal government. For example, whereas binding arbitration would appear to be useful for resolving disputes of fact, it would not appear to be appropriate for resolving disputes over the propriety of a Federal policy.

5. In March 1997, culminating an 8-year State-Federal effort to standardize State water quality protections for the Great Lakes, the States bordering the Great Lakes are required to adopt water quality standards, antidegradation policies and implementation procedures consistent with Federal Great Lakes Water Guidance issued by EPA in 1995. If a State fails to meet the deadline or adopts inconsistent standards, policies or procedures, EPA is required to impose the appropriate portions of the guidance upon that State. The success of this unique State-Federal partnership to strengthen Great Lakes protections while leveling the regulatory playing field within the region will depend upon effective Federal efforts to ensure State compliance. What role, if any, would you envision OMB playing in this matter?

A. OMB, through OIRA, reviewed the Notice of Proposed Rulemaking and the final rule referred to as the Great Lakes Water Quality Guidance. Having fulfilled its responsibilities for regulatory review under E.O. 12866, neither OMB nor OIRA have any direct role in the implementation of this program after promulgation of the rule.

Answer to Question from Senator Lieberman

Q. In the Defense area, as I mentioned in my opening statement and as so vividly highlighted by the unfortunate bombing of our troop barracks in Saudi Arabia, we are becoming increasingly concerned that our defense budget and priorities are being focused on the wrong threat. DoD, as well as we in the Congress, have been too tied to examining yearly incremental changes to past Defense budgets rather than asking more fundamental long term questions about what our force structure should look like given changes that have occurred since the dissolution of the Soviet Union. What can OMB do to help us better tailor our defense budget to the threats we are facing?

A. The Office of Management and Budget works with the Department of Defense, the National Security Council and other relevant agencies to ensure that the President's national military strategy is designed to address evolving military threats. As you know, OMB's primary role in this regard is to ensure that funding is available to execute our national military strategy now and in the future.

The President's 1997 defense budget, founded on the Bottom-Up Review and Future Years Defense Plan, provides force levels and weapon systems to counter any known or expected threat. The budget continues the President's commitment to ensure full support for near-term military readiness, high levels of training, and quality of life programs. Defense readiness is at historically high levels, and the budget provides a level of military training and capability that has proven successful each time our forces were deployed.

The President's budget also provides additional real (after inflation) funding for the development of new and advanced warfighting systems and technologies. This will allow for the modernization of our military forces at the end of the decade when the current systems are scheduled for replacement and new technologies become available.

OMB continues to be deeply involved in the Administration's efforts to ensure that the defense strategy and resources properly focus on threats of the Post-Cold War era. To that end, OMB plays an active role in two key interagency processes:

- The first is an annual joint review of defense programs and the defense budget. The joint review within Defense provides the basis for an independent review of the defense budget by the President within the Executive Office of the President. The review involves OMB, the Office of the Secretary of Defense, the Military Departments and the Defense Agencies. OMB participates at all levels of the joint review, from working groups to the Defense Resources Board.
- The second is the inter-agency process led by the National Security Council. This process focuses on emerging threats (e.g., counter-proliferation, contingency operations, anti-terrorism, counter-narcotics). OMB participates at every level of the process to ensure that resources match requirements and that resources can be made available quickly for high priority efforts.

## Answer to Question from Senator Stevens

- Q. Senator Thompson has asked GAO to gather information for the Committee on the implementation of Executive Order 12866 by the Office of Information and Regulatory Affairs. There is a concern, however, that GAO is not receiving the information they need in a timely manner.

If you are confirmed, would you be willing to help expedite this matter? And would you designate a contact person who would be responsible for responding to GAO's needs and working with the Committee staff?

- A. I understand that the Office of Information and Regulatory Affairs (OIRA) is working closely with GAO staff to provide the information they need to respond to Senator Thompson's request. If I am confirmed, I will ensure that this cooperation continues. I also understand that the OIRA Deputy Administrator is the contact person responsible for responding to GAO's questions and working with the Committee staff.

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United States Senate

COMMITTEE ON  
 GOVERNMENTAL AFFAIRS  
 WASHINGTON, DC 20540-6254

July 29, 1998

Franklin D. Raines  
 Vice Chairman  
 Federal National Mortgage Association  
 1900 Wisconsin Avenue, N.W.  
 Washington, D.C. 20016

Dear Mr. Raines:

I appreciate your willingness to accommodate our hectic schedule during the confirmation process. I would like to take this opportunity to ask for your views on legislation I am sponsoring that would assign a new responsibility to the Director of the Office of Management and Budget (OMB).

I have amended the appropriations bill covering OMB to make OMB responsible for providing Congress with a regulatory accounting statement estimating the cumulative annual costs and benefits of Federal regulatory programs. In addition, OMB would be responsible for an associated report that would analyze the impact of Federal rules on the private sector, State and local government, and the Federal government. Finally, OMB would offer recommendations to Congress to reform or eliminate regulatory programs or program elements that are not a sound use of national resources. As I am sure you know, many private regulatory studies have been done, and the Office of Information and Regulatory Affairs has been required for over 15 years to analyze the costs and benefits of significant rules.

I believe that Congress and the public have a right to know about the benefits and burdens of regulatory programs. I also believe that such information is crucial for sound management, a goal I am sure you share. Please let me know your views on this provision at your earliest convenience.

With best wishes,

Cordially,

  
 TED STEVENS  
 Chairman

Enclosure

104TH CONGRESS  
2D SESSION

Calendar No. 510

**H. R. 3756**

[Report No. 104-330]

IN THE SENATE OF THE UNITED STATES

JULY 18, 1996

Received, read twice and referred to the Committee on Appropriations

JULY 23, 1996

Reported by Mr. SHELBY, with amendments

(Omit the part struck through and insert the part printed in *italics*.)

## AN ACT

Making appropriations for the Treasury Department, the United States Postal Service, the Executive Office of the President, and certain Independent Agencies, for the fiscal year ending September 30, 1997, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*  
3 That the following sums are appropriated, out of any  
4 money in the Treasury not otherwise appropriated, for the  
5 Treasury Department, the United States Postal Service,  
6 the Executive Office of the President, and certain Inde-

1 SEC. 644. (a) *IN GENERAL.*—Section 202(a) of title  
2 39, United States Code, is amended by striking “\$10,000  
3 a year” and inserting “\$30,000 a year”.

4 (b) *EFFECTIVE DATE.*—Subsection (a) shall take effect  
5 at the beginning of the next applicable pay period begin-  
6 ning after the date of the enactment of this Act.

7 SEC. 645. *REGULATORY ACCOUNTING.*—(a) *IN GEN-*  
8 *ERAL.*—No later than September 30, 1997, the Director of  
9 the Office of Management and Budget shall submit to the  
10 Congress an accounting statement that estimates the cumu-  
11 lative costs and benefits of Federal regulatory programs.

12 (b) *NOTICE.*—The Director shall provide public notice  
13 and an opportunity to comment on the accounting state-  
14 ment and report under subsection (c).

15 (c) *ASSOCIATED REPORT.*—The Director shall submit  
16 with the accounting statement an associated report that  
17 shall contain, at a minimum—

18 (1) analysis of the direct and indirect impacts of  
19 Federal rules on the private sector, State and local  
20 government, and the Federal Government;

21 (2) estimates of the costs and benefits of each rule  
22 that is likely to have a gross annual effect on the  
23 economy of \$100,000,000 or more in increased costs;  
24 and

1 (3) recommendations from the Director and pub-  
 2 lic comments to reform or eliminate any Federal reg-  
 3 ulatory program or program element that is ineffi-  
 4 cient or is not a sound use of national resources.

5 TITLE VII—SUPPLEMENTAL APPROPRIATIONS  
 6 AND RESCISSIONS FOR THE FISCAL YEAR  
 7 ENDING SEPTEMBER 30, 1996

8 BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

9 SALARIES AND EXPENSES

10 For an additional amount for "Salaries and Ex-  
 11 penses" to be used in connection with investigations of  
 12 arson at religious institutions, \$12,011,000, available  
 13 upon enactment of this Act and to remain available until  
 14 expended.

15 INTERNAL REVENUE SERVICE

16 INFORMATION SYSTEMS

17 (RESCISSION)

18 Of the funds made available under this heading for  
 19 Tax Systems Modernization in Public Law 104-52,  
 20 ~~\$12,011,000~~ \$16,500,000 are rescinded.

21 TITLE VIII—ADDITIONAL GENERAL

22 PROVISIONS

23 SEC. 801. None of the funds appropriated by this Act  
 24 shall be available to pay any amount to, or to pay the  
 25 administrative expenses in connection with, any health  
 26 plan under the Federal employees health benefit program;

104TH CONGRESS }  
 2d Session }

SENATE

REPORT  
 104-330

TREASURY, POSTAL SERVICE, AND GENERAL  
 GOVERNMENT APPROPRIATION BILL, 1997

July 23, 1996.—Ordered to be printed

Mr. SHELBY, from the Committee on Appropriations, submitted the following

REPORT

(To accompany H.R. 3756)

The Committee on Appropriations, to which was referred the bill (H.R. 3756) making appropriations for the Treasury Department, the United States Postal Service, the Executive Office of the President, and certain Independent Agencies for the fiscal year ending September 30, 1997, and for other purposes, reports the same to the Senate with amendments and recommends that the bill as amended do pass.

Amount of bill as passed by House .....	\$23,213,250,000
Amount of bill as reported to the Senate .....	23,487,761,000
Amount of estimate .....	24,845,757,000
The bill as reported to the Senate:	
Above the appropriations provided in 1996 .....	324,007,000
Below the estimates for 1997 .....	1,357,996,000
Above the House bill .....	274,511,000

ters, recreation associations, and professional associations before Government agencies.

Section 633 amends the disabled child survivor program of the civil service retirement system and health benefits provisions by allowing benefits which had been terminated because of the marriage of the child if that child divorces.

Section 634 allows Federal employees involuntarily separated to utilize unused annual leave toward meeting minimum age and service requirements, thereby qualifying such employee for immediate annuity.

Section 635 defines the terms "senior" official for purposes of the Office of Government Ethics Act of 1996.

Section 636 grants authority for Federal Government agencies to pay a portion of the professional liability insurance costs incurred by certain of their employees.

Section 639 allows the National Archives and Records Administration to recoup up to 50 percent of recycling savings of the Federal Register during calendar year 1996.

Section 640 requires executive branch agencies to utilize the private sector to review and analyze issues subject to title LI of the National Defense Authorization Act of 1996.

Section 641 authorizes appropriations for the Merit Systems Protection Board.

Section 642 authorizes appropriations for the Office of Special Counsel.

Section 643 makes technical modifications to the National Commission on Restructuring the Internal Revenue Service.

Section 644 allows for a pay raise for the U. S. Postal Service Board of Governors.

Section 645 requires the Office of Management and Budget to do an accounting statement and associated report on the cumulative costs and benefits of Federal regulatory programs. The Federal Government must be more sensitive to the rising regulatory burden, now estimated to cost the Nation about \$600,000,000,000 annually—over \$6,000 for the average American household. The OMB must provide the public with notice and an opportunity to comment on the draft accounting statement and report before the reports are submitted to Congress. Regulatory costs and benefits should be quantified to the extent feasible and, where applicable, should be based on most plausible estimates. Most of the needed information is already available to the OMB. Executive Order 12866 requires cost-benefit analysis of significant rules, and private studies are available.

FRANKLIN D. RAINES

August 1, 1996

AUG 1 1996

The Honorable Ted Stevens  
Chairman  
Committee on Governmental Affairs  
United States Senate  
Washington, D.C. 20510-6250

Dear Mr. Chairman:

I appreciate your efforts to complete work on my nomination prior to the August recess and am happy to take this opportunity to respond to your letter of July 29, 1996.

In your letter, you asked for my views on your amendment to the 1997 Treasury/Postal Service Appropriations bill, H.R. 3756, Section 645, "Regulatory Accounting." It calls for the OMB Director to issue a report no later than September 1997 describing the cumulative costs and benefits of Federal regulatory programs, along with an analysis of the direct and indirect impacts of Federal rules and estimates of the benefits and costs of individual rules likely to have an annual gross effect on the economy of \$100,000,000 or more.

As a nominee for the position of OMB Director, you will appreciate that I am not yet in the position to speak for the Administration concerning specific legislative proposals. Speaking personally, I share your concerns for the need to understand better, in quantitative terms, the benefits and costs of Federal regulation. I also share your goal of developing better ways to measure these benefits and costs both in cumulative terms and for specific regulations.

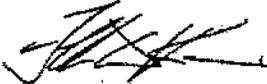
If confirmed, I welcome the opportunity to work with you to develop an appropriate methodology for measuring these benefits and costs. However, I understand that preparing such a report government-wide is more difficult than it may appear. There are a

The Honorable Ted Stevens  
August 1, 1996  
Page Two

number of methodological issues involved for which experts in the field continue to seek solutions. In addition, such a comprehensive analysis would be costly and time-consuming to prepare. Before I commit to supporting specific legislative language, I would want to discuss these important issues with you.

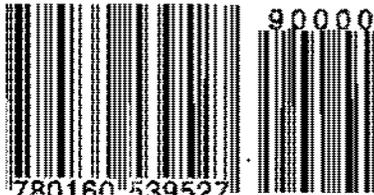
I thank you for your request for my views, and I look forward to working with you.

Sincerely,



Franklin D. Raines

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**NOMINATION OF ALICE M. RIVLIN**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**GOVERNMENTAL AFFAIRS**  
**UNITED STATES SENATE**  
**ONE HUNDRED THIRD CONGRESS**  
**SECOND SESSION**

ON

NOMINATION OF ALICE M. RIVLIN TO BE DIRECTOR, OFFICE OF  
MANAGEMENT AND BUDGET

SEPTEMBER 27, 1994

Printed for the use of the Committee on Governmental Affairs



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### COMMITTEE ON GOVERNMENTAL AFFAIRS

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**NOMINATION OF ALICE M. RIVLIN, TO BE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET**

**TUESDAY, SEPTEMBER 27, 1994**

**U.S. SENATE,  
COMMITTEE ON GOVERNMENTAL AFFAIRS,  
Washington, DC.**

The Committee met, pursuant to notice, at 9:33 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Levin, Pryor, Akaka, Dorgan, Roth, Stevens, and Bennett.

Staff Present: Doris Clanton, David Plocher, Mark Goldstein, and Deborah Cohen (Senator Glenn); Susanne Marshall, Joan Woodward, and John Mercer (Senator Roth).

**OPENING STATEMENT OF CHAIRMAN GLENN**

Chairman GLENN. The hearing will be in order. Good morning. Today, the Committee on Governmental Affairs meets to consider the nomination of Dr. Alice Rivlin, to be Director of the Office of Management and Budget. Dr. Rivlin, of course, has been acting OMB Director since last summer when OMB Director Leon Panetta became White House Chief of Staff. Previously, she served admirably as OMB Deputy Director, a position for which this Committee approved her nomination in January 1993. Dr. Rivlin is no stranger to this Committee, the Governmental Affairs Committee, and has appeared before the Committee to testify on a number of occasions.

I have mentioned many times that, in my opinion, the Director of OMB has the second most important job in government, second only to the President, and I don't think I overstate that at all. It doesn't always get the attention it deserves, but it is OMB where all the government decisions how to implement the policies of the President and the mandates of Congress, and so on, come together. The one spot where they are put into budget form that reflects our priorities is OMB.

The direction of resources and personnel to implement government programs are all put together right there, so it is during tight fiscal times that this OMB direction becomes even more important as budgets are squeezed and personnel are cut. OMB's role becomes critical to ensuring that the fundamental missions of the Federal Government are not endangered.

This is a role I am convinced Dr. Rivlin will play very well. As Deputy Director, and now Acting Director, Dr. Rivlin has been intimately involved with the many decisions needed to cut spending and cut the budget deficit, and at the same time maintain quality government services on which all Americans rely.

Dr. Rivlin's extensive knowledge of budget issues comes also from her tenure in the 1970's as the very first Director of the Congressional Budget Office. She put the whole thing together. She built that agency's reputation for quality and for independence.

Dr. Rivlin in her new job has her work cut out for her, as I am sure she is already very much aware. In addition to the many daunting budget issues she must confront, Dr. Rivlin also must focus on important management issues, something that this Committee has talked about and done a lot of work on through the years.

The management issues in OMB—we have talked about them in a half-joking way as the "M" standing for "moribund" rather than "management," and a number of other little jokes about it. But it is no joke. Management in government has got to receive a high priority.

I must say that while these issues are too often ignored, OMB now has the tools it needs to make real strides in this area, and I believe to a large extent because of the activities of this Committee. Federal agency financial management capabilities have been very weak, but the 1990 Chief Financial Officers Act created agency CFO's, an OMB Controller, and requirements for concrete reform.

You know, it is just very hard to believe that until 1990 we had no requirement in the Federal Government to do a bottom-line audit every year of every department and agency to see how things were going—not until 1990. That is what the CFO Act did. This Committee worked a long time with OMB, with Chuck Darman and with Chuck Bowsher, the Comptroller General of the General Accounting Office, and put that bill through. We are finding that what we thought at the time was very true. We estimate now that it is going to take some 5 to 7 years of continual effort in each department to really get auditable statements that, in business, would be the counterpart of a certified audit at the end of every year. That is how far out of whack we have been. But we now have some of the tools.

Agency information systems and paperwork requirements slow efficiency and burden the public, but the Paperwork Reduction Act, which we are working to reauthorize and we hope to get through before the end of this Congress, gives OMB's Office of Information and Regulatory Affairs the responsibility to strengthen systems and to cut red tape.

Our just-passed procurement reform legislation, which was a major victory for this Committee and the National Performance Review, will depend for its implementation on the leadership of OMB's Office of Federal Procurement Policy.

The Government Performance and Results Act depends on OMB to help agencies develop dependable performance measures and integrate them into program planning and resource decisions. Senator Roth, our ranking minority member, has advocated these re-

forms for many, many years on this Committee and was a key player in getting the legislation through.

The inspectors general, too, look to OMB for guidance and support. I think these figures are rather amazing: 16,282 successful prosecutions last year, the disallowance of over \$2 billion in questioned costs, and the recovery of over \$800 million in criminal cases in fiscal year 1992 alone. Helping to maintain the integrity and independence of IG's is an important job for OMB.

I might add as an aside, I was interested in seeing these things at the UN, also. We worked with Madeline Albright up there, and I was glad to see the UN instituting just recently a UN Inspector General. I think this will restore a lot of confidence in the UN.

With these tools, all of which this Committee has had a role in creating, the "M" in OMB should be effective. This goal is now highlighted anew by Dr. Rivlin's leadership in the OMB reorganization plan called OMB 2000, which integrates many of the management and budget functions of the agency.

Now, I am cautiously optimistic for this, as I see it, somewhat risky plan. I generally prefer to see tight, centralized management that can exercise concentrated direction and guidance. Current OMB policy puts some of the all too scarce management personnel out into the budget offices with the newly combined offices, to be called resource management offices. I sincerely hope it works and I want to see us do everything we can to make this work successfully.

In any event, I look forward to working with Dr. Rivlin to make OMB and the entire Federal Government more effective and efficient. More than ever before, the American public is watching how we spend their money, and the credibility of the government hangs in the balance.

As I mentioned at her first nomination hearing before this Committee in January 1993, I am particularly pleased that President Clinton has nominated her to be OMB Director because, as I said then and still believe, Dr. Rivlin understands the magnitude of our problems and the urgency for finding solutions.

For the record, Committee rules require that an inquiry be conducted into a nominee's experience, qualifications, suitability, and integrity. I want to acknowledge Dr. Rivlin's cooperation in providing the necessary information for the Committee to complete its investigation.

The Committee has received from the nominee financial statements, as well as detailed information on her educational background, employment record, and professional achievements. In addition, Dr. Rivlin has responded in writing to a number of prehearing questions submitted by the Committee concerning the duties and responsibilities of the OMB Director's position.

Copies of the biographical information and prehearing responses will be placed in the record as part of this hearing and are available upon request.

The financial statements are available for inspection by the public in the Committee office.

Committee investigators have also examined the financial disclosure reports submitted by the Office of Government Ethics to ensure that no conflicts of interest are present. Finally, I should note

that Senator Roth and I, as the Committee's Chairman and ranking minority member, have reviewed the FBI background investigation report and all other pertinent matters on Dr. Rivlin.

With that said, I want to welcome Dr. Rivlin to our hearing this morning. I know of no opposition to her nomination, and we will work toward getting her confirmed as OMB Director just as soon as we possibly can get it through.

Senator Roth.

#### OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. It is indeed a pleasure to welcome Dr. Rivlin and to congratulate her on her nomination to be the new Director of the Office of Management and Budget.

Dr. Rivlin, I am sure, as you hear the questions, that you will find out this Committee is as interested in the "M" as it is in the "B" side of your agency. As the Chairman and I have both repeatedly underscored in recent years, we are particularly sensitive to management issues because of the natural tendency to be preoccupied with budget issues.

I think it is fair to say that there has been progress in righting this imbalance, starting with the previous administration and continuing in the current administration. However, I will be very much interested in hearing your explanation of the OMB 2000 organization.

I know that the administration has been a strong supporter of my Government Performance and Results Act. In fact, Dr. Rivlin's predecessor, Leon Panetta, referred to it as the foundation for reinventing government. I am under the impression that Dr. Rivlin is at least equally as enthusiastic about this new law and that you have focused much of your attention on its implementation. I hope that you will share with us today your thoughts on why you feel its successful implementation is important to improving the Federal Government and what your plans are to make sure that happens.

In that regard, I was pleased to see your recent instructions to Federal agencies on how to prepare their upcoming budget submissions and your emphasis on the need for performance goals to justify those requests.

Now, the Act requires that in fiscal year 1998 and 1999 there be pilot projects in program performance budgeting, and it sounds like OMB is already making some movement in that direction, so I hope we can hear your thoughts on this subject. I believe that a more formal and systematic linkage must be developed between program budgets and expected results, if we are ever to have any hope of achieving a government that works better and costs less.

A key element in more efficient government lies with the enactment of the Federal Acquisition Streamlining Act, and I think OMB has a tremendous challenge and opportunity with respect to implementing this legislation. I am especially interested in the acquisition management reforms in the areas of developing and meeting agency top-level goals, establishing a system of performance incentives, and developing a results-oriented acquisition process.

Much has been written about the angry electorate that is frustrated with government. Their frustration should be no surprise.

Government is a bad value. People are required to buy their government. By law, they must pay their taxes. What do they get in return? Government that is bloated, disorganized, unaccountable, and removed.

Wholesale change needs to be made, and I think my Performance Goals Act was only the beginning. We need to do more. We need to reinvent Federalism, as our distinguished nominee has previously suggested, so that there are distinct lines of accountability for the many divisions of Government.

You may recall, Dr. Rivlin, when you were here before us at the beginning of this administration I underscored and emphasized the importance that I attached to having distinct lines of accountability and why I thought this administration had a unique opportunity to do something about that. So we will be interested in your comments on that.

We also need to reinvent the executive branch by reorganizing it from top to bottom to prepare for the 21st century. Some departments need to be merged with others, some need to be divided, and others perhaps abolished. I have long advocated such reform and was gladdened by the administration's brief interest last year in launching such an effort, as I was saddened by their waning enthusiasm after this Committee reported legislation.

In the meantime, government continues to provide bad value, its quality has declined as its price has risen, and it definitely needs an overhaul. Dr. Rivlin, I think you are one of the handful of people in town who understands this, and I am pleased that you will be the next Director of OMB. I would hope that you would use this central office as a catalyst for this much-needed overhaul of government.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

Senator Stevens.

#### OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Mr. Chairman, I note that our colleague would like to introduce Dr. Rivlin, and I do hope to have the chance to have some questions directed at Alice. We are pleased to see you here.

I don't know about reinventing government, Senator Roth. I would like to see us reinstate some of the things that we used to do through the old Bureau of the Budget that I thought had a very salutary impact on not only the cost of government, but the efficiency of government, and that was the power of the now OMB to coordinate activities of the various agencies so that they did not cause each other to incur increased expense and delay activities that the Congress has mandated and, what is more, cause severe unemployment in the country as various Federal agencies fight with one another in public. It seems to me that this is the main area today that needs to be given attention by OMB, and I hope to have some time to give you some questions in that regard.

Thank you.

Chairman GLENN. Thank you.

Senator Dorgan.

### OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Dr. Rivlin, I am pleased to support your nomination. I think you are eminently well qualified and I think you will do a wonderful job. You have served our country with distinction over the past 3 decades.

I must go to the Senate floor. I am speaking at 10 o'clock very briefly, and then I hope to get back. If the hearing is still going on, I want to ask some questions about the Federal Reserve Board. Today, as you know, the Federal Reserve Board meets once again. It has increased interest rates 5 times in 7 months. It has increased the cost of financing the national debt over the next 5 years by somewhere between \$110 to \$130 billion.

It will have taken back, in secret, with no public debate, no hearings, no thoughtful policy discussion among the American people, about one-fifth of everything that was done last year in the \$500 billion deficit reduction package.

I have great misgivings about what the Federal Reserve Board is doing in monetary policy. The Fed is putting its foot on the brake to try to slow this economy down at exactly the time when there is no credible evidence of inflation on the horizon and at exactly the time when we desperately need more economic growth, not less.

So I am hoping to get back in time to ask you some questions about that. But in any event, this is a nomination that I am very pleased to support, and I think, if confirmed, you will serve our country well as OMB Director.

Chairman GLENN. Thank you, Senator Dorgan.

We are honored to have Senator Levin here to introduce our nominee this morning, one of the most active members of this Committee. Carl, do you want to proceed?

### TESTIMONY OF HON. CARL LEVIN, U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. Thank you, Mr. Chairman and members of the Committee. It was only 20 months ago that this Committee unanimously endorsed Dr. Rivlin's nomination to become Deputy to Leon Panetta, and together they have done a superb job at OMB. I can think of no better qualified candidate to succeed Leon Panetta than Alice Rivlin.

Alice Rivlin has devoted her life to public service. In the 1960's, she served in the administration of President Johnson as Assistant Secretary for Planning and Evaluation at the then Department of Health, Education, and Welfare. From 1975 to 1983, she served as the first Director of the Congressional Budget Office, and deserves much of the credit for the great respect which the CBO commands today. Her nonpartisan, professional, call-it-like-you-see-it style set that new office on the right course.

Immediately prior to her current position, Dr. Rivlin served as the Hirst professor of public policy at George Mason University, and was long associated with the Brookings Institution.

She has been a steadfast supporter of deficit reduction throughout her long and distinguished career. In part, because of the efforts of Leon Panetta and Alice Rivlin, for the first time since the administration of Harry Truman we will see a deficit reduction for 3 years in a row.

At OMB, I am pleased to note we have now seen a more reliable analysis in the presentation of budget estimates to the President. Too often, OMB's projections have been so rosy and unreal that they lacked credibility. Deficits turned out in the end to be tens of billions more, and in one case over \$100 billion more than the estimates that had been provided by the OMB. The OMB is now calling them straight. The deficit estimate in the President's budget for 1994 appears, if anything, to be too high, so there are no smoke and mirrors anymore.

Alice Rivlin has been, as well, a strong voice in this administration for the "M" in OMB. As a matter of fact, her middle initial is "M." Mr. Chairman, you and Senator Roth and Senator Stevens, and I think just about all of the members of this Committee, have pointed out that we have put too much focus on the "B" and not enough on the "M." This administration has made an important start, with the National Performance Review led by Vice President Gore, and I know that Alice Rivlin in running the OMB will ensure that those successes will continue.

So I am proud again, as I had the opportunity 20 months ago, to present Alice Rivlin to this Committee and recommend strongly what you all have indicated will be forthcoming shortly, her confirmation.

Chairman GLENN. Thank you, Senator Levin. Thank you very much.

Ms. Rivlin—Alice Management Rivlin, I guess you are going to be known as from now on—as you are aware, this has to be sworn testimony, so if you will rise, please? Do you swear the testimony you are about to give is the truth, the whole truth and nothing but the truth, so help you God?

Ms. RIVLIN. I do.

Chairman GLENN. Ms. Rivlin, there are several required questions we have of all nominees and I would ask those now.

Is there anything that you are aware of in your background that might present a conflict of interest with the duties of the office to which you have nominated?

Ms. RIVLIN. No, there is not.

Chairman GLENN. Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Ms. RIVLIN. No, I do not.

Chairman GLENN. If confirmed, do you agree, without reservation, to appear and to testify before any duly constituted committee of the Congress?

Ms. RIVLIN. Yes, I do, Mr. Chairman.

Chairman GLENN. Thank you very much. We would entertain any opening statement that you might wish to make before we get to the questions.

Ms. RIVLIN. Let me just say a few things and then I would be delighted to answer any questions that you have.

**TESTIMONY OF ALICE RIVLIN, TO BE DIRECTOR, OFFICE OF  
MANAGEMENT AND BUDGET**

Ms. RIVLIN. I am very pleased to be back before this Committee 20 months after my last confirmation hearing. Those 20 months have been an excellent training course for being the Director of OMB. Not only did I have the opportunity to work with the unusually energetic and knowledgeable Leon Panetta, but during that time I also functioned at times as both the Deputy and in effect the Deputy for Management, both before Phil Lader came and during the approximately 8 months between Phil Lader and the recent confirmation of John Koskinen.

That experience has reinforced a view I have held for a very long time that the central job of the Office of Management and Budget is helping the President manage the government's resources more effectively. I don't believe that is an ancillary job. I believe the main job of the Office of Management and Budget is helping manage resources more effectively.

In the past, I believe the popular view was that the main job was allocation of resources, or budgeting, and that, oh, by the way, the government ought to be managed better. But those days are over. Managing the government's resources better is, as they say, job one.

The Clinton administration has put enormous emphasis on management and performance. The National Performance Review, under the leadership of the Vice President and with the strong support of the President, has been central to our program.

The National Performance Review created the President's Management Council, a very able group, which I was privileged to chair for quite a few months. That group, comprised of the Chief Operating Officers of each of the major agencies, has been digging into management problems. They have been working on streamlining the government and on restructuring their departments.

Those are nice words, but I am here to tell you it is really happening. They are hard actions; they are unglamorous actions. They don't make the papers. They sometimes make the people that have to carry them out appear hard-hearted, but we are really changing how government departments operate, how they are structured, and improving their effectiveness in the process.

Now, streamlining may have been a Clinton-Gore idea that came out of the National Performance Review, but it was the Congress that put it in the law. We now must perform. As we move into the 1996 budget cycle, we will really be dealing simultaneously and interactively with two budgets; the budget for dollars and the budget for people. We are committed, and it is in the law, as you know, to downsizing the government by 272,000 people. We have got to figure out how we are going to do that and make the government not only cost less, but work better.

This focus on management, forced on us by the lack of resources, has made us extremely appreciative of the work of this Committee over the last few years. This Committee apparently figured out some years ago that this day would come, a day when a President had to focus on managing. This Committee gave us the tools, especially the Chief Financial Officers Act, to which you have referred, the Government Performance and Results Act, more recently pro-

curement reform, and other pieces of legislation. The Paperwork Reduction Act is important. This set of tools is what is enabling us to carry this mission forward.

I have had the privilege of chairing the Chief Financial Officers Council. This is also a very able group of people working hard to improve financial management across the government. We are not there yet. As you said, Mr. Chairman, it is going to take a number of years of hard work, but we are making progress.

It is pretty basic and elementary to know how the money is being spent, to have an audit trail that can be traced, and systems up and running that will supply financial information to those who need it quickly. The government is on the track to accomplishing that.

I have long felt that the government paid inadequate attention to the performance of its programs, that we didn't have good ways and weren't trying hard enough to measure what we were buying for the taxpayer's dollar. Senator Roth and I have talked about this subject for more years than probably either of us would like to admit.

I think that if I had come into OMB without the GPRA, I would have been trying to focus attention on performance. But, very fortunately, the GPRA is already law. It makes it much easier for the OMB Director to be able to say to the staff and to the agencies not only would it be important for you to produce performance information, but you must. It is the law. We must perform over the next several years in accordance with the Government Performance and Results Act and we had better start now.

GPRA, it seems to me, is a very well designed law. Even those of us who cared deeply about performance measurement recognized a danger in implementing a performance measurement and budgeting system too quickly. The result would have been an overloading of the system with measures and paperwork that would sink under its own weight, as the PPBS system did in the 1960's.

The GPRA law is better designed than that. It starts with pilots. It takes a reasonable length of time to get these difficult measures in place and to educate the agencies, OMB, and the Congress about the importance of performance.

As Senator Roth said, the main requirements of GPRA come into effect in future budget years, in 1998 and 1999. In this budget cycle that we are going into (1996), however, we will be emphasizing performance measures in our director's review and in our presentations to the President.

One word about OMB 2000. As Leon Panetta and I came in and recognized the crucial importance of management, we perceived that the management function in OMB was there but too often separate from the rest of the operation. It was, in a sense, a kind of stepchild. So we set about looking at the organization of OMB and changing it to make management central to the job of the whole organization.

We created the resource management offices, gave them responsibility for working with the statutory management offices to implement management changes in performance measurement, streamlining, financial management, procurement, and information management. The statutory offices, we believe, play a very impor-

tant function, but they have to be strengthened by having the whole organization working on implementing the policies that they are in charge of formulating.

How is this working? Well so far I believe it is working remarkably well, but the proof will be as we move through the next budget cycle. We have had intensive training of the resource management offices in their new jobs. We have just had a very successful workshop or dialog that involved the entire OMB staff focused on how we will carry out our mission in streamlining and in performance measurement as we move through this budget cycle.

At the agencies, the OMB staff and the White House staff are all beginning to recognize that we are serious about performance and management. This is going to be a different kind of budget cycle, and as we move through it, I hope I can come back and report to you how it has gone. But I can promise you that no one will neglect management issues in this budget cycle from the beginning to the end. The President will have in front of him as much information as we can muster about how the government is performing its job.

Thank you.

#### BIOGRAPHICAL AND FINANCIAL INFORMATION FOR ALICE MITCHELL RIVLIN

##### A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)  
Alice Mitchell Rivlin  
Maiden name: Georgianna Alice Mitchell
2. Position to which nominated:  
Director, U.S. Office of Management and Budget
3. Date of nomination:  
September 16, 1994.
4. Address: (List current place of residence and office addresses.)  
Residence: 2838 Chesterfield Place, N.W. Washington, D.C. 20008  
Office: Office of Management and Budget Room 252, Old Executive Office Bldg. Washington, D.C. 20503
5. Date and place of birth:  
March 4, 1931; Philadelphia, Pennsylvania
6. Marital status: (Include maiden name of wife or husband's name.)  
Married; Sidney Graham Winter
7. Names and ages of children:  
Daughter: Catharine Amy Rivlin, 37,  
Sons: Allan Mitchell Rivlin, 35; Douglas Gray Rivlin, 31
8. Education: List secondary and higher education institutions, dates attended, degree received and date degree granted.  
Radcliffe College, 1953-57; Ph.D. in Economics, 1958; M.A. in Economics, 1955  
Bryn Mawr College, 1948-52; B.A. in Economics, 1952  
Madeira School, 1944-46, 1947-48; High School Diploma, 1948  
University High School, Bloomington, Indiana, 1946-47.
9. Employment record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.  
1/93-Present: Deputy Director, Office of Management & Budget  
1/92-1/93: Hirst Professor of Public Policy George Mason University, Fairfax, VA (on leave Brookings Institution)  
1987-1/93: Senior Fellow, Economic Studies Brookings Institution, Washington, D.C. (on leave of absence 1/92)  
Spring Semester 1988: Visiting Professor John F. Kennedy School of Government, Harvard University, Cambridge, MA  
1983-87: Director, Economic Studies, Brookings Institution, Washington, D.C.

- 1975-83: Director, Congressional Budget Office, Washington, D.C.  
1969-75: Senior Fellow, Economic Studies Program Brookings Institution, Washington, D.C.  
1971: Editorial Writer, *The Washington Post* (4 months leave from Brookings Institution)  
1968-69: Assistant Secretary for Planning and Evaluation, U.S. Department of Health, Education and Welfare, Washington, D.C.  
1966-68: Deputy Assistant Secretary for Program Coordination, U.S. Department of Health, Education and Welfare, Washington, D.C.  
1958-66: Economist, Economic Studies Program, Brookings Institution, Washington, D.C.  
1961-62: Staff Member, Advisory Commission on Intergovernmental Relations (on leave from Brookings Institution)  
1957-68: Research Fellow, Economic Studies Program, Brookings Institution, Washington, D.C.  
1954-67: Teaching Fellow and Tutor in Economics, Harvard University, Cambridge, MA  
1952-53: Research Assistant, U.S. Mutual Security Agency, Paris, France
10. Military Service: List any military service, including dates, rank, and type of discharge.  
None.
  11. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.  
1983-92: Panel of Economic Advisers, Congressional Budget Office  
1989-90: Chair, Commission on Budget and Financial Priorities of the District of Columbia
  12. Previous Appointments: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate? If so, please list each such position, including the date of nomination, Senate confirmation, and Committee hearing, if any.  
Yes. Previous appointments:  
Deputy Director, Office of Management and Budget  
Senate Governmental Affairs  
Date of Nomination: January 1993  
Senate Confirmation: January 1993  
Assistant Secretary for Planning and Evaluation, U.S. Department of Health, Education and Welfare  
Senate Finance, No hearing.  
Date of nomination: May 1968  
Senate Confirmation: June 1968
  13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agency, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.  
Current: None.  
Past Affiliations:  
Director, Ryder Systems, Inc.  
Director, Union Carbide Corporation,  
Director, Unisys Corporation  
Director, TJ International  
Director, Committee for a Responsible Federal Budget  
Director, Washington Women Outdoors  
Director, National Bank of Washington  
Director, Eugene and Agnes E. Meyer Foundation  
Director, Rockefeller Foundation  
Director, D.C. Service Corps  
Los Angeles Times Board of Economists  
Consultant, KPMG Peat Marwick (on a contract with Government of North Carolina, 1992)  
Chair, Governing Council, The Wilderness Society
  14. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.  
Member, American Economic Association (Past National President, Vice President, Member of Executive Committee)

Member, Council on Foreign Relations  
 Member, Madeira School Alumnae Association  
 Member, Bryn Mawr Club of Washington  
 Member, Radcliffe Club of Washington

## 16. Political affiliations and activities:

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None.

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Occasional consultation on issues with Clinton Campaign, 1992.

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

Political contributions:

## 1990:

Emily's List	\$1,000
Ann Richard's Committee (Texas)	350
Josie Heath for Senate (Colorado)	500
Kane for Congress (Washington, D.C.)	300
Hoosiers for Long (Indiana)	500
Mikulski for Senate (Maryland)	100
Patsy T. Mink Campaign Committee	250
Bellamy for the '90s (New York)	500
Jolene Unsold Campaign	500
Committee for Tim Wirth	400
William Golden Committee (Mass.)	300
Committee to Re-elect Wayne Owens	100
Bill Gray '90 Committee	100
Sandy Scofield for Congress	500
Friends of Connie Morella	250
Rhodes for Congress Committee	150
Citizens for Eleanor Holmes Norton	250
Friends of Senator Carl Levin	1,000

## 1991:

Friends of Jim Moody	\$ 100
Friends of Connie Morella	100
Citizens for Eleanor Holmes Norton	500
Jim Hunt Committee	500
Citizens for Senator Wofford	500
Ferraro for Senate	100
Wholey for State Legislature	500
Yrun for Congress Committee	500
Mikulski for Senate	500
Leo J. Corbett Committee	100

## 1992:

Democratic National Committee	\$1,000
Emily's List	3,000
Levin for Congress	500
Sanford for Senate	100
Hoosiers for Long	100
Mikulski for Senate	100
Jim Jontz for Congress	100
Owens for Senate Committee	500
Yeakel for Senate	500
Eshoo for Congress	500
Friends of Jim Moody	100
Boxer for Senate	500
Unsold Campaign	100
D.C. Dollars for Democrats	30

## 1993:

Linda Gzingo for Major of LA	\$ 250
Democrats 2000	1,000
Lynn Yeakel for Senate	100
Terry for Governor (MarySue Terry, VA)	500
Roberts for Governor (Barbara Roberts, OR)	250

Shipnuck for Congress (Barbara Shipnuck, CA)	250
Blackwell for Congress (Miss.)	250
Brown for Governor (Kathleen Brown, CA)	250
Emily's List	500

## 1994:

Friends of MMM (Marjorie Margolies-Mezvinsky, PA)	\$ 150
Emily's List	500

15. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

1983-87: MacArthur Foundation Prize Fellowship

1984: LL.D, Yale University

1978: Doctor of Science, University of Indiana

1975: LL.D, University of Maryland

1975: LL.D, University of Michigan

17. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. It would be helpful for the Committee to have three copies of each published writing. Please denote any of those for which you are unable to provide copies.

See Appendix 1 (at the end of biographical information)

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and are on topics relevant to the position for which you have been nominated.

I have given remarks from notes and do not have copies of speeches.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress? If so, please provide details, including date(s).

See Appendix 2 (Retained in the Committee files)

20. (a) Do you know why you were chosen for this nomination by the President?

I believe I was chosen because I have extensive experience in federal budget and policy issues.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

For the last 18 months I have served as Deputy Director of OMB. As the Founding Director of the Congressional Budget Office (CBO), I built a strong budget agency and ran it successfully for 8 years. I also have experience in managing, planning and evaluation in the Department of Health, Education and Welfare, and have written and lectured extensively on public policy, especially economic and budget policy at the federal level.

## B. FUTURE EMPLOYMENT RELATIONS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

My present employer is the U.S. Government. I have already severed all business connections.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

## C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

None.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

None. I have established a qualified diversified blind trust in connection with my confirmation to be Deputy Director, and intend to continue that arrangement if confirmed as Director.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

As Deputy Director of the Office of Management and Budget, I have engaged in discussions with members and staff to explain and promote the President's program.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

Any potential conflicts that arise will be resolved through recusal or other appropriate action. I have established a qualified diversified blind trust and I have divested all assets that could pose a conflict.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

## D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

I have not been an officer of any corporation or other type of business. I have been a Director of corporations such as Union Carbide and Unisys, which have substantial litigation.

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense?

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

## E. FINANCIAL DATA

(Retained in Committee files)

## APPENDIX I

## PUBLICATIONS

## BOOKS

*Revising the American Dream: The Economy, the States and the Federal Government*, Washington, D.C. 1992

*Caring for the Disabled Elderly: Who Will Pay?* (with Joshua Wiener), Washington, D.C.: The Brookings Institution, 1988.

*Economic Choices 1987* (with Henry J. Aaron, Harvey Galper, Joseph A. Pechman, George L. Perry, Charles L. Schultze), Washington, D.C.: The Brookings Institution, 1986.

*The Swedish Economy* (co-editor with Barry P. Bosworth), Washington, D.C.: The Brookings Institution, 1987.

*Economic Choices 1984* (editor and contributor), Washington, D.C.: The Brookings Institution, 1983.

*Ethical and Legal Issues of Social Experimentation* (co-editor with Michael Timpane), Washington, D.C.: The Brookings Institution, 1975.

*Planned Variation in Education: Should We Give Up Or Try Harder?* (co-editor with Michael Timpane), Washington, D.C.: The Brookings Institution, 1975.

*Setting National Priorities: The 1974 Budget* (with Charles L. Schultze, Edward R. Fried, Nancy H. Teeters), Washington, D.C.: The Brookings Institution, 1973.

*New Approaches to Public Decision-Making*, Canada: Economic Council of Canada, 1972.

*Setting National Priorities: The 1973 Budget* (with Charles L. Schultze, Edward R. Fried, Nancy H. Teeters), Washington, D.C.: The Brookings Institution, 1972.

*Setting National Priorities: The 1972 Budget* (with Charles L. Schultze, Edward R. Fried, Nancy H. Teeters), Washington, D.C.: The Brookings Institution, 1971.

*Systematic Thinking for Social Action*, Washington, D.C.: The Brookings Institution, 1971.

*The U.S. Balance of Payments in 1968* (with Walter Salant and others), Washington, D.C.: The Brookings Institution, 1963.

*Measures of State and Local Fiscal Capacity and Tax Effort* (with Susan Mushkin), U.S. Advisory Commission on Intergovernmental Relations, 1962.

*Microanalysis of Socioeconomic Systems: A Simulation Study* (with Guy Orcutt and others), Harpers, 1961.

*The Role of the Federal Government in Financing Higher Education*, Washington, D.C.: The Brookings Institution, 1961.

## SUPERVISED PREPARATION OF

*Financing the Nation's Capital* (The Report of the Commission on Budget and Financial Priorities of the District of Columbia), November 1990.

Numerous reports of the Congressional Budget Office, 1975-83.

*Toward a Long-Range Plan for Federal Financial Support for Higher Education* (U.S. Department of Health, Education, and Welfare), January 1969.

*Toward a Social Report* (U.S. Department of Health, Education, and Welfare), January 1969.

*Medical Care Prices. A Report to the President* (U.S. Department Health, Education, and Welfare), February 1967.

## SELECTED ARTICLES, PAPERS, ETC.

"Beyond Alliances: Global Security Through Focused Partnerships" (with General David C. Jones (USAF, Ret.) and General Edward Meyer USA, Ret.). A Study Funded by The John D. and Catherine T. MacArthur Foundation and The Rockefeller Foundation, October 1990.

- "Simulating Policy Alternatives for Long-Term Care: An Example of the Orcutt Approach," *Journal of Economic Behavior and Organization*, Vol. 14, No. 1, September 1990.
- "Understanding Economic Policy: A Citizen's Handbook" (with Carol G. Cox), Washington, D.C.: League of Women Voters Education Fund, 1990.
- "The Case for Common Shared Taxes," *NTA Forum*, Fall 1990.
- "Wanted: A New State-Level Tax To Prepare Us for the 21st Century," A Commentary, *Governing*, April 1990.
- "The Continuing Search for a Popular Tax," *The American Economic Review*, Vol. 79, No. 2, May 1989.
- "Insuring Long-Term Care," (with Joshua M. Wiener), George L. Maddox and M. Powell Lawton, eds., *Annual Review of Gerontology and Geriatrics*, Vol. 8, 1988.
- "Economic Policy," (with Paul H. O'Neill, W. Michael Blumenthal and James D. Robinson, III), *American Agenda: Report to the Forty-First President of the United States of America*, Washington, D.C.: American Agenda, Incorporated.
- "Who Should Pay for Long-Term Care for the Elderly?," *The Brookings Bulletin*, Vol. 6, No. 3, Summer 1988.
- "Systematic Analysis of Defense Issues: The Role of the Congress," *Naval War College Review*, Vol. XLI, No. 4, Seq. 324, Autumn 1988.
- "Economics and the Political Process," (Presidential address delivered at the ninety-ninth meeting of the American Economic Association, December 29, 1986, New Orleans, Louisiana), *The American Economic Review*, Vol. 77, No. 1, March 1987.
- "The Tax Reform Act," *The Senior Economist*, Vol. 2, No. 2, Spring 1987.
- "Unsnarling the Process: Seven Ways to Improve Economic Policymaking," *Public Welfare*, Vol. 45, No. 3, Summer 1987.
- "The Need for a Better Budget Process," *The Brookings Bulletin*, Vol. 4, No. 3, Summer 1986.
- "Thoughts on Public Expenditures," *Eastern Economic Journal*, Vol. XI, No. 1, January-April 1985.
- "Reform of the Budget Process," *The American Economic Review*, May 1984; available as The Brookings Institution General Series Reprint No. 402.
- "Why and How to Cut the Deficit," *The Brookings Bulletin*, Vol. 2, No. 4, Summer 1984.
- "The Political Economy of Budget Choices: A View from Congress," *The American Economic Review*, May 1982.
- "Income Distribution—Can Economists Help?," *The American Economic Review*, May 1975; available as The Brookings Institution General Series Reprint No. 307.
- "How Can Experiments Be More Useful?," *The American Economic Review*, May 1974; available as The Brookings Institution General Series Reprint No. 290.
- "Social Policy: Alternate Strategies for the Federal Government." Presented and published as Woytinsky Lecture No. 3, Michigan: The University of Michigan, 1973; available as Brookings Institution General Series Reprint No. 288.
- "Experimentation in Urban Education," (Spaulding Lecture delivered March 1971), *Issues in Urban Education*, New Haven, Connecticut: Yale University, 1972.
- "New Approaches to Public Decision-Making." Special Study No. 18 prepared for the Economic Council of Canada, January 1972.
- "Why Can't We Get Things Done?," *The Brookings Bulletin*, Vol. 9, No. 2, Spring 1972.
- "Rethinking the Role of the Federal Government in Elementary and Secondary Education for the Seventies," with Robert W. Hartman, *Needs of Elementary and Secondary Education for the Seventies*, Washington, D.C.: U.S. House Committee on Education and Labor, March 1970.
- "Growth and Change in Higher Education," with June O'Neill, *Proceedings of the Academy of Political Science*, Spring 1970.

- "Education, Politics, and Federal Aid," *The Progressive*, October 1970.
- "Social Goals and Federal Support of Higher Education: The Implications of Various Strategies," with Jeffrey H. Weiss, U.S. Joint Economic Committee, *Compendium of Papers on The Economics of Higher Education in the United States*, 1969.
- "The Planning, Programming, and Budgeting System in the Department of Health, Education, and Welfare: Some Lessons from Experience," Subcommittee on Economy in Government of the U.S. Joint Economic Committee, 91st Congress, 1st Session, *Compendium of Papers on the Analysis and Evaluation of Public Expenditures: The PPB System*, Vol. 3, Pt. V, 1969; available as The Brookings Institution Reprint No. 162.
- "Population Growth and the American Economy," F. X. Quinn (ed.) *Population Ethics*, Corpus Books, 1968.
- "Privacy, Poverty, and Old Age," with John C. Beresford, *Demography*, Vol. 3, No. 1, 1966. Reprinted in Jeffrey K. Hadden and Marie L. Borgatta, Editors, *Marriage and the Family: A Comprehensive Reader*, F. E. Peacock Publishers Inc., 1969.
- "Critical Issues in the Development of Vocational Education," *Unemployment in a Prosperous Economy* (William G. Bowen and Frederick C. Harbison, eds.), Princeton, 1965; available as Brookings Institution Reprint No. 112.
- "Characteristics of 'Other Families,'" with John C. Beresford, *Demography*, Vol. 1, No. 1, 1964.
- "Research in the Economics of Higher Education: Progress and Problems," Selma J. Mushkin (ed.) *Economics of Higher Education*, Washington, D.C.: U.S. Department of Health, Education, and Welfare, 1962; available as The Brookings Institution Reprint No. 63.
- "An Economic and Demographic Model of the Household Sector: A Progress Report." (with Guy H. Orcutt), National Bureau of Economic Research, New York, *Demographic and Economic Change in Developed Countries*, Princeton: Princeton University Press, 1960.

## PRE-HEARING QUESTIONS FOR ALICE RIVLIN TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

### I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

*Question 1.* Were any conditions, expressed or implied, attached to your nomination to be Director of the Office of Management and Budget?

Answer. No.

*Question 2.* Have you made any commitments with respect to the policies and programs you will attempt to implement as Director of OMB? If so, what are they?

Answer. No.

*Question 3.* Are there any issues involving OMB from which you may have to disqualify yourself? If so, please explain.

Answer. No.

### II. ROLE AND RESPONSIBILITIES OF OMB DIRECTOR

*Question 1.* What do you consider your primary responsibilities and priorities to be as OMB Director?

Answer. My primary responsibilities and priorities will involve carrying out the principal functions of OMB:

- Advising the President on budget and economic policies for the Nation;
- Managing the preparation of the budget of the United States;
- Supervising the administration of the budget;
- Seeking to improve governmental efficiency and effectiveness through improved management of the government (i.e. improving both general management and Federal financial management systems);
- Overseeing the regulatory review, legislative coordination, and Executive Order coordination functions;

- Contributing to the implementation of improved government-wide procurement policies and practices; and
- Overseeing Paperwork Reduction Act activities.

Question 2. OMB includes several statutorily created offices and positions, e.g., the Deputy Director for Management and the Offices of Federal Financial Management, Information and Regulatory Affairs, and Federal Procurement Policy.

a. What do you consider to be your responsibilities with regard to these offices and positions?

Answer. During my tenure as Deputy Director, I had the opportunity to assist the Director in directly managing and working with the statutorily created offices prior to the confirmation of a new DDM. That experience has given me particular insight into their roles and activities. I have been impressed by both the leadership and staffs in each of these offices and believe my role is to work closely with the DDM and the offices themselves to guide and support their efforts across government as well as to enhance their effectiveness by ensuring that their activities are integrated into the budget process and other activities of the Resource Management Offices (RMOs).

b. Please describe your views and plans regarding the relationship between, and the responsibilities of, the Deputy Director and the Deputy Director for Management.

Answer. Under OMB 2000, we have made it clear that the Director, Deputy Director and Deputy Director for Management (DDM) operate as a team to which the rest of OMB reports. All of us work with both the RMOs and the statutorily created offices as we seek to implement the President's agenda in the most effective and efficient manner. We believe the combined and coordinated leadership of individuals with varied experience in these senior positions can only make OMB more effective.

Question 3. Please describe your views on the goals and implementation of the current OMB reorganization effort known as "OMB 2000." Include in your answer a discussion of how OMB 2000 affects the roles and responsibilities of OMB's statutorily created offices and positions and how it affects their relationships with other OMB offices and positions?

Answer. The goals of OMB 2000 were, I believe, succinctly stated in the memo that then-Director Panetta and I issued in announcing OMB 2000 last March. Specifically, we said that for OMB "... to be successful in improving Executive Branch operations, OMB's oversight role must better integrate budget analysis, management review and policy development roles." We also said that we needed to "improve our capacity and opportunity to do mid-term analysis."

The OMB 2000-based reorganization has resulted in improved coordination between the statutorily created offices and the other offices in OMB. For example, OIRA staff now routinely attend RMO staff meetings and RMO staff are invited to the biweekly meetings of the OIRA Administrator and OIRA staff to discuss pending issues. This "cross pollination" has resulted in closer working relations between OIRA and RMO staff, thus increasing the effectiveness of both entities.

The statutorily created offices have two main roles: (1) developing government-wide policies and guidance materials, and (2) working closely with the RMOs to oversee the implementation of these policies. The offices have provided technical training to RMO staffs while also providing monitoring tools and working jointly with them to institute needed improvements in the agencies.

OFPP's recent restructuring will strengthen its ability to carry out its statutory mission of developing government-wide policy guidance, providing leadership in developing legislative proposals to improve the procurement process, leading the Cost Accounting Standards Board, and participating in the Federal Acquisition Regulatory Council. With the reorganization under OMB 2000, we expect greater institutional support for OFPP's statutory mission. In addition, cooperation between OFPP and the RMOs regarding OFPP government-wide management initiatives has increased, including cooperative efforts in areas, such as electronic commerce and performance-based service contracting. And OFPP and RMO personnel are cooperating

in promoting agency-specific procurement reform initiatives, such as the Department of Energy's contract reform efforts.

The integration of some OFPP personnel into the RMOs enhances our ability to address procurement and contracting issues in the larger context of agency budgets and personnel matters. The RMO's responsible for the major procuring agencies—such as the Department of Defense, Department of Energy, the Environmental Protection Agency and NASA—also have procurement specialists working specifically on procurement issues. These procurement specialists are being jointly supervised on a matrix management arrangement by their RMO and OFPP.

Question 4. Has OMB developed performance measures for OMB in light of its OMB 2000 reorganization? If so, please make them available to the Committee. If not, please explain when such measures will be developed.

Answer. OMB has not developed performance measures. It is difficult to develop quantitative measures for a central management agency that doesn't run programs or deliver services. The true test will be whether the FY 1996 and subsequent budget processes are more effective in focusing attention on management issues and whether the management agenda (including procurement reform and financial management reform) advances more rapidly than under previous structures.

### III. ECONOMIC AND BUDGET POLICY

Question 1. Please describe any changes in your views with regard to economic and budget policy since your 1993 confirmation as Deputy Director.

Answer. My views as such have not changed, but the economic and budgetary circumstances have changed considerably.

The Congress passed the President's economic plan, including substantial deficit reduction. The economy has responded accordingly. We now have more rapid growth of output and employment, lower unemployment, and stable prices. Deficit reduction has cut the Federal Government's credit demands, stimulating high levels of private business investment. Interest rates are off of their lows because of the more rapid economic growth, but they remain at or below the levels at the time when the Administration took office, and well below the levels of the preceding two decades. The budget deficit has declined even faster than the President forecast when he announced his economic plan; we now project deficit reduction over 1994-99 of not \$505 billion, but \$692 billion.

Much remains to be done. The Administration has made clear that the deficit will begin to rise again in dollar terms (though it will remain flat as a percentage of GDP), because of the rapid rise of health care costs. Comprehensive health reform remains essential to long-term control of the deficit. With continued responsible policymaking, we will have a smaller debt burden, and a greater legacy of private investment, to leave to our children and succeeding generations.

### IV. BUDGET PROCESS

Question 1. Please describe any changes in your views with regard to the budget process since your 1993 confirmation as Deputy Director. Include in your answer your views on the recommendations of the National Performance Review (NPR), regarding reform of the budget process.

Answer. The Administration inherited a budget decisionmaking structure that was not well suited to the need for changes in the direction of government policies. Although the budget process has demanded, and successfully produced, numerous examples of useful data about program results, the paperwork produced by the process reflected bias toward the incremental needs of the government's bureaucracy. Basic measurement and evaluation of these programs was hard to come by.

The problems in the budget process were not caused by the federal personnel responsible for budget formulation. Most federal budget specialists are sharply focused, hard working professionals. The core of the problem, rather, was the failure of the budget process to change along with a changing world and a changing economy—a failure of leadership.

The achievement of this Administration was to move quickly to open up the process to address the new challenges.

To prepare the FY 1994 budget that was required shortly after the President's inauguration, the Office of Management and Budget expanded the role of the White House staff and other organizations—the National Economic Council (NEC), Domestic Policy Council (DPC), and National Security Council (NSC).

Even though the 1994 budget proposals were assembled literally as the members of the new Administration were taking their seats, OMB went to great lengths to involve the newly arrived leadership of Executive Branch agencies with budget decisions and to communicate priorities. The NEC, in particular, organized frequent meetings with the President and agency heads, in which OMB's initial drafts of the budget legislation were subjected to broad discussion and review.

The FY 1995 Budget process was probably one of the fairest, most open, and most cooperative processes of any Administration. A series of meetings were held between OMB and the agencies over the summer of 1993 to discuss major issues and priorities. A number of these meetings addressed issues that cut across several agencies. As a result of these meetings, OMB provided refined budget guidance to the agencies in late summer.

The President then spent an extraordinary amount of time meeting with every one of his cabinet secretaries as well as other key agency heads to discuss their budgets, 21 in all. In the past, most Presidents had not seen fit to meet with cabinet members before making their budget decisions. In these meetings, presentations were made by both OMB and the agency, the president asked questions and then led a discussion. The meetings were attended by White House staff as well as NBC representatives. OMB went through both the broad and specific issues with the President, on both specific Departments as well as government-wide issues.

The new direction in budget decisionmaking, emphasizing more communication and interaction, has continued to be refined and improved for the FY 1996 Budget. Agencies again received early guidance of their allocations for FY 1996 under the discretionary spending and FTE limits established in the law. OMB has also continued budget meetings with other elements of the White House and Treasury to discuss crosscutting budget issues for the FY 1996 budget and the longer term.

After working hard for passage of the Government Performance and Results Act (GPRA), OMB has asked agencies to provide information on performance measurement in the FY 1996 agency requests, and will publish performance measurement information in the FY 1996 budget.

The changes, and the consequences for the budget and the economy that are flowing from this new process, are one of the most important success stories of this Administration. The reforms parallel proposals made by the NPR in its September report. We have implemented the NPR recommendations and are continuing to improve.

## V. OMB MANAGEMENT ROLE

**Question 1.** Please describe your views on the management problems facing OMB and the Federal Government as a whole. Include in your answer any changes in your views since your 1993 confirmation as Deputy Director.

**Answer.** The Federal Government is facing some of the same management challenges that have confronted the private sector the past several years. The hierarchical management configuration that was effective for so many decades has proven to be inefficient and unresponsive to the needs of a modern society.

The place to begin in addressing these management problems is an articulation of the mission of an organization, which often causes us to ask questions we have forgotten were important. Who are our customers? What are the services and products we are trying to deliver to them? How should we measure our success? What are the constraints upon our ability to meet these goals?

Once a Department has a vision of where it's going, a strategic plan needs to be developed to achieve that vision. Too often throughout the Government, we find agencies and personnel simply going through the motions of doing today and planning for tomorrow based solely on what we did yesterday. Any changes are incremental additions or subtractions from what we know best, which is what we have been doing. Rigidity is the result.

Once an agency or program knows where it is going, it can begin to address meaningfully the restructuring necessary to get it there. Agencies and

departments across the Federal Government are in the process of designing streamlining plans that will enable them to meet their missions and their goals. But this is only the start of the journey. As all of us have discovered, it is a difficult and complicated process to develop an appropriate streamlining plan. How do we empower employees to be more responsible and accountable for their work? How do we determine which layers of review and supervision are unnecessary and the appropriate size and function of headquarters operations? There is no more significant management undertaking going on than this effort.

A serious management challenge for the Government is the implementation and execution of such streamlining plans. The Federal work force will be reduced by the 272,900 FTEs now required by statute. But even if this reduction is pursuant to well-designed streamlining plans, those plans will not self-execute. We will need to provide employees with the training, guidance, support and resources necessary if they are to succeed in their new roles and if we are to succeed in providing a government that runs better and costs less.

Another significant part of our effort to improve management in the Federal Government must be directed toward the continued improvement of our financial information systems as discussed in my answer to question 3 below. The management problem we confront in this area is to insure that we improve on our ability to design and procure the appropriate information technology systems to meet our needs.

At OMB, we have reorganized the way we do business in an attempt to meet the management needs of the Government. It has become apparent that management problems do not exist in abstraction but grow out of program operations. Thus, when we review an agency's budget requests we must be able to ascertain:

- How a particular program is being managed,
- What its goals are,
- What measures of performance we have,
- Whether we can properly account for the funds that are being devoted to this area, and
- Whether we are being efficient in the procurements related to this program.

We are confident that we can now bring a more consistent perspective across OMB to these questions as a result of integrating them into the budget process. But, just as with the Government's attempts to manage itself better, reorganizations are not implemented overnight. We are involved in the same questions of insuring that our goals are articulated and understood, and that the necessary training and resources are provided to our employees to allow them to perform their new roles successfully. Change is difficult and exciting at the same time.

My views on these matters have not changed in any fundamental way since my confirmation as Deputy Director. I am even more strongly committed to do my best to improve the management of the Federal Government.

**Question 2.** What are your views on the CFO Act's consolidation of OMB Federal management responsibilities under the Deputy Director for Management? What operational responsibilities will the DDM have under "OMB 2000"?

**Answer.** The CFO Act assigns to the DDM a host of financial and general management duties and responsibilities. I fully support the mandates in that Act. I would point out, however, that the successful implementation of these responsibilities requires the participation of all of OMB, not just the statutorily created offices. Hence, I believe that the OMB 2000 reorganization strengthens the Federal Government's management role and provides additional resources to the DDM to carry out those functions. OMB's new DDM John Koskinen in his confirmation questions to this committee, stated that, as part of his OMB-wide responsibilities, one of his "first activities will be to work with all the senior executives at OMB to develop a management program for OMB that sets clear priorities for specific management improvement activities." That effort has already started. He already has met with all OMB staff, including RMOs, for their input on management and budget issues, and is now meeting both individually and government-wide with agency Chief Operating Officers, CFOs, and Inspector Generals.

**Question 3.** Please describe your views on the need and prospects for Federal financial management improvement. Include in your answer any views on improving the effectiveness of the Office of Federal Financial Management.

**Answer.** The recently issued *Federal Financial Management Status Report and 5-Year Plan* describes the accomplishments, status and plans for financial management improvements in the Federal Government. The report indicates that much has been accomplished in the past several years, but much more remains to be done. In particular, we are pleased that organizational and systems infrastructures are being put in place in the 23 CFO Act agencies to bring about the improvements needed to run government better. Financial reporting policies and standards have been instituted as a foundation for providing information on where resources are being spent and what is being accomplished. A plan has been developed for the rapid development of a nationwide system to deliver government benefits electronically.

In regard to the effectiveness of the Office of Federal Financial Management (OFFM), I am hopeful that we will be able to announce soon our choice for the critical position of Controller. The key, however, to effective financial management is continuity, which we have been able to maintain in both purpose and personnel. The OMB 2000 restructuring should be able to enhance the effectiveness of OFFM by leveraging its activities through the Resource Management Offices (RMOs). I also am very optimistic about leveraging the resources of the agency CFO offices who have the primary responsibility and authority to bring about the improvements mandated by the CFOs Act. OMB's RMOs and OFFM can provide guidance, help remove obstacles, and encourage interagency sharing, but the agencies are where the CFOs Act will succeed or fail. The recent adoption of a financial management vision statement, goals, and strategies, and the restructuring of the CFO Council to provide the agencies' policy and career officials with a greater "ownership" of the financial management improvement program should help strengthen financial management in the agencies.

**Question 4.** What are your views on the need and prospects for improvement in paperwork reduction, information resources management, and regulatory review? Include in your answer any views on improving the effectiveness of the Office of Information and Regulatory Affairs.

**Answer.** Since the beginning of this Administration, there has been dramatic improvement in the Office of Information and Regulatory Affairs (OIRA). The new E.O. 12866 establishes more carefully focused goals and more detailed procedures, assuring openness and accountability, under which OIRA carries out regulatory review. The "I" is back in "OIRA," in that OIRA has undertaken a number of substantive projects to improve information resources management, e.g., the substantive improvements to OMB Circular A-130, the "Government Information Locator Service" (GILS) initiative, and OIRA support for the GAO IBM "best practices" guidance. OIRA staff worked closely with Congressional staff on legislation to reauthorize appropriations for OIRA and to amend the Paperwork Reduction Act to make it stronger and more effective, resulting in a bill strongly supported by this Administration that was reported unanimously out of committee. We appreciate this support. I believe OIRA will continue to improve its effectiveness in carrying out its designated duties.

**Question 5.** What are your views on the need and the prospects for improvements in Federal procurement? Include in your answer any views on improving the effectiveness of the Office of Federal Procurement Policy.

**Answer.** I believe there are a number of areas in which we can improve the Federal procurement process and we are making substantial progress in many of them. The Administration's blueprint for improving the Federal procurement process is provided in the recommendations of the Vice President's National Performance Review. If we are to achieve the stated goal of the NPR of a government that works better and costs less, we must make improvements in the procurement process. One of my highest priorities will be to support the efforts to complete the conversion from a paper-based contracting system to an electronic system. The project being lead by the OFPP Administrator to develop the electronic commerce/electronic data interchange system for procurement is the beginning of a revolution in how we conduct our procurement.

We are moving away from a system of rigid and complex regulations designed to control every step of the process to a system that recognizes the need to serve customers more effectively. To do this, we must allow procurement officers to exercise reasonable discretion and good business judgment in their procurement decisions. I also consider the project to rewrite the Federal Acquisition Regulation an essential element of procurement streamlining.

As Deputy Director, I have fully supported and, if confirmed, expect to continue to support the initiatives on contractor past performance, alternative dispute resolution, improving contract administration, and performance-based service contracting. I am also committed to the efforts to improve the professionalism of the procurement work force.

With regard to improving the effectiveness of the Office of Federal Procurement Policy, I support the OFPP Administrator in his procurement reform efforts and management initiatives of OFPP for reform within the Departments and Agencies. In addition, integration of OFPP initiatives within the RMOs is a new means of enhancing the effectiveness of OFPP.

**Question 6.** What are your views on the need and prospects for improvements in program evaluation, performance measurement, human resources management, and other government-wide management matters, heretofore overseen by the General Management Division?

**Answer.** In my judgment, the need and prospects for improvements in the functions of the former General Management Division and government-wide management matters generally have been increased and strengthened substantially by three factors or events.

First, the President's economic plan, adopted by the Congress last year, with its real caps on discretionary spending, is forcing us to look at how well programs are operating. We simply do not have the luxury of adding new programs and disregarding inefficiency in old ones. This President has proposed substantial investments for which we can only find the budgetary resources if we weed out what does not work and streamline that which remains. It is interesting to note that the focus on improved management in the private sector has been spurred, to a large extent, by similar external pressures—in that case, both domestic and foreign competition.

Second, the enactment of the Government Performance and Results Act (GPRA) has given us a process for introducing and expanding the use of performance information into the decision-making process. One of my highest priorities as Deputy Director, which I would certainly not abandon as Director, has been to make the resource allocation process more performance and less input driven. The GPRA, an initiative of this Committee, gives us a plan and timetable for advancing the use of performance information in resource allocation and management.

Finally, the implementation of the restructuring of OMB, OMB 2000, has given us an organizational framework for making real management change happen. As I have said to some of the Members of this Committee, I can no longer imagine a bifurcated (management-side and budget-side) OMB trying to deal with agency streamlining, improving customer service or implementing the GPRA. Policy offices now have greater leverage so that when, for example, the OFPP Administrator is trying to advance electronic commerce, he has a virtual staff of all of the Resource Management Offices (RMO). In some cases, like human resources, the lead for a government-wide policy area is now vested in an RMO. As a result our capacity in these areas has been enhanced as well.

**Question 7.** What are your views on how to ensure that government "downsizing" does not result in either an excessive reliance on private contractors or in a greater imbalance of managers to employees?

**Answer.** The Federal Workforce Restructuring Act of 1994 requires that Federal employment be reduced by 272,900 by 1999. The National Performance Review recommended that most of these reductions could be achieved by eliminating the structures that overcontrol and micromanage the Federal Government: headquarters staffs, extraneous management and supervisory layering, personnel and procurement specialists, budget analysts, etc. NPR's goal is to increase the ratio of employees to managers, rather than create an imbalance of managers to employees. OMB is now in the third cycle of receipt and review of agencies' streamlining plans. This current review is an integral part of the Fiscal Year 1996 Budget Process.

In order to achieve these reductions agencies must retain the necessary flexibility to realign FTE to meet continuing mission requirements, to minimize the adverse impacts on employees, and to contract out or contract in those activities on the basis of cost savings to the Government. Any conversions to contracting will be subject to the provisions of Section 5 of the Federal Workforce Restructuring Act of 1994, (P.L. 103-226) which prohibits agencies from converting work from in-house to contract performance unless a cost comparison demonstrates that such a contract would be to the financial advantage of the Federal Government. This requirement was reaffirmed in our memorandum 94-28 to the agencies, "Contracting Out and the 272,900 FTE Reduction," dated August 19, 1994.

**Question 8.** In your book, *Reviving the American Dream*, you said, among other things, that the Federal Government does not have the "managerial capacity" to undertake the wide variety of tasks mandated by political decision-makers. This was a major reason for your recommendation that many Federal programs be "devolved to the states." What are your current views on the analysis and recommendations that you made in *Reviving the American Dream*, and how you plan to incorporate that thinking into your actions as OMB Director?

**Answer.** One of the most important tasks in American government, implicit in the Federal budget, is to determine which levels of the Federal system are best suited to undertake which responsibilities. This was a key question that I addressed in *Reviving the American Dream*, and it is one that the Administration continually faces.

This Administration, in cooperation with the Congress, has already addressed this issue from several directions. In the President's Crime Bill, for example, almost \$400 million of the new funding for crime prevention is distributed as block grants.

The Federal Government sets general priorities in apportioning funding among block grants, but the States and localities have the ultimate say on the uses of the funds, and the key role in program management. It will also encourage innovation at the State and local level, which, with careful evaluation and sharing of experience, will ultimately improve knowledge and methods of crime fighting all across the Nation.

From another direction, the Administration has sought to build the Federal Government's management capacity to deal with its own responsibilities. The Vice President's National Performance Review has helped to elevate the importance of Federal management through a series of initiatives, both legislative as well as administrative. It has focused on giving Federal managers the tools and the incentives to make government work better and cost less. The President's Management Council is a high-level working body of Chief Operating Officers of the principal Departments and agencies that has taken on major, long-term management problems. For example, the PMC successfully worked together with Congress to push for passage of legislation earlier this year that gave agency managers the option of using buyouts as a tool in their restructuring plans. We are beginning to see the results: even as the long-term growth of Federal employment has been reversed, the Administration is working toward improving customer service and focusing on its performance. For example, when tested by natural disasters and emergencies, the Federal Government has moved quickly and efficiently.

Finally and looking toward the future, we must take care that assignments of responsibilities to the States and localities not impose excessive fiscal burdens. Working with the Congress, the Administration has taken a new approach to managing the costs of government across the Federal system. This issue will be uppermost in my mind as I address future Federal policy initiatives.

## VI. RELATIONS WITH CONGRESS

**Question 1.** Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

**Answer.** Yes.

**Question 2.** Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of Congress if confirmed?

**Answer.** Yes.

Chairman GLENN. Fine. Thank you very much. You have already addressed to some extent what my first question was going to be. It is about the integration of budget and management functions. The reputation, at least, has been that these divisions haven't gotten along too well sometimes in the past, and we have a deep concern for the "M," as has already been pointed out, and I want to make sure that any reorganization doesn't set us back.

I have reserved judgment on this, as you know from other conversations about this. I think to make this work we want to get all of our people in place over there in your office—the OMB Deputy Director, OFFM Comptroller, and so on. Do you see that as being any concern toward making this whole thing work?

I guess that would be one question, and a second would be how many people are going to be involved in the management function out there in these RMOs. Aren't they going to sort of be overwhelmed by the necessary numbers of budget people that are out there?

Ms. RIVLIN. That question, Mr. Chairman, I think really reflects the feeling that these are different functions, and I really don't think they are. I don't think we can say there is a group of people who worry about management and there is a group of people who worry about budget. The job of the RMOs is both.

Now, I realize there have to be some specialties. Not everybody is an accountant or a procurement specialist. There are very specialized competencies that are needed. For example, if you are reviewing the procurement and acquisition policy of the government, somebody has got to be a real expert on that. At OMB Steve Kellman's operation is entirely focused on that, but they can't implement the policy and make sure that the agencies are really moving forward with procurement reform by themselves. They have to be tied into the budget process. That is the point of what we are doing with OMB 2000.

In each of the RMOs, there may be people specifically focused on procurement or financial management, but I don't think that is the important thing. I think the important thing is that we bring the agencies in and talk to them about the resources that they might have. We are talking not only about an accounting of their resources, but also how they are managing them. What is your agency doing about procurement reform? How do you know that you are spending this money in accordance with the law? Tell us about your agency's financial management system and how well it is working. That is a central part of what we will be doing.

Chairman GLENN. I mentioned the nominees for Deputy Director and OFFM Comptroller. When are we likely to get these nominations? Can you tell us that?

Ms. RIVLIN. I wish we had gotten them up here sooner. We do have, as you know, two very strong candidates for the Deputy Director and for the Comptroller. The paperwork is being done. The nominations have not yet come in a formal sense from the White House. They will soon, within a week or so, I hope. I am afraid that we may run out of time for getting them confirmed in this session, but we are at the stage of making nominations for those two jobs and I think they are strong people.

Chairman GLENN. We need to get those just as soon as possible. I am sure you would agree with that.

Ms. RIVLIN. I certainly do.

Chairman GLENN. We hope to have them very soon.

The reason, I guess, that I still have a question mark in my mind about the RMOs and how they are going to operate in this management area—let me give you an example. You put someone out there and they are in the RMO and they are working on management. We have, across government, as identified by the GAO, some 200 different accounting systems in government. We have in the Department of Defense alone 160; the Army alone has 43 different accounting systems. We can go on and on and on with examples of this sort of thing.

Now, someone out there working in an agency is not nearly as likely to try and revise that accounting system and get it in harmony with all other accounting systems in government unless they are really directed to do so and have an impetus to get it done, have somebody pushing them to get it done.

I don't know how we combine these. I don't know what the optimum number of different accounting systems in government maybe, but I know it is not 200. We know it should be well below that. I was concerned, and still am, that these RMOs out here are going to need very, very centralized, strong direction to push to make some of these changes to even get computer systems out there that can talk to each other in accounting systems. It is a very major problem, so that has been one of my major concerns on how the RMOs are going to work.

Maybe you want to comment on that. Do you plan to push to get these accounting systems down where we can at least have some semblance of knowing where our expenditures are in government at any one time? We are pushing John Hamre over in DoD continually to do that and he is making a lot of progress over there. I want to compliment him on what he is doing, but at the same time, that is just one spot in government. We should be doing this across the whole panoply of government activities.

Ms. RIVLIN. Well, I think we are doing it, and John Hamre is a good example. He is the CFO of the Defense Department and he is a very able man. He used to work at the Congressional Budget Office. I think he is typical of the best of the CFOs, and it is the CFO's responsibility to make sure that these accounting systems get improved and coordinated.

We are pushing on them from OMB—not only through the CFO Council and the Comptroller's operation, once one is appointed, but also via the RMOs. I think the main thing that the RMOs can do is show that this isn't just a separate financial management job. While looking at an agency's budget, the RMOs are also asking questions about the financial statement. We have, by the way, conducted some training in the RMOs to enable them to do that. I believe we are showing that we think it is very important to have these financial statements, to have them auditable, and by asking questions about them clearly demonstrate how important we think it is.

Chairman GLENN. And have them done on the same basis so they can be compared one with the other, and also with the same accounting systems, hopefully, one of these days.

Ms. RIVLIN. Right.

Chairman GLENN. Senator Roth.

Senator ROTH. Mr. Chairman, I know Senator Stevens has some other commitments, so I will yield to him.

Chairman GLENN. Senator Stevens.

Senator STEVENS. Thank you. Dr. Rivlin, one of my fond memories is the time that I served in the Interior Department, and I used to go over to the old Bureau of the Budget and participate in dialogs before the Director there to deal with problems caused by other Federal agencies. I think we have lost that kind of coordination, and let me just tell you about two areas that I think are extremely difficult for those of us who live in the hinterlands.

I had a meeting last week with members of both the Forest Service and the timber industry in Alaska, and I found that the Fish and Wildlife Service, without any notice, and apparently without any coordination through your office, had filed a series of petitions to declare that certain portions of the Forest Service lands in southeastern Alaska areas should be designated as habitat conservation zones.

They have, in my opinion, contrary to the law, withdrawn a whole series of lands now that were subject to timber harvest under existing contracts because the Forest Service filed these petitions. Those petitions have a different status than if they were filed by a member of the public, but the thing that bothers me is that the Forest Service then had to take the money that was appropriated for the purpose of preparing timber for harvest, for supervising timber management, and for cruising timber lands in order to lay out these zones and now withdraw them from the timber industry.

My meeting was with the Forest Service because they asked me to seek more money so that they could replace what they have used to counteract the activities of another Federal agency, and we have just done that in terms of the Interior appropriations bill. It has directed that the Forest Service should consider budget allowances to help address these costs that are associated with these activities of another Federal agency.

I mention it to you now because in August I had a meeting in Alaska over the wetlands. We have a runway in a wetlands area; it is an airport at Seward that is about ready to be destroyed because of a meandering river. Under the wetlands concept, again a petition was filed by one Federal agency to counteract the activities of another Federal agency. It is the Fish and Wildlife Service to the Corps of Engineers, as opposed to EPA in this one, all three of them involved there.

The public is very confused. They see their airport disappearing, and we can't find a way to get the coordination that there used to be within government. In terms of the Forest Service action, we have now closed the mill in Wrangell. It is the only mill in Wrangell, it is the only employment in Wrangell. Four hundred jobs were lost, and the reason is that the funds that were appropriated by the Congress to prepare timber for that little mill have

now been used to counteract the petitions filed by the Forest Service, which have a greater standing than if a member of the public had filed them. The Forest Service felt compelled to automatically withdraw these lands on the petition of the Forest Service.

Everyone has mentioned the "M" word here, "management." It used to be just Director of the Bureau of the Budget; he still coordinated Federal actions to prevent excessive costs by one agency taking on another one in public before there had been a national policy established.

What has happened to the function of the Office of Management and Budget that is to prevent this collision and confusion of the public in having to deal in wetlands with three different agencies on one issue?

I could give you a parade of horrors about that. A woman I know in Nome built a home right on the edge of a really small, little stream. Her home is sinking into that little stream now because they won't let her extend the pad that her home was built on 6 feet. She has had three hearings in 2 years. There is no national policy. There was under the last administration, by the way. It was revoked by this President.

Now, what has happened to the coordination of policy between agencies that is increasing the costs of government? Do you still have a management function to coordinate between the agencies when they are taking each other on and confusing the public on what is national policy?

Ms. RIVLIN. Yes, we do, and we spend quite a lot of time on working out difficulties that arise because there are conflicts in policy. Obviously, we don't get them all, but I think that the problem that you point to is very real. We are very conscious of it at OMB, but the heads of the major natural resource agencies, especially Agriculture and Interior, have also been trying hard to work it out.

There have been some successes. It doesn't sound like Alaska is one of them, but there have been some successes in the agencies working together in major ecosystems where a conflict between agencies existed. The Pacific Northwest is one where, in working out the timber plan, good cooperation between Interior and Agriculture has been fostered. The Everglades is another. We are certainly conscious that working together and bringing those agencies together, where they all have differing responsibilities in the same area, is important.

Senator STEVENS. Well, I am preparing legislation for the next Congress to deal with that because I think it ought to be mandatory that one agency cannot challenge the lawful activities of another without having had a Presidential finding of a necessity to do so. It just seems to me that this confusion is destroying confidence in government.

Let me skip to one other—I see that fast clock has gotten me here. I don't know; maybe I am getting older than I think.

I did visit with you about the trans-Alaska gas pipeline system. It is one of the major projects that is waiting now for executive action. At the time that the oil was discovered at Prudhoe Bay, gas was associated with its production. It has been reinjected. We originally thought we had 26 trillion cubic feet of gas. Now, we are told we have 65 trillion cubic feet of gas. It is in a reservoir. It is cost-

ing those who are using oil now to reinject that gas at even more as we go through the development of Prudhoe Bay.

This is one of the great known resources of the United States, and I hope that you are proceeding with the task force that we discussed because this is a project in this country that is a monumental project, it could be commenced and initiated before the turn of the century and be a multibillion-dollar stimulus to our economy from the private sector, but it just doesn't seem to have any push now from the government sector.

Are you going to proceed with a task force on the trans-Alaska gas pipeline system?

Ms. RIVLIN. We are certainly looking into it. I don't know exactly what the status of the task force is at the moment, but you have gotten it on my agenda.

Senator STEVENS. Good. Thank you very much. Thank you, Mr. Chairman. Thank you, Senator Roth.

Chairman GLENN. Thank you.

Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman. Mr. Chairman, I have a short statement which I am not going to give, but if I could, I would like to have it placed in the record.

#### PREPARED STATEMENT OF SENATOR PRYOR

Mr. Chairman, I would like to thank you for holding this hearing today. Alice Rivlin has been doing a good job as Acting director of OMB and I am pleased that soon she should be able to drop the "Acting" from her title. Her experience over the past two years has made her one of the best qualified OMB Director we have seen in years. It is essential that we will have a new OMB Director to develop the FY96 budget.

I know that the Director of OMB is bombarded by different issues every day but one issue that I urge you to focus on its management. As the federal government moves toward its downsizing target of eliminating 272,000 federal employees, nothing is more important than ensuring that the programs that serve our people continue to operate and operate well. The Administration and Congress have worked to develop a number of tools that will allow this to happen.

To date, it appears that agencies are using the buy-out option to reduce the size of the workforce without undue disruption. Beginning October 1, I believe we will see another round of buy-outs as agencies receive their FY95 dollars. My concern continues to be that agencies learn from the experience of the Postal Service whose efforts adversely affected service. Agencies should target the buyouts to eliminate unnecessary jobs so we do not have to replace those employees.

I also will be watching to ensure that agencies do not turn to contractors and consultants to replace employees who leave during the downsizing. I know OMB has issued guidance on this point and hope that it is followed as the agencies develop their FY96 budgets.

I am looking forward to working with the Department of Defense as it implements the requirement for cost comparisons of service contracts worth more than \$100,000. For the first time, service contracts will be required to be reviewed for cost effectiveness. I hope that OMB will build on DoD's experiences in this area and determine that it is possible to expand cost comparisons throughout the Federal Government.

Again, Mr. Chairman, I thank you for holding this hearing and look forward to a speedy confirmation of Dr. Rivlin.

Chairman GLENN. Without objection, it will be included in the record.

Senator PRYOR. Mr. Chairman, I would like to say that I don't know of a time in the history of the Office of Management and Budget when we have had a Director coming aboard who is more qualified than Dr. Rivlin. I want to congratulate you, Dr. Rivlin,

and thank you for being willing to give of yourself in service to your country.

One or two points. Senator Stevens is gone, but I would like to share a concern that I have regarding the issue of wetlands, and I truly believe it is not an issue of being pro- or anti-environment. We have seen some agencies spin out of control in this whole area, and this has been going on now about 5 or 6 years.

I read in the Wall Street Journal an article about an elderly gentleman who had moved a house to a site where he had no idea that this was classified as wetlands, and they have basically fined this man; he is paying \$350 a month. This is in west Texas, I believe. He has been hauled around in court for the last several years. He is financially and physically, I think, broken.

I called him on the phone yesterday just to see if the article was correct that was in the Wall Street Journal. He verified each and every detail, and it is not fair and I hope that you will interpose yourself and put the "M" in OMB actively to work in this area to try to bring some sense to it.

Second, my concern is, as we downsize with 270,000-or-so fewer Federal employees, I hope that what we are not going to do is to replace these same Federal employees with private contractors. We can downsize 500,000 Federal employees, but if we are constantly increasing the number of private contractors who are either doing the same or less work and costing us more, then it is a very hollow victory indeed.

An amendment that I recently had adopted to the Defense authorization bill would cause our Department of Defense to list what it would cost to hire contractors to replace those same Federal employees, not that I am for or against Federal employees, but I just think that many times we take those savings we think we have captured in downsizing and simply turn around and give it away to the private contractors. So, that is an observation I would like to make.

Once again, I congratulate you and I look forward to working with you in the future.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

Senator Bennett.

#### OPENING STATEMENT OF SENATOR BENNETT

Senator BENNETT. Thank you, Mr. Chairman. I welcome Ms. Rivlin's appearance here today and have a line of questioning I want to pursue with her at the appropriate time.

From an opening statement point of view, I agree that you are very well qualified for this assignment and I congratulate the President on having made the decision to put you there. I think your experience at CBO will give you an advantage that the average Director of OMB, if there is such a thing, does not have because you can, out of your experience, bridge the gap, if you will, between the two agencies that are always arguing with each other as to where the economy is going and what the impact of government activities will be. So I welcome you to the Committee and welcome you into this assignment.

As I say, Mr. Chairman, at the appropriate time there is an area that I want to pursue in some detail with a question-and-answer circumstance, but I will defer until after all the opening statements have been made and we go through the questioning session for that experience.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

Senator ROTH, whom I should have gotten back in order there. Sorry about that.

Senator ROTH. That is fine, Mr. Chairman.

Dr. Rivlin, I appreciate your being a strong supporter of my legislation on performance and results. As you know, the real purpose of this—it is hard for the average person to follow what we are talking about, but what we are really talking about is better government at less cost. What we are really talking about is judging programs on the basis of their performance. Are the programs indeed providing effectively good services to the people back home? That is really what government is all about.

Unfortunately, many of us feel that over the years we have developed a bureaucratic approach where too much depends on process rather than results. So I do want to express my appreciation to you for your interest and your support because this is, I think, a tremendously important—as Leon Panetta said, it is really the centerpiece of reinventing government.

Now, one of the purposes of this approach, of course, is, as a result of being able to judge programs as to whether they are efficiently providing services, how much money they get. How do we tie it to the budget? The program does not succeed if our budgetary process isn't directly tied to the effectiveness, the results, of each program.

So one of my questions I would like to ask you is how are we going to use it in budget formulation. Second, a related question is it seems to me that we ought to be judging our personnel on the basis of performance. How effective a job is a program manager doing in bringing about good services promptly?

If we are going to have an efficient approach, it seems to me our personnel policies—our pay, our compensation—should be based on the results a program manager is getting for his program. So, here, my question is, in talking about personnel reform, do you have any thoughts on linking Federal managers' pay and rewards to how well they are managing their programs, as it is measured under my Performance and Results Act. To me, that is crucial.

This whole thing has to be tied together. The budgetary process and personnel responses have to be tied to whether or not an individual, a program manager, is effectively managing that program so that it provides real service at minimal cost to the taxpayer. Would you care to comment, please?

Ms. RIVLIN. Yes. I think the first thing that has to happen, and your legislation recognizes this, is that we have to start measuring performance of programs. We can't talk about it in the budget and we can't talk about it in pay terms until we know what these programs are producing. That is, as you also know, not an easy question. It takes time and skill to produce measures of performance in

programs, and there are dangers of producing measures that lead to counter-productive results as well.

I think what we are doing now with the push that you have given us is to start collecting measures of the performance of programs and asking questions about them in the budget review, requiring that managers say what it is they are producing and give us measures of them.

Now, that part, I think, will go along. I can't say that we will have a moment when all budget decisions are made on performance. I don't expect to live that long; I suspect you don't either. But I think what we can promise is that discussion of performance will play an increasing role in budget decisions.

The pay thing is harder. I think we are engaged now in considering civil service reform and trying to set a system that will have more incentives for performance in it. The trouble with doing that and putting it in the law is that it can turn out to be quite mechanical. The efforts that have been made so far in the SES system, such as giving bonuses based on performance, have not been terribly successful. We have got to do better than that.

Senator ROTH. Well, I congratulate you on the number of pilot programs you have initiated. I think that is excellent, and I agree as to the complexity, but I do think we all have to push hard if we are really going to realize the time schedule we have set for this program.

Let me make a comment on personnel because one of my concerns is the reason why we have a bureaucracy that doesn't have the confidence of the people. Frankly, I think we have many, many excellent public servants. Make no mistake about that, but it is the system that is wrong and the problem with the current system is that people are rewarded by the size of their pay, by the size of their budget, by the size of the bureaucracy they manage, rather than how effectively they are providing services to the American people.

I think we have got to grapple with that problem, and we have got to be careful because both parties will be suspicious that if you don't do it in an intelligent way, it will be used for partisan advantage, and that is not the answer. But I do urge you that if we are going to talk about real reform, we have got to begin rewarding people who do a job in the sense of performance for the American people and not on the basis of how many levels of bureaucrats serve under them.

Ms. RIVLIN. Right.

Chairman GLENN. Thank you, Senator Roth. That is a tough one. I am a cosponsor of Bill's legislation that went through here. I think it is excellent and I want to see it implemented. I had a publisher of a paper in Ohio, though, who said we ought to do the same thing with Congressmen and Senators, and I said, well, what are you going to use as a standard for productivity? So this is a very difficult thing to implement.

Senator ROTH. Does that mean how many laws we pass each year as productivity?

Chairman GLENN. That is why I said, how would you do this; what is productive, the number of bills you put in per year, or

whatever? He didn't have any answer to that, but it was an interesting comment anyway.

Senator DORGAN.

Mr. Chairman, thank you very much.

Dr. Rivlin, I mentioned monetary policy and the Federal Reserve Board to you a moment ago. I mentioned also that the Federal Reserve Board has, in five interest rate increases, largely in secret with no public debate, taken back one-fifth of all of last year's deficit reduction package. They have increased the cost of borrowing to the Federal Government by well over \$100 billion.

I must say I admire the administration's patience. I would be inclined to want to get a front-end loader and a utility trailer and get down there and cleanup at the Fed. Tell me what your impression is in the administration about what is going on in monetary policy. This notion that there is some massive threat from inflation and therefore they are going to put the brakes on the economy with higher interest rates—why have we not heard much from the administration about that?

Ms. RIVLIN. Well, for one reason, the administration does respect the independence of the Fed. That is the way we have set up the Federal Reserve. That is the way the law is. The Federal Reserve is independent and we should respect its independence.

From a more economic point of view, one would have expected, as the economy grows rapidly as it is now, that interest rates would rise. Now, the question is how much of an interest rate increase is appropriate. There is a history of many recoveries from recessions ending because the Federal Reserve overdid it and took too strict steps on monetary policy.

I don't think they have overdone it yet, but over the next year or so, everyone will have to grapple with the question of whether it is better to have the Federal Reserve raise interest rates or execute a more restrictive fiscal policy to take another bite at the deficit if the economy grows at a faster rate than is sustainable in the long run. That will be a real tradeoff question.

Senator DORGAN. Well, I certainly respect their independence, but there are too many in this town, probably, that mistake the difference between respect and worship. I mean, Fed policies, it seems to me, ought to be the subject of substantial debate, despite the fact that they are independent.

I would like to ask a couple questions about your answer. You said a recovery will necessarily mean higher interest rates. Why would that be the case?

Ms. RIVLIN. Well, as the economy grows and moves back toward capacity, there is more demand for funds. Interest rates are likely to rise from the demand side, and if the Federal Reserve is looking ahead, as it does, it will be conscious that the economy can't grow faster than its potential for very long. So they will worry about slowing it down a bit so that we have slow, steady growth rather than over-rapid growth.

Senator DORGAN. The problem with that logic—and I have both studied and taught economics—the problem with it is that we were told in GATT and in NAFTA that we now access the world's factories for the production of our refrigerators and our shirts. We now have a safety relief valve of an unemployed army of workers

in Mexico. Our labor market is now composed of three billion workers around the world.

So when we come back to the classic definition of labor capacity, and argument that higher capacity will drive up prices and therefore exacerbate inflation, that line of thinking is at odds with what is argued by those who support NAFTA and GATT. Multinational corporations have every opportunity to use other labor outside of the U.S. markets and other factories outside of the U.S. factories. I know of no one who would argue that we are at or near potential this planet's productive capacity.

I simply make that point to tell you I find no credible evidence that inflation is on the rise. I find the independence of the Fed, as they sit over there deciding to fan the economy without public discussion or debate, troubling, to say the least.

I am somewhat amazed that the administration doesn't seem to be more publicly concerned about it. Perhaps the Administration believes there is a political correctness about the way you discuss Federal monetary policy. Often, those who talk as I just did are told that we want to politicize monetary policy.

I spoke on the floor not too long ago, and another Senator replied: well, better the Fed making these decisions than having a bunch of politicians decide on interest rates. That is fine, but it seems to me that is not the question, and I just have great problems with the fact that no matter what fiscal policy we construct, the administration, the Congress, Republicans, Democrats, it can be undone in nearly an instant by monetary policy that is disconnected to what Congress does or what people aspire to do. So, that is my concern.

I have just been interested in the patience the administration has shown with respect to what the Fed has been doing. Do you have any guess at what they are going to do this afternoon?

Ms. RIVLIN. No, I don't.

Senator DORGAN. Do you have any hopes?

Ms. RIVLIN. No, I don't think I want to express a hope. I think the only thing I can say is that I am glad I am a candidate for Director of OMB and not for a position on the Fed. It is a hard place to be at the moment.

Senator DORGAN. But you are a very distinguished thinker on these issues. Do you think that there is any basis on which the Fed would be able to credibly make the case today that another interest rate increase is necessary for the economy?

Ms. RIVLIN. I think it is a hard call from their point of view. I share your view that there is no imminent threat of inflation, but the Federal Reserve has tended to worry more about inflation, and that is natural because it is their job, than have others in Government. There is also a real question of how cautious to be.

The economy is growing rapidly, and though all the things that you say about international markets are true, we are operating at the moment at a high level of capacity. The Federal Reserve does not want to take a risk of the economy growing too rapidly, and so it is a question of how you balance that risk.

Senator DORGAN. But it is willing to take the risk of plunging the country into another recession. I would simply point out that the Federal Reserve Act itself would not give comfort to those who say

that the only job of the Federal Reserve Board is to maintain stable prices. That is one of the Fed's goals, and I think a very significant and important one. But the twin goals of stable prices and full employment in this country have long represented the economic goals that all of us, including the Fed, are required to, or at least ought to, be concerned about.

Ms. RIVLIN. Right.

Senator DORGAN. Well, you have demonstrated probably a qualification for the State Department. You have been very diplomatic in the way you have responded to my questions about the Federal Reserve Board.

I think you are eminently well qualified to head OMB and I am delighted that you are apparently going to do that. I hope one of these days all of us can have a gloves-off discussion about monetary policy, with reverence, but not worship, for the institution of the Fed. The Fed is independent, but monetary policy ought to be subject to some public debate.

Chairman GLENN. Thank you, Senator Dorgan..

Senator Akaka.

#### OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman.

Good morning, Dr. Rivlin. It is good to have you here.

Ms. RIVLIN. Good morning.

Senator AKAKA. It is nice to see you again. I am glad that we are finally able to get your nomination moving through the confirmation process. It is certainly reassuring to have someone with your experience and expertise in the most critical of positions, and I remember the respect you had when you were founding Director of CBO back there for about 8 years. So you have a reputation that you carry.

Dr. Rivlin, aside from the administration of the Federal budget, OMB is charged with evaluating and coordinating various management procedures among Federal departments and agencies. As I mentioned to you during your visit to my office, an issue that is very important to me is OMB's current review of statistical policy directive No. 15, an important guideline governing racial and ethnic statistics. This review, which included nationwide hearings this past summer, is being conducted in preparation for the 2000 census, and I want to thank you very much for the decision that you made in having a hearing in Hawaii.

I wish to reiterate to you my continuing mission in this regard to have native Hawaiians reclassified in the same category as American Indians and Alaska natives. As you well know, we are currently in the same category as Asians and Pacific Islanders. Yet, while we are culturally Polynesian, native Hawaiians are descendants of the aboriginal people who occupied and exercised sovereignty in the area that now constitutes the State of Hawaii. Like the varying cultures among the hundreds of American Indian tribes and Alaska native groups, native Hawaiians also have a unique political and historical relationship with the United States.

I am extremely concerned about the persistent misperception by most Americans, in particular Federal officials, that we are not native peoples of this country and that we will continue to fall

through the cracks. My proposal simply seeks to rightfully place native Hawaiians in the same category as the other native peoples of this country. It does not, and I repeat, does not, affect the government-to-government relationship which exists between Federally-recognized tribes and Alaska natives. It also does not affect the political status of native Hawaiians. That is something we as native Hawaiians will resolve through the legislative process.

Nevertheless, I anticipate that you will be hearing from concerned tribes that the inclusion of native Hawaiians in the same category as American Indians and Alaska natives will somehow affect their political relationship with the Federal Government or would impact their entitlement programs. This is simply not true.

The intention of the directive as adopted in 1977 was clear, and that is that the classification should not be viewed as determinants of eligibility in any Federal program. I know that, and I know you know that, too. I strongly urge that the Clinton administration use its own best judgment in evaluating this very important issue.

Nearly 1 year ago, President Clinton signed into law a joint resolution offering an apology for U.S. complicity in the January 17, 1893, overthrow of the Hawaiian government. The measure also committed the Federal Government to reconciliation efforts with the Hawaiian people.

Dr. Rivlin, needless to say, actions are stronger than words. While much must be done through the Congress, the Clinton administration's action in supporting my proposal to reclassify native Hawaiians would certainly go a long way toward strengthening its own relationship with my people. I look forward to working with you over the coming year-and-a-half as OMB concludes its review of directive No. 15.

I also wish to applaud your commitment in making management a critical component of OMB's budget process. Your interest in management is well-known, and I have no doubt that the fiscal year 1996 budget process will reflect your desire to fully integrate the various management tools this Committee has given the Federal Government. I know you share my enthusiasm in integrating these tools—the Government Performance and Results Act, the Chief Financial Officers Act, and the NPR, to name a few—into the fiscal year 1996 budget.

Mr. Chairman, I don't have any questions at this point, and I am fully confident, Dr. Rivlin, that you will be confirmed by the full Senate. Thank you very much.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Senator Akaka.

Senator Bennett, I don't know whether you made your opening statement. We were into questions and maybe I got you out of order, and if I delayed you, I am sorry. But if you had questions or a statement, we will take them right now.

Senator BENNETT. Thank you, Mr. Chairman. It is my fault for coming in late. I had the usual other conflicts.

Dr. Rivlin, your resume makes it very clear you are as well trained in economics as we are going to find, and I am delighted that you have had the broad background of experience you have in the various places, academic and foundation, and so on.

My training and background has all been in business. I took a few economics classes, but I wouldn't attempt to try to remember most of what I learned there. But I do remember some lessons from operating in the economy and I would like to have a dialog with you about them.

No one can survive in business unless he or she can accurately forecast how the market is going to react. You come out with a product, you forecast that will sell "x" number of widgets, and so you produce the number of widgets you think you have, and so on and so forth. You understand the process.

Nothing can be more devastating to a business than to make the wrong forecast. You build too many widgets; you have a warehouse full of them and they don't sell and you are buried under the cost of that. You make too few widgets and you lose your market because you have a world full of angry and unsatisfied customers. I mean, forecasting is a constant, constant battle, and one of the major advantages of being in the information age is that forecasting tools are constantly getting better and more recent.

No one can tell you really, with assurance, what the future is going to be, but the ability of the computer and intelligence software programs is that you know what yesterday was, and that is enormously valuable to you as you are trying to project what tomorrow will be, compared to my grandfather, who didn't know what yesterday was until the accountants had come in and would give him last year's report. I have seen businesses founder solely because, for whatever reason, their computers couldn't tell them what had happened right away.

So, now I come into the Federal Government after a career in the business world and, frankly, I am appalled at what I find. We have forecasts that miss the mark widely. We have projections out of CBO, and I presume OMB, that defy all common sense, and yet drive policy.

I understand the ranking member, Mr. Roth, once asked the CBO to project revenues at a 100-percent tax rate and was told that the revenues to the Federal Government would equal the gross domestic product because the computers were not programmed to recognize that a 100-percent tax rate would reduce economic activity to zero.

We had all of the debates during the days of the Laffer curve, and people say, oh, the Laffer curve is nonsense and supply side economics is voodoo economics. But every businessman deals with the Laffer curve every day. Do you raise your revenues by raising prices or do you raise your revenues by cutting prices? In government, cutting prices is the equivalent of cutting taxes.

I have presided over a company with a product mix and we raised revenue by raising prices on some products and cutting prices on other products, and it has to do with competition, it has to do with customer value, it has to do with a lot of things that Federal managers don't have to deal with.

But this is not a trivial matter because we stand up on the floor of the Senate and have debates that strike me as surreal, as people say, well, if we make this amendment in this bill, CBO scores it and we will save \$400 billion over the next 5 years. I am sitting here saying, guys, you don't really seriously believe that. Oh, yea,

and the prime example which we have heard over and over again, but I want to give it to you once again to get it on here because it is like the emperor's new clothes—it is the same story, but applies again and again and again—is the projections and the reactions on the luxury boat tax.

Now, here was an industry that was at the edge of collapse because of overcapacity, and the last thing in the world it needed was a price increase. In order to sort the industry out, what it needed was price-cutting and eliminate some of the less productive folks and get more revenue into the industry because more people would buy boats because they would be available because of lower prices.

The Congress, in its wisdom, comes along, or the summit out at Andrews Air Force Base, and says we are going to slap a 10-percent price increase on this industry, and it destroyed the industry, destroyed jobs, destroyed income, destroyed economic activity. The net revenue to the government went spiraling downward as a result of that 10-percent increase, which the computers scored, straight-line extrapolation, here is last year's product, we add 10 percent to it and this is what will come to the government.

Senator Chafee approached me and said, would you cosponsor my effort to remove the luxury tax on boats. I said, I am stunned that it is still there after all these years of economic ravaging of the industry. He says, yes, we have been talking about. I said, absolutely, John, I will cosponsor it, I will do the whole thing, even though we don't have any boat manufacturers in Utah.

Then he said, but, Bob, understand, we are going to have to find somewhere in the budget an offsetting revenue increase because of the revenue loss that will occur if we remove this tax. I said, you have got to be out of your mind. There is no loss if we remove this tax. The government revenues are going to go up if we remove this tax. Everybody knows it, and he says, yes, but that is not the way the computers score it.

I had to look the other way because of my opposition to tax increases in order to cosponsor this removal of the tax. We came up with some combination of so many cents on boat fuel, or whatever. Frankly, I can't give you the details because it was so repugnant to me I didn't want to learn them and, as I say, I looked the other way. But, finally, something was put together so that on paper we said we will replace the revenue lost by repealing the tax on luxury boats by increasing the taxes here, there and everywhere, and therefore it is balanced, and so on.

Is there anything we can do about that whole process that says straight-line extrapolation seems to be the rule of the day in forecasting? It ends up on the Congress' side driving us into stupid decisions like the boat tax decision where the obvious, common-sense, real-world answer is, whoops, we raised the price on this product and people aren't buying it anymore, let's stop right now, not 4 years, 6 years later. Let's stop right now and say we are going to cut the price, therefore prolong the lifetime of this product, or in this case this industry, because the devastation in lost jobs, unemployment compensation, lost productivity, lost everything by destroying a domestic industry through the 10-percent luxury tax was very severe, but somehow the process around here and the way the CBO computers and the OMB computers, and so on, are pro-

grammed won't allow us to make this kind of obvious sort of decision.

Now, that is a long speech, but you were prepared for it, I think, a little, and I very much appreciate having this dialog with you about this whole question of forecasting.

Ms. RIVLIN. Well, first, you are quite right that forecasting is very important to everything we do, whether you are in business or whether you are in the government. The hardest thing to forecast is the performance of the aggregate economy. We are not very good at that. The economy is a very complicated system and economists simply are not very good at forecasting what will happen to the total economy, especially around turning points either turning into recession or turning back up again.

Now, once you have got the economic forecast, the rest of it isn't so hard. It is not difficult to forecast what will happen if you change a spending program or a tax program, given the economic forecast. I think your luxury boat example is actually very good.

The problem with respect to the luxury boat tax, and I might add I wasn't a party to this, was that at the time the forecast was being made in 1990, nobody was forecasting the 1990 recession. The economic assumptions on which those forecasts of revenue were made were a continuation of modest growth through that period.

Now, you are quite right that raising the price of boats probably contributed in some degree, major or minor, to the fact that in the next year not very many boats were sold, but there was another big contribution. The next year was a deep recession year, and the market for luxury boats is very responsive to what is going on in the economy. So I think the big mistake in that case was that none forecast the recession.

Whatever one thinks of the luxury boat tax, the recession certainly played a part in cutting the market for boats. Any time you make a forecast of a policy's impact, you are really at the mercy of the uncertainty about the economy. What we can do about that is not clear to me. We have all worked very hard on improving forecasting methods in various parts of the government, including the executive branch and the CBO, and people work very hard on this in private industry. The fact of the matter is that nobody is very good at it.

In private industry, you are also at the mercy of what will happen to the aggregate market. You can control some things. You can control the price of your product, but you cannot control what will happen to demand for your product if the economy suddenly goes into a recession or even if it recovers and people start buying things again.

Senator BENNETT. I would like to pursue this, Mr. Chairman. I realize my time is gone. Let's do another round. I would like to come back to it.

Chairman GLENN. Yes. We will start a second round right now. Dr. Rivlin, I want to get back to some of the CFO organizational problems in the agencies. Some CFO's, from our view, have not been given the responsibilities envisioned by the Act. We had a hearing recently, for instance, where we took OPM to task, the Office of Personnel Management, because of the problem. They should

be setting an example, actually, for the rest of government as far as I am concerned.

Your latest CFO plan shows the Agriculture Department as the only agency without an approved CFO plan. Have you looked into that? What is the plan there? What is the problem?

Ms. RIVLIN. Yes, we have, and we are working with the Department of Agriculture on this. I talked to John Koskinen about it yesterday and he is hopeful that we can work it out, but it has been a problem of some difference of opinion on how this plan ought to work. We haven't worked it out yet.

Chairman GLENN. Well, I realize that, and I think there has been a scrap going on at Agriculture. I am not sure what level of leadership over there doesn't want to give CFO full responsibility. I thought there was an agreement that had been worked out with Phil Lader. He had worked with them some on that, I know, and I thought we had that worked out. In fact, my understanding is that there was an agreement in writing and that they are now back-peddling off of that. Is that a true situation?

Ms. RIVLIN. Yes, but we will work with them and I think we can get this resolved in fairly short order.

Chairman GLENN. OK. I probably shouldn't be commenting on Ag without having them present to defend themselves, but the Agriculture Department—the general reputation here on the Hill, I think, is that they are one of the most set in their ways, least amenable to change among departments in government. So I hope they get with it on this CFO.

If they need some push from here on the Hill, just let me know because I would be more than happy to do it. We are very serious about the CFO Act and its implementation, and as we have said before, Chuck Bowsher at GAO said it was the best step forward in financial management and gave you more tools than anything in the last 40 years. Whether that is an accurate estimate of it, I don't know, but we want to do whatever we can to move everybody into full cooperation on this because we think it is so key.

We haven't heard a whole lot about the high-risk areas. Those high-risk areas were set up originally because of this Committee. We had asked the General Accounting Office to look into the areas of government where they saw the biggest problems, the most likely budget problems, the most likelihood of mismanagement and waste of government money, taxpayer money. They gave us that.

We asked OMB, under Mr. Darman, to make a similar estimate, and they went at it on a completely independent basis and the high-risk lists then came out. We do them annually now and they came out surprisingly the same even though they were arrived at independently by OMB and GAO, and we think they are a valuable tool for you to try to stop some of the most likely hemorrhage points in budgeting in government.

Would you comment on that and your use of the high-risk areas and how you plan to use those?

Ms. RIVLIN. Yes. I think the high-risk list has been a very useful contribution in focusing attention on areas where there really was a danger that systems might break down and where the hope was to focus attention before the catastrophe happened.

We have spent quite a lot of time on the high-risk list in the last few weeks. The list seemed to have been useful but appeared to have not been reviewed intensively very recently. We therefore went through an intensive review, item by item, with the financial management people and the relevant RMOs. I participated in these meetings myself, and went down the list item by item. I asked about the status of each item, how seriously the department was taking it, the progress since we last saw it, if any problems had been solved, and whether we could take them off the list.

After going through the entire list and winnowing it down, we picked out the things we thought were highest priority and those that could come off the list because they seemed to be under control. That list will be reviewed in the course of our budget review with the agencies and will appear in the 1996 budget when we publish it.

Chairman GLENN. OK, good. We thought that publishing that high-risk list—that managers in the various agencies, once they were listed on a high-risk list, they would take immediate action to make sure that their department or their agency took corrective action. That hasn't always been the case.

We have thought here of maybe holding press conferences and things like that to let a little sunshine in and bring some attention to the problems and to push them harder about taking corrective action. We may still want to do that, but I think this can be a very good tool for you to use over there in your shop, also.

GAO has recently issued an excellent report on strategic information management, and it has been valuable in our efforts to reauthorize the Paperwork Reduction Act. The President and the Vice President have talked a lot about the promise of new technology and new information infrastructure. We have got to get more value out of the government.

We put about \$25 billion a year in annual investment in information technology right now. Do you have any idea how we can make more efficient use of that money and how we are going to structure this whole new information infrastructure, as they call it?

Ms. RIVLIN. Yes. That is something we are working hard on. Sally Katzen, who heads OIRA, as you know, has been working particularly hard on it getting the whole organization into it. Sally now has people in each of the RMOs that she is working with to make sure they understand the information management problem and are working with their agencies on it.

We are working with the GAO on a joint publication manual or set of guidelines for evaluating information technology and guiding investments in information technology. I think that is going well. We will be working with the agencies as well to make sure they implement these guidelines and that we have a sense across the government of how this money is being spent.

The \$25 billion isn't all investment. A lot of that is operating and management, but I think the key elements are what new systems we are bringing on line and whether we are doing that effectively.

Chairman GLENN. As we move into that area with all this new information flow, we are running into some major problems as far

as security and privacy are concerned. I don't know that we have really learned quite how to go at that yet either.

Senator Roth.

Senator ROTH. Dr. Rivlin, both you and I have had a lot of interest in strengthening Federalism. I am concerned that Federal and State responsibilities are being blurred by the fact that increasingly every level of government is becoming involved in every problem, or at least the Federal Government is becoming involved in almost every aspect of government.

You wrote some time ago a book in which you addressed the seriousness of this problem and the need to sort out levels of responsibility and financing those responsibilities. I think that is part of the reason the American people are so unhappy. They don't see government solving problems. They don't know who to hold responsible, and as a result you have serious financial problems as to how you are going to finance the different areas.

Let me ask you, is there any thought within OMB or within the administration to try to address this? As I said to you when you were here 20 months ago, I thought this administration was in a unique position to do something because when President Reagan tried, he was attacked on the grounds that he was trying to kill programs. I don't think that would be the case here. It is more like Nixon going to China; nobody attacked him for being a communist.

Do you see any action in this area, and do you continue to feel as strongly as you once did as to the importance of sorting out responsibilities?

Ms. RIVLIN. I do. I think it is a very important thing to do, and the President, having been a governor, is also very interested in the interaction of the Federal Government and States. We have not moved toward any drastic sorting-out in the Clinton administration, but what we have done is pay a lot of attention to how the interaction works at the State and local level to try to find ways that the different levels can work together better and not get in each other's way.

One of the indications of that is a program that the Attorney General has put together which is called PACT. I am not sure what those initials stand for exactly, but it is an effort in the area of prevention of violence. Intensively, we poll a small number of communities—three of them are urban areas and one of them is a State, namely Nebraska—by asking, how can we work with you to pool the efforts of Federal agencies on various aspects of this problem and do what the local area feels is most necessary?

There are a lot of efforts now, I think, to work across governmental lines. Oregon is taking a major step not only toward measuring the results of what the State government does, but also in working with the local governments. The Federal Government is now working with Oregon to see if we can harmonize the programs and have them work better together.

Senator ROTH. Let me just comment. All that is fine and good, and I congratulate you for trying to have better cooperation, but it really doesn't solve the basic problem of who is responsible for what. You still have both the Federal Government and the States involved, and to me that is creating a problem.

I have congratulated the administration for its initial steps, but I think we need to move beyond my performance and results act. We are now signing into law and I am delighted—military procurement reform. I think that is an important initiative, but we have got to have the courage to address the basic problem that you raised in your book, and I can't emphasize that too strongly, if we are really going to make government effective.

Let me raise another point, if I may. I recently had a study made by the Office of Technology Assessment on computer security, and the Office of Technology Assessment, to be quite frank, was critical of OMB's implementation of information security and privacy requirements.

This is a matter of great concern to me because, as I understand it, our computers are not secure. In fact, it is very difficult, I gather, to really make them totally secure. Yet, we have a lot of information, important from the security standpoint, important from the privacy point of view. We are talking about putting all of people's taxes on computers.

Now, if we think we have had an uproar in the past, if it becomes obvious that people, unauthorized, are able to interpose into these computers and get this kind of highly confidential information, we are going to have an uprising the likes of which we have never seen. I wonder what OMB is doing about this and what you intend to do about it.

Ms. RIVLIN. I certainly share your concern. I know the Chairman does, too. He recently mentioned the security of information. I think it is a very big problem, and if we don't solve it technically to reassure people that the information they give the government is really secure and won't be misused, then they won't provide this information. Frankly, we need it to run things more effectively.

We are focused on this problem. I haven't read the OTA report yet, but we are focused on this problem at OMB. Sally Katzen is chairing an interagency group on information policy that is looking at this, and we will give it a lot of attention.

Senator ROTH. Well, I can't stress the critical nature enough because, as I said, it affects the national security, it affects our competitiveness. If other countries and other foreign businesses can somehow intrude and get this kind of information, we have too much at stake. So I do urge that you make this a top priority.

Mr. Chairman, I have other questions, but I am going to have to leave to go to another meeting. Will we be able to submit questions?

Chairman GLENN. Sure, absolutely.

Senator ROTH. Thank you, Mr. Chairman.

Ms. RIVLIN. Thank you. I will be happy to answer questions later.

Chairman GLENN. Before Senator Roth leaves, we had jointly requested that study by OTA. They have done a lot of good work. We released the report last week, and it addresses a big area as we move into this computerized flow of information.

IRS computer security is one area that we have dealt with in this Committee and talked with Ms. Richardson over there, Peggy Richardson, the Commissioner. I don't know what your plans are in the upcoming year for her budget, but I will tell you that computer

modernization over there just has to be funded. This is the one spot where every American has an interface with government every year and if that gets fouled up where people have a low confidence level that they are being dealt with fairly, we have got very major, major problems. So we have fought on this Committee to keep from reducing her people and the computer modernization over there, and I hope you can keep that in mind as you go.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. If I may comment on your comment, back to our discussion about the aggregate economy and forecasting, I do not mean this disrespectfully and I think this is the kind of comment maybe we ought to have over lunch some time.

Ms. RIVLIN. Good.

Senator BENNETT. I think you are missing a major point, and maybe all professional economists miss this point and I will summarize it in a statement that I learned very early when I started investing in the stock market. It is a cliché, but like most clichés it happens to be true.

There is no stock market; there is a market of stocks. We hear the phrase "the stock market has gone down," or "the stock market is stagnant," and there are some stocks that are going up, and "the stock market is booming," and there are some stocks that are going down.

The stock which represents the bulk of my assets, the company that I served as the CEO of, went up during a period of time when the stock market itself was static. When I came to the Senate, I took some of my money and I put it in a mutual fund and it is worth less today than it was when I bought it, and the stock that I sold to put it in the mutual fund to diversify is now about 60 percent higher than it was. So, obviously, I made a dumb decision.

The point is that to say, well, the luxury boat business would have gone down anyway because the aggregate economy went down, is not necessarily true. It may be true in this instance. I don't know. I have talked to people in the boat industry who said that the circumstance of the industry at the time the tax increase was put in was absolutely disastrous timing, and they weren't talking about the tide of the economy. They were talking about the state of the industry, the state of the companies in it, the state of competition.

The one thing they all wanted to do and needed to do was cut their prices. At the very best, they had to hold their prices, and here comes the government and, blindly, willy-nilly, increases their prices 10 percent. They tell me—admittedly, they are parties of interest here—that it was the tax increase that devastated the industry and closed down the people. That is my comment on your comment.

Let's go on to the more specific governmental issue that is facing us right now, and we have a prime example in GATT. Under the rules of PAYGO, we have got to find \$12 billion in cuts up here in order to pay for GATT, and every forecast that I have seen says that in the period of time that that \$12 billion in revenue will be lost in the first 5 years, nearly \$30 billion in revenue will be cre-

ated because GATT will stimulate new and increased economic activity.

If I am a businessman who is being told, OK, it is going to cost you \$12 billion to launch this product, but it will produce \$30 billion in increased revenues, I say that is a good deal and let's do it. Here is a circumstance where we are being told we can't do it unless somehow we raise taxes or cut expenditures someplace else for \$12 billion. That is ridiculous, but the way the computers are programmed and the way the rules are written, either we have to formally waive the law or come up with \$12 billion somewhere. As I say, that doesn't strike me as either sound management or budgeting.

Is there any way your office, under your leadership, can begin to address these issues and say, instead of the static kind of forecasting tools that we are using, here are some alternative methods of examining this that can guide the Congress as they make these kinds of decisions?

Ms. RIVLIN. I have a great deal of sympathy with this argument. The administration, as you know, has fought hard for GATT, and one of the agonizing parts of this has been that it has been necessary to come up with these offsets. It is not easy to do that and we have offended a lot of people in the process. It would have been a lot easier to take the position that you are describing and be able to say this is good for the economy, so let's do it.

The problem with going down that route is that it is a slippery slope. Almost everything we do, not only on the tax side but also on the spending side, we do because it has an ultimate beneficial effect on the economy. One could argue that lots of different kinds of tax cuts would benefit the economy in the long run and we should take that into account. One could also argue that about spending programs, that improving education or other kinds of improvements would benefit the economy in the long run and therefore, over some period, pay for themselves.

I am only worried that if we start down that route, tempting as it is, we will lose budget discipline. Because it is so difficult to prove any of these things, we will then be tempted to do what often happened before we had these scoring rules. We can cut taxes and raise spending since it is all good for the economy.

Senator BENNETT. I am fully sympathetic with that, but the answer on my part is the statement that you say it is so difficult to monitor whether it really does or doesn't. Again, in a business you find out in a hurry. A businessman has all of the latitude to do that. We are going to raise spending and we are going to cut taxes, or in the business case we are going to increase our investments and we are going to cut our prices, and all of the rest of this, and you get hit very quickly with the realities of the marketplace if you have made the wrong choice.

In government, the only place you get hit is in the statistics, and we now come back to the kinds of statistics that are kept at OMB and CBO, and I go back to my opening statement. You represent a bridge between these two agencies that I think is enormously valuable as we grapple with this.

We are entering in a world—indeed, we are in a world where we have the capability to analyze these kinds of things to a degree we

never had before. This may be a reach, but look at what is happening in the financial markets with the rise of derivatives. The rise of derivatives is directly correlated with the rise of computers and software that make it possible to analyze how many parts of the deal there are that can now be broken up and sold in different markets all over the place, and then monitored and people rewarded or punished on the basis of the choices that they made.

Can't we marshal that kind of computing power to say, OK, we said this was going to produce this kind of result, we are discovering very quickly that it is about to destroy an industry and therefore, instead of waiting 6 years, Congress, to change this, we in OMB are saying to you you have started down a road that looked good at the time you made the decision, but, by George, the early indications are very clear? We are monitoring it. We are giving you a running commentary on the budget instead of an annual analysis, and see if you can't move quickly to say what you thought was a good investment in this kind of educational technology, or what you thought was a good investment in roads or whatever it might be—we are doing this up-to-date computer analysis the way a modern business would do and we are saying to you that product isn't selling. You have got to stop manufacturing it; you have got to get it off the shelves in a hurry and make a decision.

The failure to use those kinds of techniques to monitor what is happening in government brings us back to the position you have just described that says, well, maybe it might make sense, Senator, but we can't do it because we can start down the slippery slope.

Ms. RIVLIN. I hope you and I can have a longer chance to talk about this in a more informal setting.

Chairman GLENN. He suggested lunch. I just want to know, with the new gift rules we are putting in, who is going to pay. That is what I want to know.

Ms. RIVLIN. Well, I think we each have to pay for our own.

Senator BENNETT. As long as my stock keeps going up, I will be happy to pay.

Ms. RIVLIN. I think a lot of advances have been made in the use of computer technology and in forecasting techniques. It is not my perception that it is now possible to easily sort out the effects of government policy on what is actually happening. I don't think it is that easy in business either.

I sat on several corporate boards for quite a long time and was in a lot of arguments about is this a good investment. It might have been a good investment, but other things were happening at the same time that made it not such a good investment. There is a lot of uncertainty even in the business world.

Senator BENNETT. I don't dispute that at all, and that is what we all get paid these high salaries to sort through. But can we start to try in government? That is my plea.

Ms. RIVLIN. I think we can and I think we are, and I would be delighted to have a further discussion about what else we can do.

Senator BENNETT. Thank you, Mr. Chairman.

Chairman GLENN. I would just point out with regard to the discussion that has been going on here that the offsets are something we put in here at this end of the avenue because we had an inability to control spending. We saw ourselves going further into debt,

so we did it to ourselves as far as that goes. This isn't something that was put in over at OMB, and you have to live with it there, obviously.

The offsets were put in because we had reduced revenue by 25 percent back in the early 1980's and increased defense spending, and the tax cuts supposedly were supposed to result in such new business euphoria and investment and consumer confidence, and we would move on to a new level of economic activity that would more than restore what we were cutting.

It just flat didn't happen, and we got a \$3.5 trillion increase in debt to show that it didn't happen. That is the reason I am so leery of saying, well, we need more tax cuts now. If we think that is what we need right now, we have a \$3.5 trillion debt out there that shows that it didn't work before. I don't see how it is going to work now.

Senator BENNETT. Maybe you and I can have lunch to debate that, too. [Laughter.]

Chairman GLENN. We will have lunch, too, all right, good.

The National Performance Review has many accomplishments. We had a big role in passing the Federal Acquisition Streamlining Act, the so-called procurement bill. The Governmental Affairs Committee, the Senate Armed Services Committee, the Pentagon, through the 800 Panel, the small business people, and the National Performance Review all combined to really bring that thing in.

I don't know whether you have been able to take—that will be signed into law, I guess, next week, I believe.

Ms. RIVLIN. Next week.

Chairman GLENN. I don't know that there has been a date set, but the signing is supposed to be next week some time. Is the law going to have a major impact on the budget at this early stage? Also, I would ask, too, about the Office of Federal Procurement Policy that is going to have to administer this law, I think they are going to have diminished staffing, also, I believe. I am not sure whether that is good at this stage just as we are trying to implement this new law. What impact do you see all this having?

Ms. RIVLIN. Well, I think it will have a budget impact but it will unfold over several years. We are very proud of this piece of legislation. I talked to Steve Kellman yesterday about the highly demanding process by which we will get this all implemented. I think he believes, and I believe, that we are now organized well in OMB to do that. His own staff, the statutory office, is smaller, but that is part of this OMB 2000 reorganization. We now have the RMOs that have some procurement specialists in them and they are focused on helping Steve and his team with the implementation of the Act. I think that will go forward on schedule.

Chairman GLENN. OK. Civil service reform was the third major goal of the NPR. As a first step, the administration created the National Partnership Council to help set a course in Federal labor-management relations as a first step.

What will be your role in carrying that out? We have been a little critical of OPM for not getting this civil service reform in to us faster. We thought it was going to be here some time ago. What would be the budgetary impact of this on Federal workers, and so on? Are

you directly involved with that because that is so important to all of our whole Federal workforce?

Ms. RIVLIN. I was most directly involved when I served on the Partnership Council. Now, John Koskinen will be serving in that capacity. The Partnership Council, though, was a very useful first step in getting civil service reform because it involved the agency managers and representatives of the unions. As you know, the Federal Government is heavily unionized, and unless we work together to make the civil service reform work, it isn't going to happen.

We put together a report that outlined principles for civil service reform. I agree that the legislation hasn't come forward quite as fast as it might. This administration has had a lot on its plate and the decision was made not to try to get civil service reform legislation up in this session of Congress, but to do it next year. I will certainly be heavily involved in that process.

Chairman GLENN. Well, the fiscal year 1996 pay raise and proposals to change retirement benefits and things like that will be extremely important in your budgeting decisions.

Ms. RIVLIN. Right.

Chairman GLENN. I hate to see us do what we did last year where we say, for instance, in the military, well, you have your pay raise, but it is going to be minus a percent, and so on, minus a percent on inflation, and so on, because this gets us back in the same old business where, as inflation does take a toll, we get so far behind with civil service or military pay compared to civilian pay that we wind up in a bind and have to make a giant correction at one point. Those are always just terribly hard to do here, as you know. I would much prefer to see us keep up with those things as we go along.

In early October, a widespread buyout authority is expected to be offered throughout the Federal Government as part of the administration's effort to reduce the Federal work force by 272,000, which you already mentioned, over the next few years. Concerns are increasing, though, that while downsizing may be proceeding on schedule, the restructuring of the workforce is lagging behind.

We deliberately wrote the buyout bill and approved it in order to correct the skewed GS ratings where too many people are in the management section and not enough in the worker area. For instance, in industry we have about 1-to-12 or 1-to-15 as a manager-to-employee ratio just as a generalized figure, although it varies widely from one industry to another. In the Federal Government, we have 1-to-7 in management to employees.

Now, we wrote this thing so that it could be specifically applied to correct this structural imbalance and get more of the GS-13's, 14's and 15's to volunteer to get out. Are you involved with those concerns, and is the restructuring going to be the focus of these buyouts that will be offered this fall?

Ms. RIVLIN. Yes. The restructuring is very much the focus, not only of the buyouts, but also of the agency streamlining plans we are currently reviewing and working with in this budget cycle. We are very conscious of the layering of bureaucracy in the Federal Government and trying to do the restructuring in a way that will remove unnecessary layers of management.

That is not a quick or easy thing to do. The buyout authority helps. We used the buyout authority in fiscal 1994, I think, to good effect. We are now trying to figure out how to use the buyout authority in fiscal 1995 in the most effective way. Now, thanks to this Committee, I believe the restructuring was written in a way that means that you can't offer buyouts unless you are reducing the domestic agency workforce along a certain path. The problem is how to distribute those buyouts most effectively among the agencies. There are a lot more agencies that would like to use buyouts than for which we have buyouts available under the law. We are working on that problem right now.

Chairman GLENN. OK, good. We gave pretty broad targeting authority to try and correct this imbalance problem. I hope you can use that because that is what needs to be corrected.

My time is up on this round.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

I will get in touch with you to see if we can continue this dialog.

Ms. RIVLIN. Good.

Senator BENNETT. These are very fundamental issues that relate to how we do business up here and the impact of what you do has on what we do.

Let me turn to some management issues, and this will be my last round. You talk about the layering of the Federal Government. This is certainly not a problem exclusive to this administration. I remember someone talking about the days in the Bush White House when no one ever got fired. They just would bring in somebody else that they would like a little better than whoever was there, and it finally got a name. It was called composting, where they would just keep bringing in people.

President Clinton talked with great fanfare about cutting the White House staff by 25 percent, and I believe he did that in terms of number of positions that were posted for the White House. I then noticed that when the White House budget came to us, it had gone up.

As we are talking about cutting and reinventing government, and so on, and we are focusing on the number of jobs that are being reduced, that is wonderful, but can we avoid having the same thing happen where the number of jobs gets reduced, but magically the amount of money goes up?

I have had to downsize, and we have downsized on the basis of dollars. We got all of our executives together. These numbers will sound pitifully small to you, but in the business world where I was at the time they were fairly significant. We got everybody together and said, apropos of our previous discussion, our forecast is off, our sales are going to be somewhere between 7 and 10 percent below what we had forecast for this year. Instead of a 90-percent increase this year, we are only going to have a 65- or 70-percent increase.

Therefore, in order to make our targets, we are going to have to take \$300,000 a month out of our overhead. The meeting is adjourned. We will reconvene a week from now and you, the division managers, the department heads, whatever it is, will tell us, top management, how we are going to find \$300,000.

We didn't tell them we have to eliminate so many positions. We didn't tell them we have to not buy so many—we said we have to take \$300,000 a month out of the overhead. A week later, we convened and they all said, well, we are going to do this, we are going to do that. It was different in each department.

We got through, added it all up on the white board, and said, congratulations, you have taken out \$150,000. Meeting adjourned. We will reconvene in a week and you have got to double what you have just told us you can do. We took \$300,000 a month out of our overhead in about 90 days, and I still don't know how we did it—I was the CEO—because they did it and they were given the target, and they were given the target in dollars. Some of them did it through personnel cuts and some of them did it through travel and entertainment, and so on and so forth.

Are we moving in that direction or are we in the trap where we will say, yes, congratulations, we have eliminated 200,000 employees, but, by the way, our personnel costs have gone up 5 percent? Could you comment on that process?

Ms. RIVLIN. Yes. We are moving in that direction very hard. For the government as a whole we must move in that direction because the discretionary budget of the Federal Government is fixed and there isn't way that it is going to go up. I mean, the caps are there.

That doesn't mean that every agency will go down, but as we look across the government we are asking very hard questions and forcing the kinds of actions that you are talking about in taking out overhead and taking out personnel. We will look at the White House budget as hard we look at any of the others.

Senator BENNETT. That is wonderful. I just conclude with this one comment. When we were having the Whitewater hearings, Senator Riegle said to one panel, who are these guys and who is the top dog. And it turned out these guys were members of the office of the counsel to the President, and maybe years go by real rapidly, but I remember when there was one counsel to the President and he acted as the President's personal attorney and anything else the President needed to know legally he got out of the Justice Department. That was in an administration in which I served.

I asked these people, how many of you are there, and they sat down and thought, well, now, wait a minute, and finally they said, well, there is the counsel, there is the deputy counsel, there are seven associates counsels, and then there are five staff attorneys, plus an unknown number of detailees. I don't think the legal burden has grown all that much from the administration in which I served until now because I am not that old, and I would hope we would look at this proliferation.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

Last September in a hearing before this Committee, you announced the formation of the Federal Facilities Policy Group to develop strategy for addressing the Federal Government's waste management and environmental cleanup responsibilities. I am interested in your comment on how that group has been working out, how it has gone, and then I will follow up with another one if you want to make a comment on that first.

Ms. RIVLIN. I have chaired that group jointly with Katie McGinty, who heads the Office of Environmental Policy, and on it are represented the major agencies with cleanup problems; that is, Energy and Defense, but also Interior, Agriculture, and NASA.

It has been, I think, a very useful experience. We have spent quite a long time working intensively to understand how big the problem is, how it differs from agency to agency, and what the mechanisms for setting priorities for cleanup actually are within the agencies. We are now at the moment of laying out options for where we go from here. There is an options paper in draft which we will be sharing with the various people involved, including the so-called stakeholders. There are a large number of people with interests in this problem.

The paper will be a subject of discussion, I hope, with the Congress. We have included Congressional staff and had several meetings with them. We have also met with representatives of State and local government, tribal leaders, industry, contractors and a large group of people. So we will vet this paper, get more comments on it, and then try to come up with a set of policies that we can discuss with the Congress.

Chairman GLENN. I have been concerned also about government budgeting. I know the pressures you are under, but some of these problems are long-haul problems that we have to address on a year-by-year basis, and it is going to go on for a couple of decades, at least.

I am talking about our Department of Energy cleanup and the whole nuclear weapons thing. This started back in 1985. The people at Fernald in Ohio wanted me to come out. They had problems there. I went out. I didn't know how valid it was and I found out that their concerns were very valid. We did GAO studies then of all the other spots in the whole nuclear weapons complex all over the country, some 11 States and 17 different major sites.

Cleanup had been put away at that time. The Russians are coming; we have got to produce. What are you going to do with the waste? Put it out behind the plant. Well, then we got looking into it and I have a series of GAO studies probably two feet high; I guess, at this point that has gone through the whole weapons complex.

When we started this, it was estimated that to cleanup the whole weapons complex—I remember their first estimate was somewhere between \$8 to \$12 billion. Now, the latest GAO estimate is \$300 billion, if we can figure out how to do some of it, and over a 20- to 30-year period. Now, this has to come out even optimistically at somewhere between \$9 to \$10 billion per year.

Ms. RIVLIN. That is right. That is about what we are spending now.

Chairman GLENN. We were a little below that last year, I think. I think we were at, what, \$6.5 to \$6.75-billion?

Ms. RIVLIN. For Energy alone, right.

Chairman GLENN. Something like that, I think. So I am concerned about that and how we take care of these long-term items that are going to take years and are going to require a year-by-year effort, and they are tough and they eat up a lot of the budget. I just make that more as a statement than anything else. I hope you

can look at that with favor because it is not going to get cheaper as we go along and it is something that does have to be done because it is a danger in our communities.

One other thing. Yesterday, we called off health care for the year. George Mitchell made the announcement on that. Yet, some of our forecasts have been that the Federal budget now has about 17 percent of the budget going to health care, and by 2003, about 8.5 years from now, that is forecast to be 24 percent, almost a fourth of the Federal budget.

Of our GNP, we are just approaching 15 percent now, and by the year 2000, just 6 years from now, we are supposed to be at around 20 percent. That is not directly related to the Federal budget, but are you looking at any particular areas to change our policy on, since we are apparently just going to go along this track of letting it go up at least for another year? Maybe we will address it next year and maybe we won't. I don't know, but that is a rather major increase, by the year 2003, to go from 17 percent of the Federal budget up to 24 percent.

Ms. RIVLIN. Yes, it is.

Chairman GLENN. Do you have any comments on how we are going to control that?

Ms. RIVLIN. Well, those are some of the reasons why the Clinton administration focused national attention on health care reform, partly because Federal spending was rising so rapidly and it is mostly Medicare and Medicaid spending. That spending has been subject to very stringent cost controls, but the result has been largely to shift the costs from the Federal sector to the private sector. So it was our feeling you couldn't really do much about the Medicare-Medicaid spending until you had a system for reducing the rate of growth of national health spending.

At this moment, I can only say we will come back to that problem. The President said it himself yesterday. The Congress worked very hard on health reform this year, but didn't get there. That may not be too surprising. It is a very complicated problem. We will come back with other proposals and we look forward to working with you on them.

Chairman GLENN. I am not as pessimistic as some people in this area. I think the enormity of the problem with health care—you almost can't get your arms around it; it is such a big problem. I personally am complimentary to the President for keeping attention on this, and I think much of the health care industry is starting to move because of this even though we haven't passed legislation. So there are some good things that have come out of this even though we didn't get the whole thing through.

Just one other question. This Committee also has jurisdiction with regard to the District of Columbia, and I know we are not going to get involved in the local race right now. But in 1990, you served as Chair of the Commission on Budget and Financial Priorities of the District. It was known as the Rivlin Commission, as a matter of fact. GAO has conducted an audit of the District's finances and suggests there are going to be very significant shortfalls in District revenue this year, and the out-years also.

I would ask for your comments on this, in general. Have the major recommendations of the Rivlin Commission report been car-

ried out? Would you comment on what priorities you think they should have, and is your study still valid as a blueprint for them to follow?

We are talking about other big national policies, but we have jurisdiction over D.C. and you were directly involved with it. We would appreciate your comments on whether you think those should be the things they still carry out.

Ms. RIVLIN. The District has implemented quite a number of the recommendations of the commission, but they still have a major problem. They really have a whole bunch of problems, but two that stand out. One is that it is a government with a large number of employees. They have the same kind of downsizing/restructuring challenge that many governments have, but it is particularly difficult in the District. I think they have not addressed that problem as strongly as they might have. It was highlighted in our report.

There is, of course, the other side of the question, the revenue side. The District does not have what a State considers normal power to tax the income of residents earned in that jurisdiction who live elsewhere. But the combination of problems makes it very, very difficult for the District and they are struggling. I think there are certainly recommendations we made that are still valid, but a new look at the situation is probably in order.

Chairman GLENN. Well, do you know of anything that you recommended that you think is out of date specifically and should not be done now?

Ms. RIVLIN. No, I don't.

Chairman GLENN. OK, good.

Any last comments?

Senator BENNETT. I will just, on your last comment, echo your praise for the President, Mr. Chairman, in the health care issue of keeping it in the forefront of the national consciousness. I have done that throughout the debate even as I have disagreed with the specific proposals that have been made in the President's name, many of which I think are very ill-advised.

At least for this Senator, I too am committed to doing something significant in the Congress ahead because I agree that it is a major national problem and cannot be swept under the rug for a whole series of reasons, only one of which is the one you have outlined here.

So as one who disagreed with the President and does not mourn the death of his proposal, I nonetheless join with the Chairman in saluting him for his leadership and courage in keeping it where it is, and pledge to go to work on it again next year.

Chairman GLENN. One of our options, as I see it, unless something drastically changes in the health care industry, is not to do nothing because this thing is going up so fast. It is going to eat us alive if we are not careful, so we have to do something. Whether we agree with the President or George Mitchell's fallback plan, or Gephardt, or somebody, I think at least we have illuminated the problem this year, and so I hope we can come back with some agreement next year and get going on it.

Well, I would just summarize our whole hearing this morning here as saying we are very appreciative of your efforts that you have already been putting forward at OMB. I do not think, and I

know you do not think, that having efficiency in the Federal Government is an oxymoron statement. We can do it, and we have worked on this Committee to put things in like the CFO Act, the IG Act, the FMFIA, the procurement bill, and others such as Senator Roth's bill, that I think give you the tools.

I don't know what else you need in your tool kit over there to really put some efficiency in government. It is going to take a long time. We know that, but you are key to this whole thing, absolutely key. If your office isn't managing this, it doesn't get managed.

So I appreciate your coming back. I didn't think we really needed to have another confirmation hearing, since you had been here just last year, but I guess we have gotten into a lot of things here today and I am glad we did.

Ms. RIVLIN. I am, too.

Chairman GLENN. So we appreciate your forthrightness on this.

Senator Pryor wanted me to note that he wants to submit a question in writing on OMB's role in GATT and in agricultural policy. We, as always, will have a policy of keeping the record open so that additional written questions can be submitted to you, and we would appreciate your prompt attention so they can be included in our Committee record.

Ms. RIVLIN. Thank you, Mr. Chairman. I appreciate this opportunity and I look forward to working with you on these things about which we all care.

Chairman GLENN. And you can look forward to your lunch with Senator Bennett.

Thank you.

[Whereupon, at 11:58 a.m., the Committee was adjourned.]

## APPENDIX

### Questions from Senator Glenn

In your August 19, 1994, memo to agency heads regarding Streamlining Plans, you discuss the goal of the National Performance Review (NPR) to decrease headquarters personnel by 50% over the next five years. The attachment to that memo (revised Attachment D) lists several categories of staff, presumably to be cut, e.g., personnel specialists, budget specialists, acquisition specialists, and accountants & auditors. Knowing of my concern, particularly, for the functions of the Inspectors General, and the need to improve Federal financial management:

A. Please explain OMB's position regarding reductions in the personnel categories listed in Attachment D.

Our goal is to see that, within the statutory ceilings, agency FTE levels are aligned with program requirements and anticipated funding levels. FTEs should be treated the same way other resources are treated in the budget process. The NPR goals (e.g., 50% headquarters functions reduction) should be treated as rebuttable presumptions, i.e., if the agency is not meeting those targets, it should provide a compelling argument about what it is doing instead to streamline and improve program performance.

B. Please describe any guidance developed for OMB budget examiners, as well as any for agency officials, that explain how to apply the general personnel reductions mandate to specific personnel categories.

Examiners as well as the agencies received the attached "Update on OMB-Wide Dialogue" which describes our review of streamlining plans and performance measurement during the FY 1996 Budget process.

C. More generally, please explain how OMB will ensure that the NPR staff reduction mandate will not result in diminished agency management and/or IG capacity.

Our guidance to examiners specifically asked them to be mindful of diminished agency management and/or IG capacity, asking them to consider:

"What does the plan say about the use of management processes and resources in achieving a more streamlined and effective operation? In particular, does it say anything about the role of financial management or the agency inspector general?"

See item (b) in Budget Data Request No. 94-104, July 18, 1994, on page 1-4 of the "Update on OMB-Wide Dialogue."

Questions from Senator Roth

### WORKFORCE RESTRUCTURING

1. Of the total number of buyouts taken government-wide, how many were managers, budget and procurement specialists?

The Office of Personnel Management is responsible for collecting detailed demographic information on the employees that have taken buyouts. The data for FY 1994 buyouts should be available in February.

2. Each agency was supposed to have submitted detailed plans to OMB to implement downsizing and reorganizational targets. Will OMB share these agency plans with this Committee so we may review them?

Agencies' streamlining plans are being reviewed as part of the FY 1996 Budget process. As such, they are communications used to develop the President's Budget.

Once the Budget is formally transmitted in February 1995, agencies will be preparing budget-related materials for Congress. These will include streamlining plans consistent with the President's budget.

3. Of the 272,900 reduction in personnel, Secretary Aspin outlined a reduction of 160,000 within the Department of Defense in his "Bottom Up Review." Do you estimate that his numbers of last year will increase or decrease?

The Department of Defense has submitted a streamlining plan reducing full-time equivalents (FTEs), in accordance with guidance from the National Performance Review (NPR), the Bottom-Up Review (BUR) of the Defense Department, and the Federal Workforce Restructuring Act of 1994 (P.L. 103-226). DoD's plan calls for an increase in the previously estimated FTE reduction. While DoD's plan is subject to change based on the outcome of decisions made during the FY 1996 budget process, but its continued progress represents the quality of its planning process and its early start on recognizing the need to reconsider the Department's overall mission and operations.

4. Ideally, some day we might be able to combine program financial information with program performance information, and then track unit costs of various activities and their results. That would be very valuable information. Do you have any thoughts about how the Government Performance and Results Act and Chief Financial Officers information might be combined or used together, some time in the future, and what it will take to get us to that point?

In implementing the Government Performance and Results Act, the Chief Financial Officers Act, the new Government Management Reform Act, and our budgetary responsibilities, we are trying to create an integrated information framework to support a cycle of planning, budgeting, management, evaluation, and reporting. Specifically, we believe that decisions

will be better if objectives are clearly stated and if the resources devoted to the accomplishment of a particular objective are grouped together.

The 1996 budget process is taking an important step in the direction of presenting more program performance measures - outputs and outcomes - in the budget and linking goals to the resources required to produce them. Agencies worked with OMB to focus on performance in making and justifying decisions for key programs. And they have been encouraged to include performance goals and indicators in their budget justifications, and output and outcome measures in the Budget Appendix narrative. Where costs for major programs are not contained within a single budget account, agencies are being asked to provide additional information in their justifications and the Budget Appendix.

In the 1996 Budget and over the coming year, we will be proposing additional steps to align budgeting for resources with the program results that we hope to achieve. We believe that this will provide the information and incentive to improve both resource allocation and program management.

Financial accounting will complement this improvement in budgeting. For example, the Federal Accounting Standards Advisory Board has issued for comment proposed Managerial Cost Accounting Standards for the Federal Government. These standards would assist departments and agencies in "matching" costs to Federal outputs and activities (including those measured in nonfinancial terms) in the same way as business accounting "matches" expenses to revenues earned. They provide guidance for producing on a detailed level the kind of information you are seeking.

### PROCUREMENT POLICY

1. What is your view of what Congress intended when it passed the "pay-for-performance" provisions in the Federal Acquisition Streamlining Act, and what is your plan and time-line for implementation?

We believe that the "pay-for-performance" provisions included in the Federal Acquisition Streamlining Act (FASA) are intended to serve as a statutory basis for an innovative incentive pay system for Federal employees working in acquisition-related positions. The FASA provision serves to strengthen several Administration initiatives aimed at improving the quality of the procurement work force.

The Administration is presently developing a series of legislative proposals to reform the civil service system government-wide, including a proposal to more closely link pay with demonstrated work performance. Procurement and acquisition-related positions will be included in this plan. We intend to consult with you and your staff in the development of the Administration's proposal during the year. We also intend to work with the agencies on appropriate performance measures for contracting personnel.

2. What do you see as the major hurdles and potential obstacles for implementing an effective "pay-for-performance" incentive structure?

We believe that an appropriate statutory base needs to be put in place in order to effect government-wide reform relating pay to performance. As I have previously mentioned, we intend to work with you and your staff, as well as employees and organizations representing Federal employees, in order to ensure that these reforms come to fruition. However, I would also add that communication — both as to expectations and necessary outcomes — will be essential in making such a program work within the Federal work force. This type of cultural change will require substantial effort to be successful. Fortunately, I believe that most Federal employees recognize the need for change.

#### **BUDGET & DEFICIT**

1. Will the Administration propose an extension of the discretionary spending caps through the year 2000 and beyond?

The Clinton Administration's FY 1996 Budget will meet the requirements of the Budget Enforcement Act of 1990, as amended in 1993, including the discretionary caps established by the Act through FY 1998. The Administration's budget will also propose to extend the caps through FY 2000.

2. Will the Administration endorse and fight for any budget process reform measures, such as the bill I joined in sponsoring, the Common Cents Budget Reform Act of 1994 which includes four critical reforms to curb federal spending?

The Administration is currently in the process of formulating the 1996 budget and therefore has not made any final decisions on budget process measures to propose or endorse in the next session of Congress. As you know, in the 1995 budget the President supported budget process reform initiatives, such as enhanced rescission authority, biennial budgeting, reform of retirement cost accounting and simplification of the investment of balances held in government accounts. On baseline budgeting, the Administration supported the Spratt Full Budget Disclosure proposal in the last session of Congress. The Administration will continue to support sensible budget process reform in the 104th Congress.

3. In 1993 the Administration made much of its decision to shorten the maturity structure of the public debt. However, doesn't the sharp rise in interest rates since 1993 suggest that this policy could increase interest costs over the long run?

The Treasury decision to finance the debt using a larger proportion of shorter maturities will reduce the long-term interest costs. The long-term savings arises from the persistent 2-4 percentage point difference between short- and long-term rates. While the amount of savings will vary among economic forecasts, savings are always positive over any period of several years.

Using a larger proportion of shorter maturities also increases the sensitivity of interest costs to fluctuations in short-term interest rates. Depending on the direction of interest rate trends, the added sensitivity to interest rates can raise or lower estimates of interest costs. Recently,

revised forecasts have tended to raise the estimates of interest costs due to higher short-term rates. However, such fluctuations do not negate the long-term savings.

## Questions from Senator Pryor

## 1. What do you see OMB's role to be in trade and agricultural policy?

OMB's role in trade and agricultural policy aims to ensure that the President's priorities are pursued and reconciled with competing demands for budget resources. In preparation for the GATT implementing legislation earlier this year, OMB worked with USDA, USTR and other agencies to design a package of provisions, from the many proposed, that would maintain the strength of American agriculture during the period of GATT implementation. The letter from Secretary Espy and me to Congress on September 30th reflected OMB's role in forming a realistic and effective package.

## 2. How can we hope to achieve our export goals if we don't have the tools--our programs and funding--which are aimed at helping us remain competitive in the international marketplace?

The GATT agreement means that the competitiveness of U.S. agricultural exports will depend less and less on costly Federal programs and funding. That is part of the reason for GATT, to reduce trade-distorting activities, such as public subsidies for exports. The Administration intends to continue opposing trade barriers to U.S. exports, and to encourage U.S. producers to sell in international markets. Moreover, the Administration has announced its commitment to increased funding for these GATT-permissible activities during the period of GATT implementation.

## 3. In light of the fact that current farm programs account for less than one percent of the total federal budget and have been declining, as OMB Director, would you propose further reductions to these vital agricultural programs in the FY 1996 budget?

Commodity Credit Corporation (CCC) outlays have declined greatly from their historic high point in FY 1986, primarily because the U.S. has been in a period of relative higher commodity prices. While USDA projects higher prices in the future, the conditions that led to high outlays in past years could recur. Justification for farm subsidies should not rest on whether those subsidies are a small or declining percent of Federal outlays. It should instead depend on policy reviews of the benefits being achieved by the spending, and for whom, and compared to what alternative programs. The Administration intends to ask such questions continually of all spending, not simply of CCC outlays.

QUESTIONS FOR THE RECORD FROM SENATOR LIEBERMAN  
CONFIRMATION OF ALICE RIVLIN TO BE OMB DIRECTOR

1. There have been a number of occasions when the Budget side of OMB has developed or promoted information collections as revenue raisers without consulting with the Office of Information and Regulatory Affairs (OIRA). The Medicare/Medicaid Data Bank is a recent example where the information burden would not pass muster under the Paperwork Reduction Act, but there was no consultation prior to submitting the initiative. What will you do to see that information collections used to raise revenue are cleared by the Administrator of OIRA?

Answer: As a matter of practice, OIRA is involved when information collections to raise revenues are developed by the Administration. As you know, the Administrator of OIRA, speaking for the Administration, expressed her concerns about the reporting burden of the Medicare/Medicaid data bank. In recognition of these concerns, the Administration submitted legislation to postpone the data bank implementation and to allow time to consider alternative approaches to collect the information needed for coordination of health care benefits. The OIRA Administrator will continue to be involved whenever the Administration develops or reviews information collections to raise revenues or for any other purpose.

2. The Office of the Chief Statistician within OIRA has a broad and abundant mandate and a very small staff to carry out those responsibilities. With the merger of the Management and Budget sides of OMB what is the possibility of expanding the staff of the Chief Statistician?

Answer: In view of the broad and fundamentally important responsibilities for statistical policy and coordination assigned by the Congress to OMB under the Paperwork Reduction Act, we were careful to maintain the current level of resources for these functions during the recent reorganization of OMB. To enhance our capabilities to execute the statistical policy and coordination responsibilities, we have been capitalizing on the expertise in the Federal statistical agencies to work in partnership on many of our current priorities. For example, to carry out much of the develop work related to the revision of the Standard Industrial Classification and the Standard Occupational Classification, we have chartered interagency committees chaired respectively by the Bureau of Economic Analysis and the Bureau of Labor Statistics.

3. What are your views on the need for further deficit reduction and how could or should such reduction be accomplished?

Answer: This Administration has already accomplished a great deal in the task of deficit reduction. The President's economic program, passed by the Congress last year, was designed to reduce the deficit by a cumulative \$504.8 billion over five years. However, because this reduction of long-term Federal borrowing needs eased inflation fears in the financial markets and improved consumer confidence, the economy responded positively, and the deficit is now projected to fall below last year's baseline by a cumulative five-year total of more than \$690 billion. Of course, the program changes enacted last year will continue to provide budget savings in the outyears, and the five-year deficit reduction reduces our national debt, and hence debt-service costs, in perpetuity.

However, as the President has emphasized, the job is not yet done. While OMB projects that the deficit will remain at a constant percentage of the GDP over about the next ten years, it will rise in dollar terms; and beyond that ten-year horizon, the deficit is projected to grow faster than the economy.

The main cause of this deficit growth is the growth of the Federal Government's health care costs -- primarily for Medicare and Medicaid. In fact, if allowed to go unchecked, these costs are projected to grow so rapidly that ultimately they would drive the deficit upward no matter what else we do to try to put our fiscal house in order.

Therefore, to deal with the deficit problem that we will face as we enter the next century, we must control the rate of growth of health care costs. The President has taken that issue on. It is essential that we follow through on that initiative, because the longer we wait, the more accumulated debt we must carry, and the more painful change our institutions must endure to achieve the necessary savings.

4. With regard to the Department of Defense:

There is growing concern that the Department of Defense is underfunded to such a degree that the Department is now preparing to sacrifice all or most of its critical modernization programs in order to maintain quality of life and readiness for the military forces. An August 18, 1994 memorandum by the Deputy Secretary of Defense has called on the military services for plans to halt or delay virtually all of DOD modernization programs. Given that many of these programs are critical for long-term national security, does

the Administration plan to locate funds to avoid such program terminations and delays? Would you comment on the Administration's long-term plan to ensure funding for an adequate defense of this country.

DOD Comptroller John Hamra has indicated that the current shortfall in DOD funding due to inflation and congressionally-directed pay raises is in the range of \$26 billion to \$40 billion. Other estimates, including one from the GAO which DOD disputes, put the shortfall in the range of \$150 billion over the 5-year period of the Future Years Defense Plan (FYDP). What are your estimates of the shortfalls within the DOD budget and how do you propose correcting them?

Do you believe that as Director of OMB you must share the responsibility of the Secretary of Defense in defining and funding adequate levels of defense funding so that our national security can be maintained both today and in the next century? How do you anticipate carrying out these responsibilities?

Are you prepared to speak out when you see defense budgets which put at risk the future viability and effectiveness of our military forces? Will you work closely with the Secretary of Defense to ensure that our security is not degraded as a result of inadequate funding?

Answer: The President is committed to the principle that our military forces must be the best equipped, the best trained and the best prepared in the world. By doing so, the President maintains his commitment to supporting the force structure described in the Bottom-Up Review. I can assure you that the defense budget levels projected for FY 1996-1999 will provide for these forces at a high level of readiness. The budget will also provide adequate funding for essential modernization and development programs.

It is correct that detailed program costs estimates in the FY 1996-1999 Future Year's Defense Program (FYDP) of February 1994 exceeded the funding levels projected in the President's budget. That difference -- about \$20 billion, resulted from inflation estimates for 1996 and beyond that were higher than those projected in February 1993 when the long-range DOD estimates were developed. Last year, the President opted not to budget for this projected multiyear inflation bill which may or may not come due. Recently enacted FY 1995 military and civilian pay raises higher than projected in the FY 1995 budget, would add an additional \$4 billion to DOD's FYDP costs.

This is far less than the \$150 billion DOD shortfall cited by GAO. In fact, most of GAO's key assertions regarding the shortfall are either incomplete or incorrect. For example, GAO's potential cost increases resulting from unrealistic management savings were independently reviewed last year and accounted for in the budget. Others, such as those relating to environmental cleanup lack empirical evidence. Indeed, while citing such a large DOD funding shortfall, GAO recently issued another report on DOD which recommended that funds for Operation and Maintenance be reduced by up to \$4 billion.

Funding for the defense program will be addressed by the Administration during the FY 1995-1999 budget review process this fall. Deputy Secretary John Deutch during the course of DOD's annual program review, has asked the military services to review key modernization programs and to develop options to assure adequate funding for readiness, quality of life and other key DOD programs. Of course, both OMB and DOD will continue to work closely to ensure that our military forces are ready, modern and highly capable. As Director of OMB, I will develop a budget which fulfills the President's mandate to provide for an adequately funded defense program.

Statement of Senator Cochran  
Hearing On the Confirmation of Dr. Alice Rivlin  
to Be Director of the Office of Management and Budget  
Committee on Governmental Affairs  
September 27, 1994

Mr. Chairman, Dr. Rivlin is no stranger to this Committee, having gone through this process in January of last year, when the President nominated her as Deputy Director of OMB.

Having previously served as Director of the Congressional Budget Office, as an Assistant Secretary for planning and evaluation in the former Department of Health, Education and Welfare, and at various times with the Brookings Institution, Dr. Rivlin comes before the Committee with an impressive resume of experience in budget matters at the federal level of government.

Her knowledge and experience should provide her with important insight into the budget process as well as the policies that are needed to address the budget deficit problem.

In its August 1994 Budget Outlook, CBO projected higher economic growth and lower deficits in 1994 and 1995 than it had predicted earlier this year. Unfortunately, CBO also predicted that this good news for the short term budget picture does not signify improvement over the longer term.

CBO predicts that after declining from the high levels of the early 1990s the deficit as a percentage of Gross Domestic Product will begin to rise again toward the end of the decade, and under current policies, for the period 2000-2004, the trend will continue.

*Bob Cochran*

It would be helpful if Dr. Rivlin could comment on these projections and provide her view as to their validity. It would also be helpful if she could describe the consequences of continued growth in the federal deficit, as well as what steps she believes the Administration may take in the short term to avoid them.

I thank the Chairman and welcome Dr. Rivlin back before our Committee.