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REMARKS OF ELMER B. STAATS
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STATE AND LOCAL GOVERNMENT PRODUCTIVITY IMPROVEMENT:
WHAT IS THE FEDERAL ROLE?
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GAO's VIEW OF THE FEDERAL ROLE IN
IMPROVING STATE AND LOCAL GOVERNMENT PRODUCTIVITY

I am pleased to be here today to address this distinguished and diverse group of representatives of State and local governments, employee unions, Federal agencies, national associations, and public interest groups. However diverse, we are all concerned about improving State and local government productivity; we are also committed to helping define the Federal Government's role in carrying out this objective. I hope that today's workshop will provide some of the critical information needed by the National Productivity Council to activate an effective Federal policy and program to help improve productivity in this important sector of the economy.

As one who has had a long interest in the subject of productivity growth, I am encouraged by the increasing attention being given to the part which improved productivity can play in fighting inflation and reducing the cost of Government.

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The President, in his economic report, stressed the importance of increasing productivity as a major solution to our inflation problem. Last week the President reiterated this in a speech on inflation to a group of State and local officials.

Over the past several years, GAO's interest and involvement in the productivity arena in both the public and private sectors has intensified for several important reasons:

- Productivity growth rates in the U.S. have slowed significantly in the past 10 years.
- Productivity improvement enhances our ability to compete in world markets.
- Improved productivity is a major factor in reducing and curbing inflation.
- Public sector productivity is increasingly important to our economy.

For these major reasons, GAO has designated national productivity as a major issue area and has allocated a significant amount of resources to studying productivity in the three primary sectors of the economy.

In our work, we have attempted to define the appropriate Federal roles in improving productivity in both private and public sectors. Nine months ago we released a comprehensive report, "The Federal Role In Improving Productivity--Is The

National Center For Productivity And Quality Of Working Life
The Proper Mechanism?" In this study we concluded that the
Federal Government has many policies and programs currently
affecting national productivity growth and cited the need
for stronger leadership from the Federal Government.

In that report we stated that: "We can no longer afford
to let productivity 'take care of itself.'" This principle
is recognized by every other industrial nation--all of which
understand the critical role of productivity in meeting their
national objectives and have had, for many years, extensive
national programs to promote productivity growth.

Many U.S. productivity efforts now underway in the pri-
vate sector, State and local Governments, and some areas of
the Federal Government. These efforts are worthwhile and
deserve support and encouragement but, in themselves, are not
adequate. Greater Federal involvement is needed because only
the Federal Government has the authority to deal with issues
on a national basis and to induce changes that are needed to
correct the downward trend.

With regard to the private sector, it seems likely that
we shall continue, as in the past, to rely primarily on the
profit motive and competition in free markets to stimulate
economic progress and productivity growth. However, as we

have stated, the Government plays an important role in setting the framework for private enterprise through such areas as economic policies, tax laws, regulations, and funds expended to support productivity advances.

Last month we held a seminar with prominent economists, business leaders, and union representatives to help define the roles that the Federal Government and GAO should play in improving private sector productivity. The consensus of the group was the need for better cooperation between business, unions, and Government. Our work in this area will concentrate on investigating the relationships between Federal agencies and private firms which affect private sector productivity and identifying Federal actions which contribute to or detract from the productivity of particular industries.

An example of our work is an international review on manufacturing productivity. In our report we emphasized the importance of technological innovation and diffusion in sustaining our industrial productivity growth.

In reference to the Federal Government, recent trends indicate Federal productivity has risen only 1.2 percent per year since 1967. This rate, comparable to the private sector, warrants increased attention by GAO. Our recent work in improving Federal productivity has been centered on ways to

improve the productivity of common Government functions. We feel that an evaluation of common functions on an agency-by-agency basis can yield greater improvement because of the benefit of exchanging good methods and procedures.

Of our six ongoing studies in this area of common functions, improving the productivity of Federal debt collection is a good example of our work. In our recently issued report we recommend ways Federal collection standards can be revised to incorporate certain effective commercial practices. These standards are now being revised based on our work.

STATE AND LOCAL ISSUE

Although concern for State and local governmental performance has existed since the early 1900's, Federal, State and local officials have shown renewed interest in productivity itself in recent years. With State and local government expenditures now comprising over 15 percent of the GNP, the fiscal status and productivity of this sector has become more important for a healthy national economy. Similarly, the importance of productivity for State and local governments themselves has increased as the State and local community searches for new ways to cope with resource scarcity. Proposition 13 and various related initiatives in other

States have served to spur concern for State and local productivity and ways to improve it.

Federal concern for State and local productivity improvement has been further stimulated by realization that successful implementation of many Federal social and regulatory programs is critically dependent on effective State and local management of these programs.

These concerns prompted GAO to embark on a study of State and local productivity, culminating in our recent report, "State And Local Government Productivity Improvement: What Is The Federal Role?" This report was based on field work at 46 State and local governments, as well as a questionnaire sent to a random sample of States and localities.

I would like to briefly summarize the central findings of this report for your consideration this morning.

First of all, our study confirmed what most of you here today already know: State and local productivity improvement can bring about significant gains in service performance and fiscal health in these governments.

Jurisdictions ranging from Los Angeles County to Niagara Falls reported significant dollar savings as a result of implementing productivity improvement programs. In addition, many studies have revealed marked differences in productivity

for the same services among comparable jurisdictions; for example, differences of as much as 500 percent have been identified in refuse collection productivity among comparable cities. Productivity improvement programs can help many Governments to increase their productivity at least to the levels of the more efficient States and localities.

In spite of these potential benefits, most State and local governments nevertheless do not have significant productivity improvement programs. More important, local governments with the greatest need for productivity improvement--governments in fiscal distress--utilize this strategy the least; according to our survey, only 6 percent of fiscally troubled local governments reported using productivity improvement as their primary approach to control costs. On the other hand, 24 percent of local governments without fiscal problems used productivity improvement as a primary strategy.

In fact, some local governments in fiscal distress report that budget reductions fall first on management analysis functions, forcing curtailment of ongoing productivity improvement programs. This finding shows the unfortunate fate that often befalls organizations experiencing cutbacks or decline: The worse things get, the worse they become.

Why is productivity improvement so often praised in the abstract but so little used in practice by State and local governments? Basically, productivity improvement does not come easily to State and local governments. Because the benefits derived from productivity programs are often long-range and diffuse, they are not adequately appreciated by the public, while the associated fiscal and organizational costs receive inordinate recognition. Consequently, managers embarking on productivity improvement face considerable resistance and risk.

Major barriers that impede State and local productivity efforts include:

- limited rewards accruing to top managers;
- internal bureaucratic and employee resistance;
- large initial financial investment needed to start a program;
- limited capacity of State and local organizational systems, such as budget processes and information systems;
- lack of trained analytic expertise; and
- inadequate measures available to analyze service output.

To overcome these barriers, the concern of top management for productivity must be strong and compelling. Clearly, a strong commitment by top management, ideally in cooperation with employee groups, is needed to mount an effective and sustained productivity improvement program.

In our study, we identified two primary ways the Federal Government can help improve State and local productivity:

1. Provide Federal technical and financial assistance for management improvement.
2. Change the Federal grants system to remove negative barriers and provide more positive incentives for productivity improvement.

Management Improvement Assistance

In the management assistance area the primary impetus for productivity improvement programs must come from the initiative of interested top managers within each jurisdiction.

However, because of the limited availability of in-house expertise and information, most State and local governments have relied on some form of external assistance to support development of their productivity improvement programs. Thus, we believe that, with the requisite internal management commitment to productivity improvement, Federal management

assistance can play an important, supportive role for States and localities.

How can the Federal Government most effectively provide this kind of assistance? We have concluded that an effective Federal effort should consist of a two-pronged program to improve the capacity of both the Federal Government and State and local governments:

1. The Federal Government should improve its own capacity to respond to States and localities interested in productivity improvement.

There are a number of important programmatic activities the Federal Government should undertake here, including:

- Improving techniques for measuring the productivity of public services.
- Collecting and disseminating comparative performance data for selected State and local services.
- Improving the assessment and transfer of new technologies with maximum payoff for State and local productivity. For example, the International Urban Technology Exchange Program was organized by local government public interest groups in France, West Germany, the United Kingdom, and the U.S. to perform transfers of technologies into local governments.

Achievements to date have included the actual transfer of a complex French computer method for refuse collection to U.S. cities and the transfer of an American equipment management information system to several European cities.

2. Second, the Federal Government should support the capacity of States and localities to launch their own productivity improvement programs.

Federal seed money supports productivity efforts by helping State and local governments upgrade existing staff skills, hire new analytic staff, or procure services for outside contractors. Furthermore, our study showed that Federal seed money can help stimulate the initiation of productivity programs in some jurisdictions by reducing programs start-up costs, thereby enabling top management to overcome budgetary resistance to management innovations. Federal technical assistance from agencies as diverse as the Office of Personnel Management and the Navy Department have also proven to be valuable to States and localities seeking information and advice on innovative management practices and procedures.

The Federal Grants System

The Federal Government achieves its most significant impact on State and local productivity through the Federal grants system. The productivity implications of Federal grants, comprising over 25 percent of State and local spending, could be far-reaching compared with the small direct Federal investment in management improvement programs.

We have concluded that the impact is often negative due to the myriad of regulations and excessive "red tape" imposed. We have further concluded that the most promising way for the Federal Government to improve State and local productivity rests in rewarding productivity improvement in the functions supported by these grants. This could be done by incorporating positive productivity incentives in aid formulas and reimbursement schemes. At this time, most Federal grant programs do not reward grantees for improving productivity, but in fact provide disincentives to productivity improvement. Grantees achieving cost savings with Federal funds must typically return the savings to the Federal Government.

Recommendations

Finally, in our report, we recommend a three-part Federal strategy for productivity improvement which you may also want to consider today:

1. Develop a Federal general management improvement program to assist States and localities in executing innovative improvement projects and to sponsor needed research and development in public management.
2. Make fundamental changes in the grants system to remove negative barriers and promote positive incentives for productivity improvement.
3. Establish a strong Federal focal point for State and local productivity improvement to provide leadership for existing Federal management assistance efforts and to lead in developing new Federal policies in this area.

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Over the past several years, all levels of the public sector have come to realize that certain common challenges must be dealt with. These are: Governing under conditions of resource scarcity and restoring citizens' confidence in government. Productivity improvement can be an effective way for each level of government to handle these challenges. The productivity of each level of government can be greatly enhanced by a stronger intergovernmental partnership.

I look forward to working with you this morning to chart the course of this strengthened partnership.