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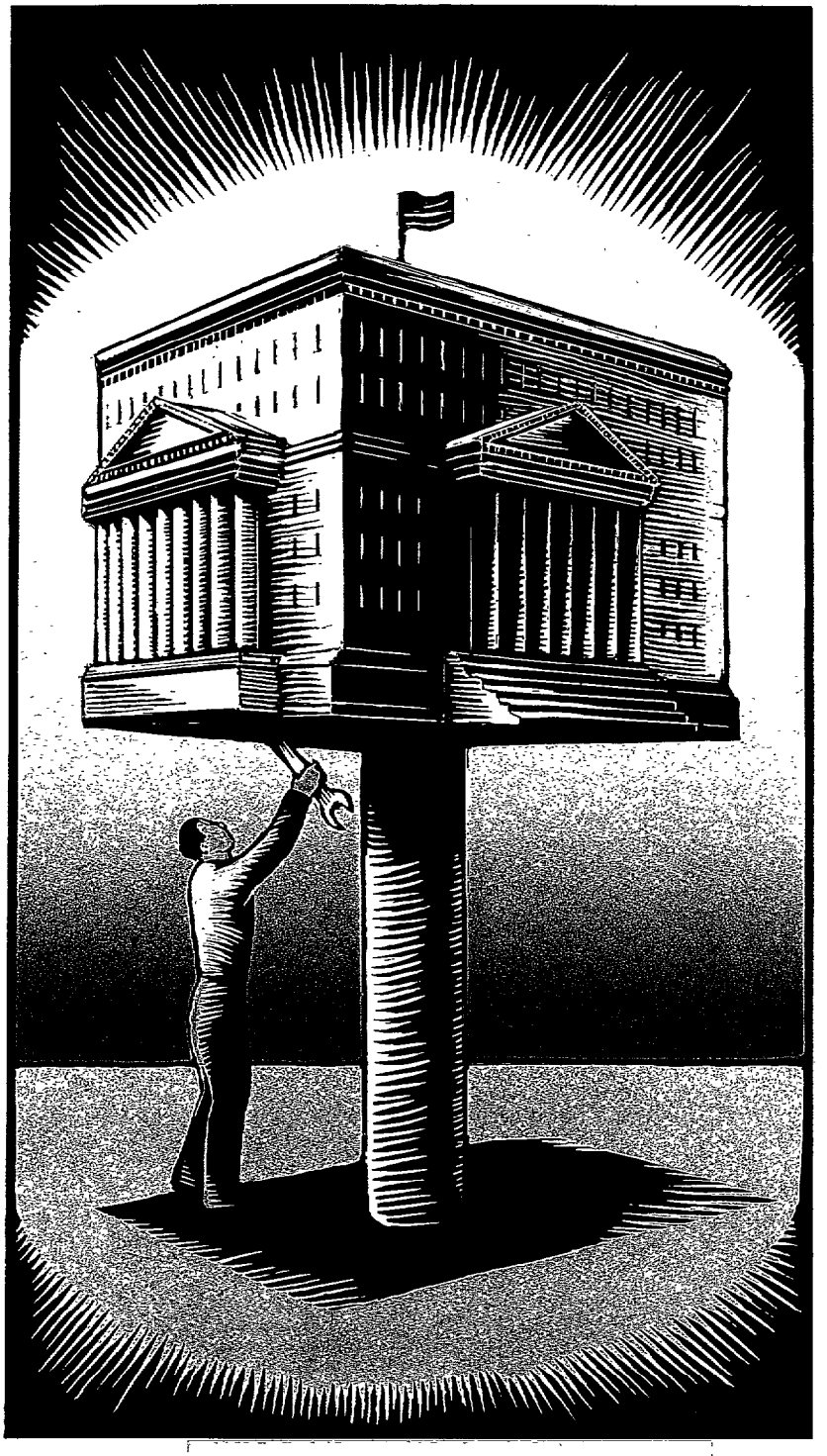

TUNE-UP
Efforts to Improve Government Operations

THEN AND NOW
An Interview with John Kenneth Galbraith

THE RIGHT START
Meeting the Needs of America's Children

NUMBER 3 FALL 1988

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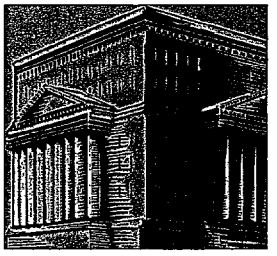
C O N T E N T S



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FROM THE COMPTROLLER GENERAL

ONE APPROACH TO improving the way government operates is to focus more attention on the importance of sound management practices. Failures and inefficiencies in federal programs derive less often from sudden mistakes than from longstanding management weaknesses. Deputy Secretary of Labor Dennis E. Whitfield puts it this way: "Anyone who heads up an agency, if they've got half their wits about them, knows that they've got to be alert to day-to-day operations — or have somebody on board who is — because if problems go unnoticed, sooner or later one of them will jump up and bite you."

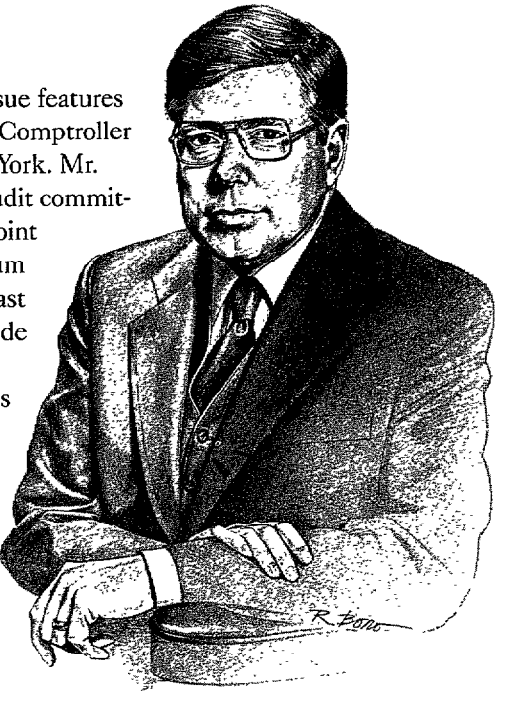
GAO audit and evaluation reports abound with examples of federal managers who have been, as Mr. Whitfield might put it, "bitten." Over the past several years, therefore, we at GAO have begun taking a broader look at the way individual agencies operate, hoping to offer usable recommendations for improvement and to raise the value of sound management practices in the eyes of government leaders. This issue of *The GAO Journal* offers an introduction to our agencywide studies — called general management reviews — and some reactions on the part of three executives whose agencies have undergone them. Mr. Whitfield is one. The others are Terence C. Golden, former Administrator of the General Services Administration, and Dorcas R. Hardy, Commissioner of the Social Security Administration.

While on the subject of running government agencies, we offer Ray Kline, President of the National Association of Public Administration, who discusses the prospects facing federal managers in the coming years. Mr. Kline foresees enormous opportunities amid the challenges of doing more with less. And he anticipates a heightening demand, not just for greater technical expertise, but for spirited leadership among political appointees and careerists alike.

For this issue's "Round Table" we invited Professor John Kenneth Galbraith to join us for a discussion of today's economic scene as it compares with that of past decades. In addition, we feature an article by Minister Alexis P. Lautenberg, Chief of the Economic and Financial Service in Switzerland's Federal Department of Foreign Affairs. Mr. Lautenberg examines a global economy that now has three major centers, the United States having been joined in its leadership role by Europe and Japan. New trading patterns and financial flows, he argues, have led to stress in the economic relationships that evolved following World War II, and have heightened interdependence and the need for cooperation among the economic powers.

This summer marked the publication of a report by the National Commission to Prevent Infant Mortality. Rae Grad, Executive Director of the Commission, has contributed an article that addresses a particularly intriguing question: Considering the number of social programs already in place to aid mothers and children, why does the U.S. infant mortality rate rank last among those of 20 industrialized countries? She concludes that "the means to improve America's infant mortality rate are available. It's a matter of summoning national resolve."

Ms. Grad's article is one of three we present on children's issues — the first an overview of the subject, the last a follow-up on the Committee for Economic Development report, *Children in Need: Investment Strategies for the Educationally Disadvantaged.* In it, Owen B. Butler, former Chairman of the Proctor & Gamble Company and Chairman of CED, argues that the cost of improving developmental opportunities for disadvantaged children is high — the cost of not doing so, even higher.



Our "Podium" this issue features Harrison J. Goldin, Comptroller of the City of New York. Mr. Goldin spoke on municipal audit committees before the 7th Biennial Joint Intergovernmental Audit Forum Conference in Phoenix this past May. The Audit Forums provide an extraordinary communications network for professionals in financial operations at all levels of government.

As is the custom with *The GAO Journal,* the contents of this issue reflect a wide range of subjects and participants. We appreciate the efforts of all our contributors, as well as the interest you and all of our readers have shown in their work.

Charles A. Bowsher

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ROUND TABLE

THEN AND NOW

An Interview with John Kenneth Galbraith

ONE OF THE WORLD'S foremost economists, John Kenneth Galbraith has been observing — and influencing — American policymaking for nearly 50 years. A Canadian by birth, he first came to Washington in the early 1940s as the principal organizer of the wartime price-control system. From 1961-1963 he served as American Ambassador to India. He has authored such works as *The Great Crash, The Affluent Society,* and *The New Industrial State.* His most recent book, co-authored with Stanislav Menshikov, is *Capitalism, Communism and Coexistence.* He is Paul M. Warburg Professor of Economics Emeritus at Harvard University.

Last spring, Comptroller General Charles A. Bowsher invited Professor Galbraith to GAO for an informal discussion of current events. Joining the two were Ira Goldstein, Assistant Comptroller General for Operations; Richard L. Fogel, Assistant Comptroller General, General Government Division; Harry S. Havens, Assistant Comptroller General; and Allan I. Mendelowitz, Senior Associate Director, National Security and International Affairs Division.

Bowsher — *On October 19, 1987, we had the largest one-day drop in the history of the stock market. How do you explain the fact that it seems to have had so little effect on the economy?*

Galbraith — To begin with, the response to the stock market crash has been deeply fraudulent. What we had had was an extraordinary buildup in securities values based on two features that have characterized speculative eras many times before. We had a large number of people and institutions in the market with the conviction that they could ride it all the way up and get out before it came down. And we had a large number of even greater innocents who thought it would go up forever and they would never have to get out. In such circumstances nobody wants to anticipate the end. It was Walter Bagehot, the founder of *The Economist*, who said that people are most credulous when they are most happy. But these speculative orgies generally have this same ending: Everyone tries to get out at once.

When the latest crash occurred, nobody wanted to blame it on the occasional, mild insanity of the market. Markets are a totem in our society; no one will believe they might have within themselves the tendency to implode. The first thing that followed — and it was hilarious when you look back on it — was a massive effort to say that the markets crashed because of the federal deficit.

Bowsher — *Wall Street went right to that explanation.*

Galbraith — That's true. I made a speech at the Gridiron Club about the cruelty of good conservative New York Republicans laying the blame on their old friend Ronald Reagan here in Washington. Absolutely indecent treatment.

Then there were all the various commissions put together to locate the causes of the crash. All of them looked into some not unimportant casino operations that add to the volatility of the market, but they, too, managed to overlook the underlying speculative surge. The Brady Commission, the commodity markets, the SEC: I didn't deplore their efforts — they provided a certain amount of useful employment — but none dealt with the crash as the culmination of the sort of speculative binge we've experienced periodically for more than two and a half centuries, going back to the South Sea Bubble and the John Law speculations of the early 18th century.

Now, you ask why haven't things turned worse since last October? Until the crash itself I think the parallel with 1929 was very close. The difference, I think, is that in the past half-century or so we have built into the system a large protective apparatus, some elements of which are obvious, such as the income security associated with Social Security and unemployment compensation. A less obvious difference is that, back then, the United States was primarily an agricultural country. Forty-odd percent of Americans were employed in agriculture, which was susceptible to a free-fall in income. There was a high level of price inelasticity, so any contraction of demand produced a radical slump. Today we have one of the

world's most expensive agricultural price support systems; the expense notwithstanding, there is income support in place for an industry that is much smaller and has a much less vulnerable relation to the economy.

Another difference is that while we have — as we did then — an unduly fragile banking and savings and loan system, the federal government now plays a supporting role. Things would have been pretty awful in Dallas with First-Republic, and in Houston with First City, if there hadn't been a bail-out of the banks and thrifts there. But the dark side of this support system is also apparent: clearly some of the banks and thrifts have been reckless as a result of deposit insurance, which provides depositors with a sense of protection that otherwise would have to be provided by the managements of the financial institutions themselves.

Bowsher — *One of the things we have learned is that deposit insurance can keep practically anybody in business. If the risk-takers are successful, they win. If they are not successful, the insurance funds and the taxpayers bail them out.*

Galbraith — Ever since First-Republic, and before that Continental-Illinois, everyone knows that as a last resort you can turn to Washington.

Another difference between now and the period following the 1929 crash is that back then, monetary policy was marked by an undue fear of "easy money," the notion that there might be inflation in the middle of the worst depression we'd ever had. But the biggest difference — the fundamental difference, after all — was the assumption then that the behavior of the economy was not subject to the authority of the federal government. That was true in all the industrial countries. One of my older colleagues at Harvard back in 1936 insisted that depressions exist to extrude poisons from the system, and that any action taken to counter a depression can only be counterproductive. It was just about then that the Keynes approach took hold and all the industrial countries, including our own, recognized their responsibility for the economy. It wasn't a responsibility that was perfectly discharged, but it was there nonetheless, and by 1946 we'd written it into law.

Taken together, all the changes since 1929 provide a measure of psychological reassurance the public didn't have back then.

Fogel — *Do you think that this psychological reassurance has been weakened by the current fiscal policy situation?*

Galbraith — Unquestionably. I think there were 20 good years or so, say from 1950 to about 1970, when people felt strongly that the economy was being successfully managed. I have often said that my generation picked the right time to practice economics, because we had 22 years in which there was substantial

growth in the economy, minimal unemployment — 3 to 5½ percent — and relatively stable prices. Then came the 1970s and the difficulty of bringing Keynesian policy to bear on inflation. We had assumed that the policy would work fluidly both against inflation and recession. But we didn't recognize two things: first, the inflationary influence of wage-price interaction, and second, that while the actions you might take against recession were politically wonderful — reducing taxes, increasing welfare expenditures — the reverse of that policy was politically very disagreeable. A president was less likely to welcome a visit from economists now that they were coming in to talk about higher taxes, controlling expenditures, possible wage-price actions, and higher interest rates.

HAVENS — *The incoming administration will inherit a set of financial conditions that may make for a lot of unpleasant visits.*

GALBRAITH — Oh, yes. But beginning with the Carter administration, we began to address the political unpleasantries by assuming there was some politically acceptable magic over at the Federal Reserve. The Federal Reserve could solve all our problems through the exercise of monetary policy or, as a simpler manifestation, high real interest rates, which also would allow for an extremely easygoing fiscal policy. That simply can't go on. We bid up the dollar and logged in the imports, and now we find that lowering the value of the dollar has only a limited effect on getting imports back down again. These days we're no longer talking about simple commodities like rubber or wheat; now it's consumer goods involving wholesalers, retailers, advertisers, customer acceptance and the like. Having invited the trade deficit, we're going to struggle with it for some time.

MENDELOWITZ — *Considering the competition associated with those imports, do you see a change in corporate thinking here in the United States?*

GALBRAITH — To some extent. The years of American preeminence I was speaking of were also years of corporate euphoria. There was the notion that nothing was of such refined intelligence as the corporate leadership of the United States. We had, in the postwar years, the rise of the multinational; General Motors and Ford, for instance, were not worried about the competition from Europe because whatever significant competition there was, they owned.

Goldstein — *That was true of a lot of our industry, wasn't it?*

Galbraith — A substantial part. Now that nexus has been broken. The Pacific countries came in as a new force. Now things are different.

Goldstein — *We are in a period now in which corporations are getting larger and larger. Do you see American industries losing ground against competitors who work on a smaller scale, who perhaps provide more incentives for entrepreneurship and innovation?*

Galbraith — I would put it in somewhat different terms. I have long argued that we live in an intrinsically bimodal economy — that there is a range of things such as automobiles, chemicals, and steel, that are produced most efficiently by big enterprises. After those first 500 or 1,000 firms, we have 10,000 to 15,000 often large but much more entrepreneurial enterprises. I never joined the enthusiasm for antitrust laws. While I think there are problems involved with all organizations of great size, I don't think we are ever going to alter things by splitting up corporations or putting restraints on size for its own sake.

Fogel — *Along the same lines, what about the financial services industry and the question of undoing what's left of the Glass-Steagall Act? How do you feel about the separation of the securities industry from the banking industry?*

Galbraith — I would keep Glass-Steagall in place, by all means. We never fully see the disasters we escape; if banks had been in the underwriting business, including those big Texas banks, things would have been that much worse.

I think the question of regulation and deregulation has no overall rules. It has to be taken up case by case. Certainly in some instances — in the case of the airlines, for instance — it has been mostly good. But to lay down general rules for the deregulation of the financial services industry is something I certainly wouldn't do.

Fogel — *Some have said that if you look at the 10 largest financial institutions in the world today, you won't find one from the United States — that they're all from Japan and elsewhere and that therefore the United States is losing its economic advantage. Does this argument concern you?*

Galbraith — Yes, but I don't see any remedial action in the financial services field. I would see the remedial action in both better macroeconomic policy and better microeconomic policy. In macroeconomic policy, I would stand solidly for higher taxes and lower real interest rates, again looking at the effect of real interest rates on capital investment, including housing, which I regard as far more important than any anti-incentive effects from higher taxes.

The other aspect of a more conservative fiscal policy would be to reduce federal spending, and today the area in which we have a high degree of leverage is defense. We have entered a substantially new era in foreign policy. We are no longer frightened of communism. The Russians are most concerned with what concessions they can make back to the market, and how they can deal with the bureaucratic apparatus of socialism. Both of the superpowers are in massive retreat from the Third World. The Russians have discovered that their system doesn't work — Ethiopia, Mozambique, Afghanistan are examples — and admit as much. And we have discovered that we have difficulty exercising any significant influence even in Panama. The notion of a superpower has changed; that change has its own momentum, and I believe the leadership of this country is reluctantly coming to recognize it.

Bowsher — *I take it that you think now is a good time to look at our defense forces stationed all around the world and see if we can't bring some of them back.*

Galbraith — I would look first at the weapons budgets, with emphasis of course on our essentially wasteful contracting system. But there are certainly long-term strategies worth serious reevaluation. I saw in the paper the other day that Spain was causing us trouble by ordering our F-16s out, leaving the southern flank of NATO unprotected. I was wondering just who we expected to come up from the southern flank? The longstanding assumption, I suppose, was that the Ottoman Turks were returning to attack the Knights of Malta. We've got these institutionalized truths in place, and the day may come — I'm not saying it's already here — when we should begin to wonder whether in highly industrialized societies frontier protection by troops is what it used to be. For most of history you moved your army over a frontier where you found peasant agriculture — farmers who might protest your presence but would work under whatever power was in charge and give it manpower and taxes. But the notion that one national authority can take over a modern industrial economy is something else again. Does anybody imagine that the Russians could take over and run the economy of Italy? Or Japan: The Japanese think of the American defense umbrella, no doubt, but what

they really think about is that no rational country — China, Russia, or anybody else — is going to try and take over anything as incomprehensible as the running of the Japanese economy. They have been getting a free ride on a more modern view than ours of the defense of an industrial country. I think that view will come under more discussion in the next 10 years.

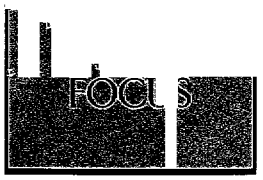
I am not for withdrawing our troops from Germany. Their presence has added a certain measure of stability for nearly a half-century, so let's not try to change it. But we are going to think more and more about what nations are trying to accomplish strategically. It is hard for me to imagine, for instance, that we would like to be responsible for the economy of Poland.

Mendelowitz — *I want to put to you a question about our own economic policy. How did our current fiscal policy evolve in so ostensibly conservative an administration?*

Galbraith — It comes out of two conflicting philosophies, really. One is the conservative commitment to fiscal responsibility. The other is the conservative commitment to the view that God is a conservative Republican and will always look after things. In a clash between conservative fiscal policy and committed laissez faire — the notion that the easiest course of action will work out in the end — it is the latter that will triumph. John Maynard Keynes, looking at our fiscal policy in recent years, must be wondering — from wherever he is — at a commitment to deficit financing such as he never could have imagined.

Fogel — *It is frustrating, concerned as we are about the budget and trade deficits, that long-term economic concerns don't seem to have gotten across to people.*

Galbraith — I think these are matters on which the responsible governmental view should cover a longer span of time than you would expect of immediate short-run popular reaction. Whoever the new President turns out to be, he will find the pressure of the responsible longer-run view to be stronger and more insistent than it has been these past years. As I believe I said earlier, we simply can't go on accumulating debt at high transfer costs. And regardless of what it takes to get elected, the content of party platforms and campaign speeches — including pledges not to raise taxes — often bears little relation to what happens after the election. Maybe they won't raise taxes, but there's a strong possibility they'll go in for "revenue enhancement." •



IMPROVING
GOVERNMENT
OPERATIONS

Ray Kline

THE CHALLENGES FOR TOMORROW'S FEDERAL MANAGER

Of all the qualities demanded of federal managers, the most important will be leadership.

THE NATION is about to see a change of administrations for the first time in 8 years. This is an appropriate time to take stock of the events and trends in public management and what the future may portend. In this decade, many significant policy initiatives have been proposed — and some adopted — that have changed the course of events and reshaped government's role in society. The 1980s began with commitments to limit the size of government, relieve burdensome regulation, reduce costs, strengthen the national defense, and improve efficiency. Inflation subsided, interest rates eased, and the nation has enjoyed its longest period of economic expansion on record. Now as the decade nears its end, new problems occupy center stage: drugs, AIDS, terrorism, and the emerging effects of large and persistent national budget and trade deficits.

In the field of federal public management, programs of unprecedented complexity marked by their diversification, rapid rates of change, advancing technology, and limited resources dominate the scene. Performance of federal functions by others — whether through devolution of responsibilities to state and local governments, privatization, or increasing reliance on the nonprofit sector — is becoming more and more a way of doing business.

Public-private partnerships, flourishing today at other levels of government, are becoming more attractive options at the federal level. The line between the public and private sectors in the provision of public services continues to blur.

Reducing fraud, waste, and abuse — terms so familiar that now the unholy trinity is generally pronounced in tandem — has received special attention for much of the decade. The reviewer-to-doer ratio at the federal level has never been higher. The number of inspectors general has multiplied, congressional oversight committees and investigative arms have expanded, presidential special boards and commissions have come and gone, yet serious problems persist. The unfolding problem in the defense procurement system underlines the point.

Ray Kline is President of the National Academy of Public Administration.

Governmentwide efforts were made by the Reagan administration under the rubric of Reform '88 to modernize and consolidate administrative management systems, strengthen financial management, and improve productivity. Performance management concepts were introduced, and efforts were made to streamline field operations, reduce management layering, and provide common administrative services. Not all these initiatives were successful, and those that did succeed were generally the result of working partnerships with departments and agencies in program design and implementation.

New mechanisms were established in the Executive Office of the President to make these partnerships work. The Cabinet Council on Management and Administration, the President's Council on Management Improvement, and the President's Council on Integrity and Efficiency are three coordinating bodies that have been employed.

Meanwhile, the General Accounting Office launched its own landmark series of general management reviews (see the two accompanying articles) focusing on the operations of individual departments or major agencies and providing important insights to top management on internal operations and organization. The Comptroller General and the financial community placed renewed emphasis on the need for financial management reform and how it could be achieved through a broad conceptual framework, development of audited financial statements, and appointment of chief financial officers.

Even as governmentwide, top-down management reforms are being undertaken, there has been a growing realization that the answer to management improvement is not to be found exclusively in across-the-board approaches. While most laws and regulations relating to the processes of government have been designed to foster economy, accountability, and consistency of operation, their cumulative effect has sometimes been to impede innovative management and drive up the cost of government. Statutes and regulations prescribing detailed centralized systems and controls for personnel management, contracting and procurement, information systems, telecommunications, provision of administrative services, and other important activities have impeded the effective execution of programs and frustrated the best efforts of managers. While in theory it would appear desirable to resolve governmentwide needs with across-the-board solutions, individual agencies increasingly have despaired of relief through general reform and are turning to measures specifically designed for their own needs. Generally, agencies have been successful in securing selective administrative authority only when the Congress is convinced that circumstances warrant special treatment: In other words, the burden of proof is on the agency seeking relief.

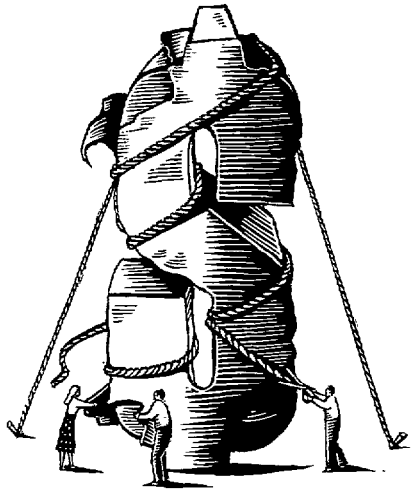
As the government continues to become more specialized and diverse, many have come to recognize that existing federal bodies frequently need management systems tailored to meet their unique requirements. This was the fundamental finding of a study report issued 5 years ago by the National Academy of Public Administration. Entitled *Revitalizing Federal Management: Managers and Their Overburdened Systems,*[1] this report by an Academy panel characterized federal managers as "captives of a series of cumbersome internal management 'systems' which they cannot control . . . systems so rigid, stultifying, and burdened with red tape that, in the view of these managers, their capacity to serve the public is seriously undermined." The panel made numerous recommendations designed to relieve this "managerial overburden," decentralize control, and "let managers manage."

Some federal agencies, generally found below department level, are beginning

to seek legislative and regulatory authority to develop and manage their own programs. The realization is growing that there is more dissimilarity than similarity among such diverse cultures as the Federal Bureau of Investigation, the Forest Service, the National Bureau of Standards, the National Institutes of Health, the Central Intelligence Agency, the Social Security Administration, the Environmental Protection Agency, the Immigration and Naturalization Service, defense systems commands, the Naval shipyards, and a host of others.

In creating new entities, the Congress has long recognized that the government is not a collection of cabinet departments and a few independent agencies suited to one way of doing business. The Congress has been creative in fashioning organizational schemes to meet specific needs and unique conditions. There is little surviving doctrine from the days of the Hoover Commissions and earlier studies on how to structure or organize new federal programs and operations to serve efficiently and effectively the public interest. The new rallying cry in institution-building at the federal level is variation to meet the needs of the times.

With these considerations as a background, what are the prospects for tomorrow's federal manager? In my view, tomorrow's manager faces challenges of growing complexity — and unprecedented opportunity. Tomorrow's manager will be called upon to address issues of high national priority. Both of our 1988 presidential candidates believe in government and its role in tackling these issues. At the same time, the staggering accumulation of debt, measured in stark terms by budget and trade deficits, means that federal managers will have to address these issues with austere resource levels — in terms of both dollars and numbers of people. The call will be for more government with fewer resources. And one of the most important tasks facing the manager will be, in a highly competitive labor market, to attract, develop, and retain the brightest and best people. In the final analysis, the career manager will have to reach new levels of leadership to marshal scarce, precious resources and deploy them wisely. The agenda of tomorrow's manager will be dominated by four considerations: program challenge; management innovation; work-force improvement; and leadership.



Program challenge

Tomorrow's elite career manager will need solid technical grounding to lead the government's efforts in a wide array of complex and technologically advanced public initiatives. To enumerate these initiatives is to list the nation's priorities for the next decade. The list would certainly include the following:

- Defending the nation and its interests overseas through the development and operational readiness of highly sophisticated defense, intelligence, and foreign service capabilities;
- Understanding harmful influences on the environment — globally and nationally — and taking the necessary steps to protect the environment and husband the nation's resources;
- Taking the offensive in law enforcement to bring organized crime and the scourge of narcotics and other drugs under control;
- Embarking on new initiatives to safeguard the nation's health, spurred by the daunting new challenge of AIDS and the continuing war on cancer;

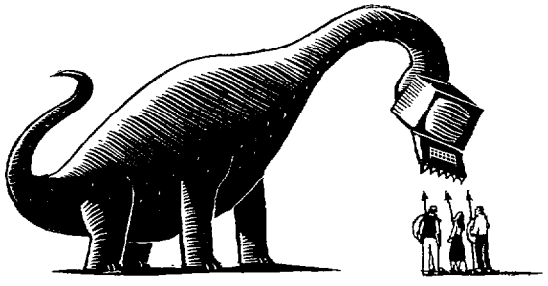
- Attacking the problems of the nation's infrastructure, from the decay of inner cities to the need for soundness and safety in all modes of transportation;
- Confronting the consequences of dramatic demographic trends through new programs for the care of the aged and the indigent, as well as education and social programs for the rising tide of minorities and immigrants; and
- Discovering new knowledge through space exploration and advanced research led by federal laboratories.

These are among the key program challenges of the federal public service. They are also among the issues ranked at the top of opinion polls listing the problems of greatest concern to Americans. The initiatives will be led by federal career managers who increasingly will have to be deeply knowledgeable and highly specialized in their professions as scientists, technicians, foresters, certified public accountants, environmental engineers, physicians, social case workers, law enforcement agents, and foreign service officers. Although there will always be room for first-class generalists, program imperatives will demand that more of tomorrow's managers be masters of substantive fields related to the missions of their organizations.

Management innovation

Probably the most shopworn term in the lexicon of many federal managers is "cutback management." The charge of the last two administrations has been to do more with less — to take on greater responsibilities while absorbing reductions, sometimes arbitrarily imposed, in dollars and staffing. This trend will continue, and the paramount issue for many of tomorrow's federal managers will be: How do I meet my program responsibilities with the limited resources available?

The application of new technology is certainly one answer. Probably no organization in government is doing things today as it was doing them 5 or 10 years ago. New tools have entered the work environment — from word processors to automated databases to local area networks to nationwide data and communications systems. A fundamental shift is occurring in the nature and experience of work — away from hard copy and tangible products and toward the manipulation of massive amounts of information in myriad and ever-changing form for fact-finding, analysis, and presentation. The advent of these new tools has given rise to the worker-manager, a new type of employee who will challenge basic assumptions about traditional work patterns, a type of employee whose role will have to be perceived more as a function of quantitative and qualitative knowledge specialization than as a matter of position on an organization chart.



A recent survey of the Fortune 500 reveals that this phenomenon is farther along in the private sector than in the federal government. There the worker-manager is in the ascendancy and bureaucratic hierarchies are in decline. The leading companies have eliminated from one to five echelons of management during the past decade as the gathering and synthesis of information and its movement to the top is being accomplished without the traditional need for middle management involvement.

Although the 1980s have seen some streamlining of federal organizations as departments and agencies have moved away from uniform regional structures to more custom-made arrangements, the federal government's assault on the

echelons is still in its nascent period. The groundwork for that assault at all levels will have to be laid by federal managers.

Along with the infusion of new technology, the past decade has seen at all levels of government the increasing role of others in performing government functions. At the federal level, some activities have devolved to state and local levels — generally with the outcry from these levels that the dollars are not accompanying the responsibilities. There has been a massive amount of attention to — if not tangible results from — moving functions out of government or having government's industrial and commercial services performed under contract. At the same time, within the government, some progress has been made by various agencies in arranging cross-servicing and cooperative agreements with other organizations to consolidate and cut the cost of operations.

Because of the need to do more with less, it is unrealistic to believe these initiatives will disappear when the current administration leaves office. With the macroeconomic situation facing the nation, tomorrow's federal manager will need an arsenal of management options of the kinds mentioned earlier. The exercise of these options will be driven not by ideology but by the overriding imperative of doing the organization's work at the lowest cost to the taxpayer.

The consequences for the manager of employing unconventional ways of doing business are significant. Arrangements can be made for work to be done by others, but ultimate program responsibility and accountability cannot be assigned to others or contracted out. The supervision of operational activities previously conducted in-house will have be replaced with effective contract management and management oversight. This involves different supervisory skills and considerations that will have to be attended to in the development of the manager and in the configuration of the work force.

For the federal manager to move in these directions will require new incentives and a new mind-set toward the trappings of power. No longer can the criteria of grade and status be based on the number of echelons commanded, the number of people supervised. The new criteria — including those of performance — must be based firmly on the substantive contribution to the provision of the product or service the organization was created to provide. Management innovation — easy to talk about but tough to achieve — will add new dimensions to the complexity of the federal manager's job.

Work-force improvement

Any discussion of tomorrow's work force must begin with an appreciation of the demographic trends — first, in American society, and second, in the federal work force. As to national trends for the rest of the century, the following are of particular significance:

- The rate of growth in the nation's work force will decline significantly, and the work force will become older.
- The work force will become socially more diverse; 85 percent of new work-force entrants in the remaining years of this century are expected to be females, members of minority groups, and immigrants.
- The fastest-growing jobs will be those requiring the highest skill and educational levels; for the first time in history, a majority of all new jobs will require postsecondary education.

- By the year 2000, more than 60 percent of all women of working age will have jobs, thus continuing the increase in two-career families.

These trends will influence rather dramatically the composition of the nation's work force in the coming years. But to understand fully the impact on the federal government, they need to be considered in relation to trends already under way in the federal work force:

- Although the size of the total work force has remained relatively stable, its composition continues to become more professional as government's role becomes more complex.
- One-fourth to one-third of the work force will be eligible to retire during the next 5 years, and growing numbers of senior-level career employees have been taking advantage of the opportunity.
- The baby-boom generation now in the public service is ready to compete for middle-management positions. Organizations must deal with this tide of rising expectations if they expect to keep their best and brightest.
- The baby-bust generation will arrive a short 7 to 8 years from now, and thanks to the public-private sector portability of the new retirement system, there will be new challenges not only in attracting but in keeping new people.

The message to the federal manager is clear and worth repeating: Meeting tomorrow's program challenge means finding top-notch people to come into government — and stay in government — in a job market that will be increasingly competitive. A new competitive package is needed in the federal public service, one that abandons the overcontrol of the federal personnel system and embraces a concept of human resource management that addresses both organizational and individual needs.

Salaries and benefits will be important considerations, but the point must be emphasized that good people are not drawn to public service primarily with those considerations in mind. They are drawn by programs they regard as important to the welfare of the nation and to succeeding generations.

Human resource management concepts already are taking hold in various federal agencies. More and more, there is recognition of the needs of the whole person, not only as a traditional wage-earner but as a single parent or a member of a two-career family. Features such as day-care centers, flexible working hours, and mobility planning have been introduced to address these concerns. But greater attention is needed to aspects of the physical environment where people are expected to work — the neighborhood, the building, the work station, and the new and more technologically advanced tools for doing work. As competition for good people increases, these factors escalate in importance. Tomorrow's manager will have to pay more direct attention to these issues rather than referring them to the administrative office.

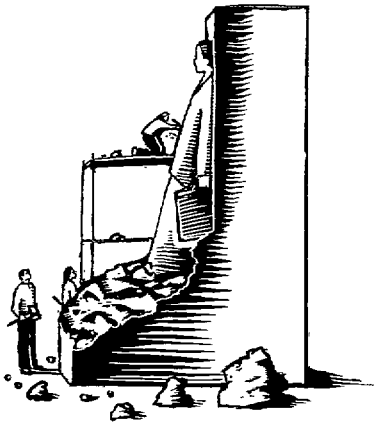
As to the more traditional personnel programs, pressures are building within government agencies for greater flexibility and diversity in personnel management systems to meet the unique needs of differing organizational cultures. The law now permits personnel demonstration projects to test new techniques; a number of agencies, such as several Army and Navy installations and the National Bureau of Standards, have alternative personnel systems. These systems are moving more personnel-management responsibility to the manager.

For the manager, this is the harbinger of tomorrow's world. It is the manager who will have the lead role in classifying positions. It is the manager who will

implement performance-based evaluation systems that run from top to bottom in the organization and are not limited to current merit-pay positions. It is the manager who will exercise primary salary-setting authority within pay bands that are much broader than those existing today. It is the manager who will take a stronger role in the training and development of people — an activity that will become increasingly important as people of diverse social, cultural, and educational backgrounds join the work force.

Finally, and critically important, it is the manager who must move front-and-center in the hiring process. These new alternative systems are giving direct-hire authority to agencies, with features such as hiring bonuses to attract hard-to-get people. The manager will have to find the time — and the money — to get out to campuses and other hiring sources. The lesson was emphatically learned in Apollo and other high-profile programs that the best and brightest are attracted most often when the overture is made personally by program managers with whom the aspirant will be working. Work-force improvement — critical to the needs of the federal public service — comes to the desk of tomorrow's manager and will add another facet to the complexity of the job.

Leadership



The prevailing wisdom is that the major problem in the federal public service is bureaucrat-bashing by the past several administrations, and that the answer is for the President to be supportive of his work force and to give it constructive leadership. Few in the career service will quarrel with this, but the issue of leadership does not end there.

One of the great shibboleths in the federal service is that policy and leadership are the province of the political level and that the implementation of policy is the role of the careerist. Managerial behavior based on this false premise has given rise in some agencies to the notion that leadership is beyond the province of the federal manager — a notion that has caused vacuums of leadership to exist at critical levels of many organizations.

The greatest single demand tomorrow's manager must meet is the exercise of leadership in supervising the career staff. Leadership from managers close to the troops inculcates a sense of mission in the organization. The prerequisite for leadership by the career manager is confidence in his or her own management capabilities, coupled with sustained commitment to the mission of the organization. The career leader exudes a feeling of ownership — a sense of "this is my outfit, these are my people, these are my objectives." These attributes are immediately sensed by the staff, move through the organization like wildfire, and provide the foundation for organizational pride that begets excellence in organizational performance. And that must be the ultimate objective of the manager: excellence in performance.

The manager must see herself or himself not only as one of 2 million members of the career service but also as "one of, but a cut above" who has been selected to lead. The aspiration to leadership must be the ultimate aspiration of the career manager. It is the *sine qua non* for successful performance in the complex world of tomorrow. •

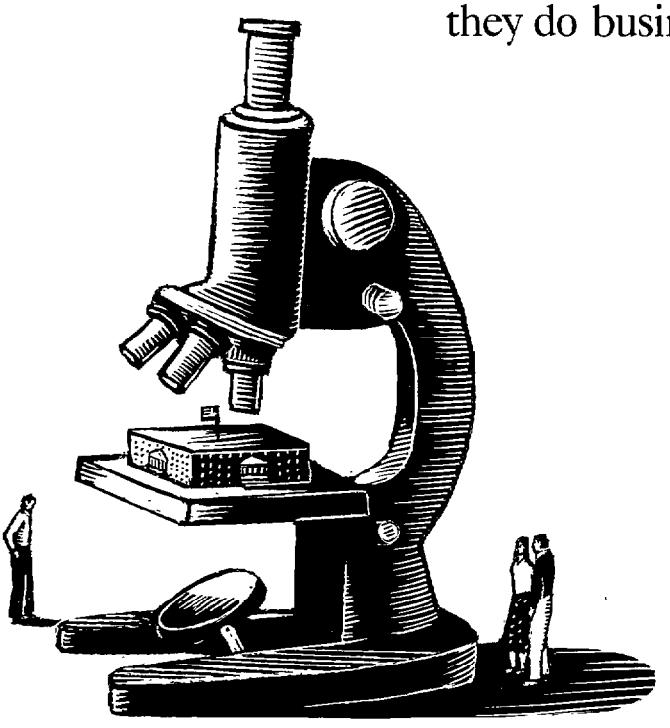
1. *Revitalizing Federal Management: Managers and Their Overburdened Systems*, National Academy of Public Administration (Washington, D.C.: November 1983).

043663

IMPROVING GOVERNMENT OPERATIONS

FOCUSING ON FUNDAMENTALS: GAO'S GENERAL MANAGEMENT REVIEWS

A look at how GAO helps federal agencies focus on long-range improvements in the way they do business.



General management reviews have been the subject of some debate both within and outside GAO. Recently eight GAO managers who have been involved in management reviews gathered to discuss the program and prepare this introduction. They are: Gene L. Dodaro, Associate Director in the General Government Division (GGD); J. William Gadsby, Associate Director in the Human Resources Division (HRD); Sarah F. Jaggar, Deputy Director for Operations, HRD; Suzanne J. McCrory, Project Director, HRD; Flora H. Milans, Associate Director in the Resources, Community, and Economic Development Division; Bernard L. Ungar, Associate Director, GGD; Earl F. Walter, Project Director, GGD; and David R. Warren, Project Director, National Security and International Affairs Division.

WHEN FEDERAL PROGRAMS don't work the way they should — when tax returns are not processed accurately, when procurement problems lead to faulty weapon systems, when retirees can't make sense of notices informing them of changes in their Social Security checks — only then is there a concerted focus on agencies' management. Rarely, however, are villains to be found. Instead, the source of trouble is usually traced to basic management weaknesses. Federal agencies may differ enormously in size, mission, and the scope and complexity of their programs, but when they ignore the fundamentals — the systems, people, processes, and structures required to manage — they are all sooner or later vulnerable to breakdown.

A few years ago, GAO began to complement its customary evaluations of individual programs with a new line of business: reviews of the overall management of agencies. The major goal of these general management reviews (GMRs) was to impress upon the leaders of executive branch agencies the importance of improving their management practices. Regardless of the legislative and political agenda the leadership is charged with advancing, getting it accomplished depends largely on how effectively the agency is run.

There were two other goals. One was to help the Congress oversee federal operations. The other was to improve GAO's own performance. We at GAO hoped that by looking at agencywide operations, we could broaden our knowledge and perspective in order to do more effective audits and evaluations in the future.

Unlike our usual audits and evaluations, which typically are performed at the request of the Congress, management reviews are initiated by GAO and depend very much on the cooperation and sup-

port of the agency heads. Getting action on recommendations that often call for fundamental changes in how an agency operates requires a commitment from the top down. (See the accompanying article, "GMRs: Three Managers' Perspectives".)

Management reviews fall into two categories: line agency reviews, which examine the management practices of individual agencies; and central management agency reviews, which examine the role and the performance of three agencies that are responsible for providing governmentwide leadership — the Office of Management and Budget, the Office of Personnel Management, and the General Services Administration.

Line agency reviews are the cornerstone of the effort. In determining the order and timing of line agency GMRs, we apply criteria that include the size of the agencies, their visibility to and impact on the public, the potential receptivity of agency management, the significance of the issues the agencies are facing, and the degree of congressional interest.

We began with a pilot study at the Department of Housing and Urban Development and moved on to the Departments of Labor, Justice, and Transportation and the Defense Logistics Agency. More management reviews have followed and others are in progress. (See box, page 20.)

When we began, our approach required that in every case we look into a set of functional areas, such as personnel management, policy, budget, and procurement. This approach, however, proved to be time-consuming and hard to relate to agencies' missions and programs. Today, line agency reviews are designed to determine how well an agency's management policies, procedures, and systems contribute to accomplishing its mission. The case-study approach we now take lets us focus on the policy, program, or operational issues of particular importance to the agency head, and has cut the cost of each review in half.

Not surprisingly, the most common recommendations emerging from our line agency reviews reinforce management basics, such as developing strategic planning systems to prepare the agency for future challenges; dealing with leadership weaknesses that result from a high rate of turnover and lack of accountability; addressing long-standing problems involving information resources management, financial management, and internal controls; and focusing more on how managers and workers are recruited and trained.

The response from the agencies has been encouraging. At Labor, for example, the Secretary took action to implement 47 of 49 GMR recommendations. Central to many of the improvements was the creation of the Secretary's Management System, which was designed to implement policy and program goals. At the Internal Revenue Service, officials are in the process of implementing over 40 recommendations, including a major organizational realignment that will change the operational culture of the agency and improve the quality of its service to the public. At the Social Security Administration, the Commissioner initiated actions to address all 50 recommendations. One key action was the development of a strategic plan to guide the agency's service-delivery approach into the next century. In responding to numerous GAO recommendations, the Environmental Protection Agency agreed to take a variety of actions, including steps to more clearly communicate its goals and direction, and more effectively measure its efforts to clean up the nation's environment.

These are a few of the important actions taken to date. Only in time, however, will we learn whether management reviews can accomplish what they set out to do. In the past two decades GAO has moved beyond financial auditing into program evaluation. Now, management reviews have been introduced, and to refine this new line of GAO business and assess the results will take time. Also, the effort has raised a fundamental question about the role of GAO: Can we develop the cooperative relationships with executive branch agencies that management reviews require and still maintain the independence and objectivity so important to our work?

Undoubtedly, our response to the question is that we have maintained and will continue to maintain our independence and objectivity. Some observers have seen management reviews as an attempt by GAO to assume the "management consultant" role. But while we may address many of the same issues that management consultants do, we have made it a point to maintain our objectivity — emphasizing that the agencies' operations are the public's business, and that GAO's responsibility is to report its findings to the Congress.

It is, at the very least, an interesting proposition we pose to agency leaders: Trust us to help you better understand the functioning of your agencies. Share information with us. Convince your staffs of the value of cooperating with the management

GAO'S MANAGEMENT REVIEW REPORTS

Increasing the Department of Housing and Urban Development's Effectiveness Through Improved Management	GAO/RCED-84-9, Jan. 10, 1984
Strong Leadership Needed to Improve Management at the Department of Labor	GAO/HRD-86-12, Oct. 21, 1985
Improved Management Processes Would Enhance Justice's Operations	GAO/GGD-86-12, Mar. 14, 1986
Progress and Challenges at the Defense Logistics Agency	GAO/ NSIAD-86-64, Apr. 7, 1986
Department of Labor: Assessment of Management Improvement Effort	GAO/HRD-87-27, Dec. 31, 1986
Social Security Administration: Stable Leadership and Better Management Needed to Improve Effectiveness	GAO/HRD-87-39, Mar. 18, 1987
Department of Transportation: Enhancing Policy and Program Effectiveness Through Improved Management	GAO/RCED-87-3 and RCED-87-35, Apr. 13, 1987
Followup on the Management Review of the Defense Logistics Agency	GAO/ NSIAD-88-107, Mar. 28, 1988
Environmental Protection Agency: Protecting Human Health and the Environment Through Improved Management	GAO/ RCED-88-101, Aug. 16, 1988

MANAGEMENT REVIEWS IN PROGRESS

Internal Revenue Service	Office of Personnel Management
Reserves and National Guard	General Services Administration
Office of the Secretary of Health and Human Services	Office of Management and Budget
Defense Acquisition Management	Department of Agriculture

review teams. But recognize that while the teams are at work in your agencies, other GAO personnel will continue to pursue the usual audits and evaluations of your programs.

Although openness — the public disclosure of problems — has its risks, there are benefits to be gained. Management reviews offer leaders the opportunity to make clearer to many people the context within which agencies have to function. A broader understanding of that context can help leaders improve their chances for successfully implementing their initiatives.

Another potential gain is that the broader understanding may rub off on GAO as well. We are sometimes told that our recommendations don't display a sophisticated understanding of the environment in which agencies operate and the constraints that agency managers face. If that is true, then it can't hurt to develop a body of GAO staff that better understands how and why agencies do what they do. Therefore, we give much thought to the backgrounds of the GAO personnel who get involved in management reviews, and to the assignments they will have after the reviews are finished. The goal is to incorporate our new insights into GAO's institutional memory and to position ourselves to better serve the Congress and the public in the future.

We are convinced management reviews will improve government. The key contribution is to provide a long-term framework for improving agency operations — something of real value to the executive branch, where the tenure of political appointees averages less than 2 years, and to the Congress, where the long-range, nuts-and-bolts issues of government operations are often obscured in the rush of political and legislative matters.

In a much broader sense, management reviews eventually may help the Congress and the executive branch better understand each other. While the job of the legislative branch is to design federal programs, fund them, and oversee their operations, many executive branch managers complain of congressional micromanagement, legislatively mandated constraints, regulatory structures, and government-wide systems that tie their hands. Management reviews may help, not only to spotlight these issues, but to allow policymakers the opportunity to think them through again — to decide which constraints on managers may be helpful to the operation of government and which may not. Given the growing needs of the nation, coupled with the difficult choices forced on it by resource constraints, a broader examination of government operations — of the connection between the goals of public programs and the government's ability to deliver on its promises — will clearly be in the public interest. •

043664

IMPROVING GOVERNMENT OPERATIONS

GMRs: Three Managers' Perspectives

The accompanying article, "Focusing on Fundamentals: GAO's General Management Reviews," discusses GAO's continuing program to help executive branch administrators improve agency operations. Recently, Comptroller General Charles A. Bowsher and Richard L. Fogel, Assistant Comptroller General, General Government Division, invited three executive branch administrators to discuss general management reviews (GMRs) from their point of view.

DORCAS R. HARDY has been Commissioner of the Social Security Administration since June 1986.

TERENCE C. GOLDEN was Administrator of the General Services Administration from 1985 to 1988.

DENNIS E. WHITFIELD has been Deputy Secretary of Labor since December 1985.

BOWSHER: Each of you has managed or helped to manage a department or an agency in which GAO has performed a GMR. Did you find the experience worthwhile?

WHITFIELD: Yes, for several reasons. At Labor it helped us get our 14 or 15 agencies to function more like a single department. The GMR helped us put the finishing touches on a sort of dual-track management system, one that would let us deal with the day-to-day things on one hand, and yet provide the flexibility to pick three or four areas for special attention. Without the GMR findings, we wouldn't have been able to move as quickly as we did.

There are specific program accomplishments to note, such as the fact that we've cut the turnaround time for mail from 90 days to 20. But speaking more broadly, I think the real benefits of these GMRs are a more orderly decision-making process and better communications — whether agency to agency or within a department. I think it's also pretty plain that it takes a while for the benefits to be seen; a GMR works best if the Secretary has at least of couple of years in which to implement the findings.

HARDY: At the Social Security Administration (SSA), we found the GMR very helpful, and GAO performed a very successful review, but what's vital from the outset is the support of the agency executive. If some GMRs have been less successful than others, I think it's been for lack of appropriate commitment on the agency side.

FOGEL: Do you think GAO ought to try some different approaches if we don't think the top person is supportive, doesn't want to use the findings to more effectively pursue his or her agenda?

HARDY: I don't think it's necessary for the results of a GMR to mesh perfectly with an agency's list of goals. I certainly never looked at the GMR as a rubber-stamping of our objectives at SSA, but as way of helping us determine where we were going and how to get there. But the openness of the agency head to considering an objective evaluation, which may include new persepctives, may be the most important factor in the success of a GMR.

BOWSHER: We've found that to be true. If the top person doesn't want a review or isn't open to making changes, then we probably should be working in some other agency.

FOGEL: How do you convince a Cabinet member that it's in his or her self-interest to be concerned about good management?

GOLDEN: That's a good question, because part of the problem stems from the fact that managers don't really earn recognition for managing. The high marks generally go to those who push one or two policy issues while holding everything else at bay.

HARDY: Terry's right. You've got to bring to the job an interest in improving operations. You've either got a feel for that or you don't; either you're willing to listen to somebody else and have enough self-confidence to let everybody have their opinions, or you're not.

WHITFIELD: Nuts-and-bolts management just isn't something the Congress considers important until something blows up, and then the Members want to know why you haven't been paying attention to management details.

HARDY: I think that if we could get that concern into the congressional agenda, it would help. The degree of success with which legislation is carried out rides directly upon an agency's ability to manage operational fundamentals.

WHITFIELD: I think you've got to win White House Personnel over as well. If a candidate for a job has the right political imprimatur, that's all that seems to count. I was absolutely appalled at how little emphasis is placed on management experience when appointments are made.

BOWSHER: They don't think in terms of building teams, either. Let's say they pick an ex-governor who's been a lawyer all of his life to be the Cabinet officer. Then they should think about a Dave Packard — a top-flight, experienced manager — as the number-two person, the person who is really going to run the department. But they don't think along those lines. Naturally you're often going to want certain people in there who are more policy oriented than management oriented, but you can't choose one kind to the exclusion of the other.

WHITFIELD: Anyone who heads up an agency, if they've got half their wits about them, knows that they've got to be alert to day-to-day operations — or have somebody on board who is — because if problems go unnoticed, sooner or later one of them will jump up and bite you.

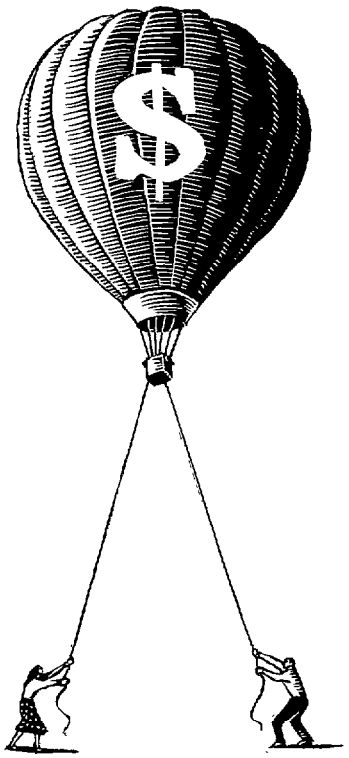
BOWSHER: About a year ago, we were doing a GMR at a major agency and we brought together a consultant panel that included some of the agency's former heads. A couple of them said that when they took the job, they simply figured that the agency *couldn't be run* — that it was just too big. All they thought they could do was concentrate on one or two policy issues, and if they could accomplish something in those areas, they'd be pleased. One of them got badly burned when part of the organization really broke down. I think the lesson here is that it's risky for an incoming agency head to assume that the agency will just run itself on a day-to-day basis while the boss concentrates on major policy issues.

GOLDEN: Management is itself an issue. All of us have a responsibility to improve the long-term infrastructure of government — simply to make it perform better.

BOWSHER: One of the inspirations for these GMRs was Dwight Ink, one of the all-time public administrators around this town. He told us that it had been his experience, after coming into various agencies in a senior role, that GAO reports on individual programs were helpful, but that a broader overview of agency operations would be even more useful.

GOLDEN: I agree. GMRs are one of the more positive things GAO can do to strengthen executive branch performance. But the idea of GAO doing this sort of work is worth some thought. GAO has a very complex relationship with the executive branch. All three of us — Dorcas, Dennis, and I — have been supportive of GAO's approach to GMRs; we've had confidence in the people who've worked on them and an understanding of what was being done. But GAO performs many other roles. GAO is sometimes used by individual congressmen or committees in ways that don't necessarily contribute to the operation of the executive branch or the interests of the American people. So I think that executive branch officials sometimes get confused as to where GAO is coming from. A lot of them would think of inviting GAO in to examine their operations in the same way they'd think of calling the artillery in on their own positions.

On one hand, senior executive branch managers have to convince their people of the wisdom of asking GAO for help. But on the other, it's also necessary for GAO to step back a little bit from its usual approach; the perception among many in the executive branch is that there's a lot of nit-picking that goes on, a lot of protecting your flanks. If GMRs are to be effective, GAO has to take a big-picture approach, looking at the big issues and focusing on the prioritization of issues within an agency. If a GMR gets down to second- and third-level talk about an individual account or something, it's not going to have an impact. So I think GAO has got to have its best people involved and give them clearly defined objectives. And as much of their effort needs to be spent on establishing a broad perspective and making recommendations for the future as on identifying existing problems.



WHITFIELD: GAO's reputation can help, you, though. There are very few governmental or quasi-governmental agencies that have earned the healthy mixture of fear and respect that GAO has. On several occasions when we at Labor would be quizzed as to our reasons for doing something, we could say that GAO supported or even suggested the move in its GMR. Members of Congress were more willing to listen to our rationale if they knew GAO shared it.

BOWSHER: Your former secretary, Bill Brock, was very supportive of our efforts. One day when he was visiting us, someone asked him if he thought it would be better if the Office of Management and Budget (OMB) did GMRs rather than GAO. What do you think?

GOLDEN: There are some institutional reasons why OMB can't; whether or not it *should* is a separate question. One reason OMB can't is that its focus over the past 5 or 6 years has been on privatization, computerization, financial integrity, those sorts of things. OMB doesn't have the expertise to take on the management consultant role. The other reason is that OMB can't draw the line between management and budget; it's got a vested interest in getting the next year's budget numbers down, even if that doesn't make good management sense over the long run. So it could never do what an outside firm, or GAO, could do.

HARDY: And I don't think OMB could get past that preoccupation to earn the confidence of the agencies.

GOLDEN: As to the broader question, whether someone other than GAO could perform the function, I think the answer is yes: a really high-quality consulting firm from the private sector. I would distinguish this from most of the consulting firms that provide services to the federal government today. Most of them are cost oriented, deal in volume, have poor-quality staffing, and don't necessarily under-

stand how government works. You usually wind up with a good-looking piece of paper that lacks substance. But if you brought in a truly top-notch firm, you might get a high-quality product.

HARDY: Maybe you could come up with some way to merge capabilities. I remember the Grace Commission, which I thought was very successful, but which sometimes wanted to fix things without knowing how those things got that way in the first place. Outsiders sometimes simply lack the background. At SSA there are things that make the agency go that I'm not sure the best consulting firm would ever think about.

BOWSHER: One of the great criticisms of blue-ribbon panels over the years is that you just get too many people who don't understand government, or have never been in government, or don't know the history of the program they've been brought in to study.

WHITFIELD: Maybe you could get the private-sector consulting firm, add GAO's expertise, and then bring in some people who've had experience in the agency and have them all work as a team.

BOWSHER: We've done something very similar, in fact. In putting together our overall approach to GMRs, we've brought in consultants, some of them private-sector consultants who've had a lot of government experience. Then for each individual GMR, we have a consultant panel made up of people who know the particular organization and its history.

GOLDEN: You've just got to have the perspective.

BOWSHER: What would you recommend we stress if we're to make GMRs even more successful?

WHITFIELD: Timing is very important. First of all, you can't spend forever getting the GMR report together because the typical life cycle of senior management at any agency, Cabinet or otherwise, is less than 2 years. GAO's got to get in, get the job done, and give the people in charge the chance to get the recommendations implemented before they've moved on.

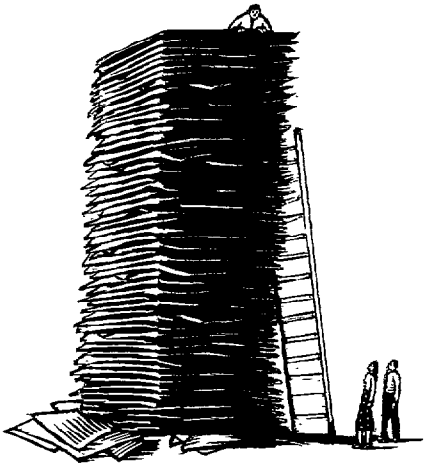
GOLDEN: It's useful if GAO and senior management continue to communicate while the GMR is under way. It provides the opportunity to keep the focus steady, and if necessary, to reprioritize the work in process.

WHITFIELD: The period between now and when the new administration comes in will be critical. The transition reports that managers get from the transition team don't help them run their agencies. But something akin to a GMR — even if it were just GAO's thumbnail sketch of what it considered the agency's strengths and weaknesses — would be very helpful.

BOWSHER: If you were to advise the new administration on the areas it ought to look into for a real payoff in improving delivery of services or more efficient government operations, what would you recommend?

GOLDEN: If you're talking about the overall government, and not just particular programs, then obviously it's the budget that needs the most attention. Getting a more productive and efficient federal work force in place would be a major focus. Financial systems are another area. And hardware: When you realize that the federal government is using computers that are twice the age of those used by the Fortune 500, and the problems the government's having in getting new systems in place, you begin to see how much productivity is being lost. I think all of us have struggled at trying to implement new systems; it's an area that really needs more money and attention.

BOWSHER: That's Hale Champion's big hope in this effort of ours — that it will eventually alter the way the Hill looks at the oversight function. The questions ought to be: What are the major institutional problems and what are you doing to solve them? It would make a lot more sense than just throwing the spotlight on one issue after another.



HARDY: That's one thing GMRs help us with: scoping out the whole picture, so that you can pick and choose what problems to target for attention.

FOGEL: A lot of this, as Terry implied in his list of things that cry out for attention, is the federal work force. How should we go about, not just attracting, but *keeping* good people — and not just career people but political appointees who will bring with them an interest in making government run more efficiently?

WHITFIELD: I think you could start with the conflict-of-interest laws, which are ambiguous and probably unenforceable. They make it unduly troublesome to enter public service. They ought to be replaced with a single paragraph that you'd sign to the effect that you're not going to use your office for personal gain, for your family or friends or whatever, and if you get caught, you'll get tossed in jail.

GOLDEN: I think there's got to be a completely new look at the federal civil service, from senior management down to the GS-4 coming in, in order to make it an attractive work environment. It troubles me that we're not getting the best people, that the best were attracted some time ago and no longer are being motivated either financially or psychologically to stay. I think we've got a really serious problem.

BOWSHER: There's some hope that the Volcker Commission will be able to help move things in the right direction.

GOLDEN: Just helping to bring an end to fed-bashing would be a great contribution. In my experience, all you need to provide the career professionals in an agency is a good, sound plan and a chance to participate and be heard, and you can get tremendous support for change. •

043665

FEATURES

Sheila M. Smythe

AMERICA'S CHILDREN

1

SAFEGUARDING OUR CHILDREN'S HEALTH

Despite large-scale federal health measures, many children still lack the care they need.

SOCIAL PROBLEMS change over time, and government faces the challenge of responding to the issues of each decade. The 1960s are remembered for racial tension and the War on Poverty; the 1970s brought deinstitutionalization and a rise in unemployment; the 1980s have seen the growing homelessness and substance abuse problems; and in the 1990s we will face the complex task of dealing with AIDS as it becomes a more widespread problem. One issue that remains constant, however, is the need to care adequately for our children. Perhaps because children have always been a part of society and are dependent on others, we get used to their presence and tend not to view their needs as a burning social issue.

But the current well-being of America's children is crucial to our nation's future health and prosperity. To some extent, the federal government has acknowledged this link by establishing many programs designed to address certain basic needs of the more vulnerable children in our society. These programs include Aid to Families with Dependent Children (AFDC), which provides cash payments to needy children and their parents or guardians; Medicaid, a federal-state program of medical assistance to low-income people; the Special Supplemental Food Program for Women, Infants, and Children (WIC); Head Start, an education program for low-income and handicapped preschool children; the National School Lunch Program and the School Breakfast Program; the Maternal and Child Health Services Block Grants (MCH), a federal-state matching program that aids mothers and children; the Child Health Assurance Program, a federal program to provide limited preventive and ongoing health care for Medicaid-eligible children; the Childhood Immunization Program, which gives grants to state and community health agencies; and the Food Stamp program, a monthly supplement toward food purchases for low-income households.

According to recent evidence, however, we are not serving our children as we should. A few statistics give a sense of the situation. Between 1979 and 1985, the number of American children living in poverty rose from 10 million to 13 million; currently 50 percent of black children and nearly 25 percent of all children are poor. Yet Medicaid served 200,000 fewer in 1986 than it did in 1978, even though the number of poor children had risen nearly 25 percent in the interim. Medicaid now reaches less than 50 percent of poor children annually. Similarly, the WIC program, because of inadequate funding, presently serves fewer than half of those eligible. And from 1982 to 1985, a time of widespread economic recovery and prosperity, the number of Americans under 18 with no health insurance increased by 16 percent.[1] In 1978, the Surgeon General set specific goals, to be reached by 1990, for improving the health of children. He specified, for example, that 90 percent of all pregnant women should receive prenatal care during the first trimester and that the number of low-birthweight babies (under 5 pounds,

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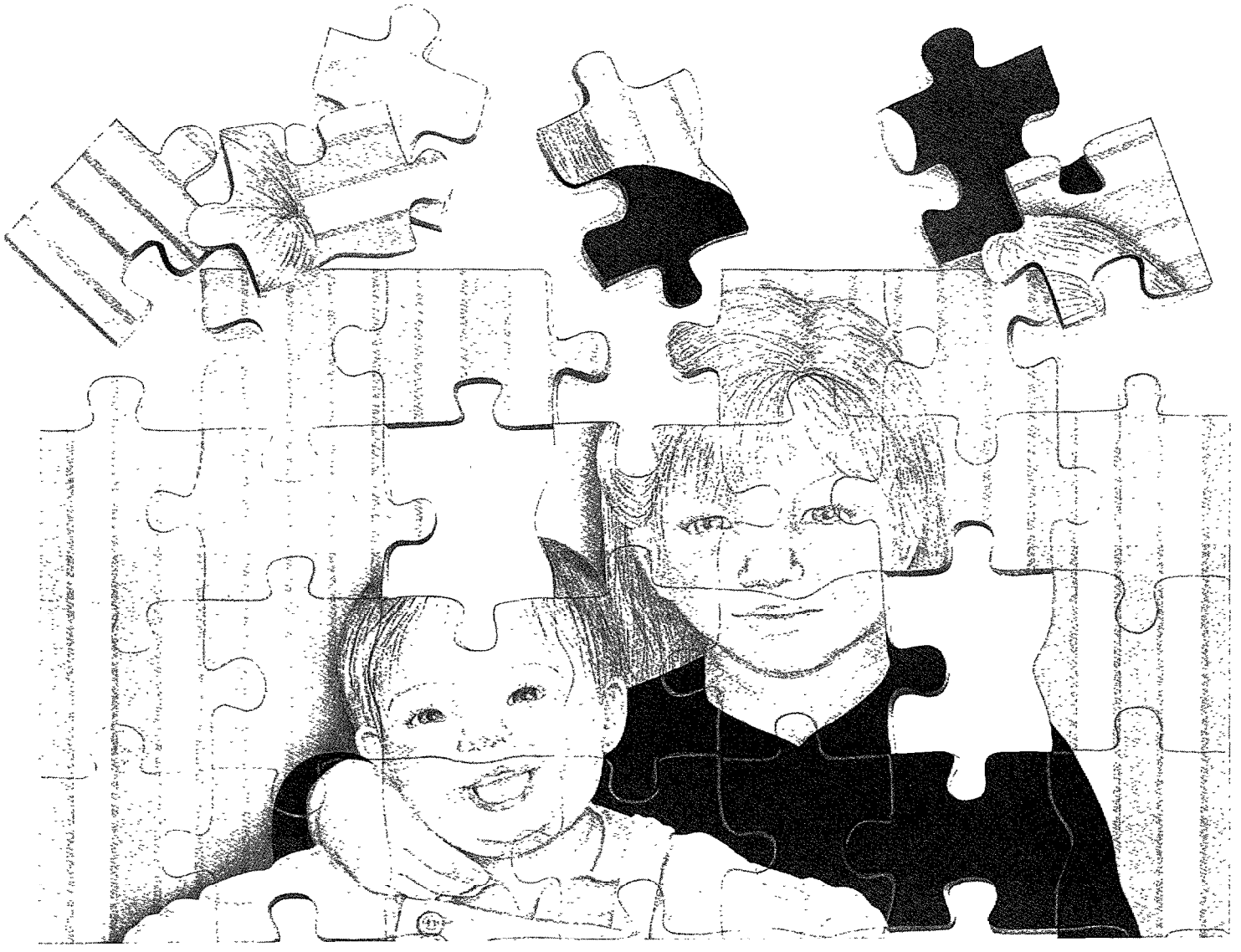

8 ounces) should be reduced to fewer than 5 percent of all babies born. By 1985, however, virtually no progress had been made toward these objectives.[2] For instance, after dropping by 13 percent from 1970 to 1979, the percentage of low-birthweight births per year remained essentially unchanged from 1980 to 1984, then increased between 1984 and 1985 from 6.7 percent to 6.8 percent of all births. The overall immunization status of the youngest American children has eroded: A smaller percentage of 2-year-olds was immunized against seven major childhood diseases in 1985 than in 1980. Moreover, regional and racial disparities in children's health status have persisted and, in some areas, worsened.[3]

These trends raise not only ethical concerns but also questions of cost effectiveness. Many public programs geared toward children do, in fact, offer positive returns on taxpayers' investment. For example, every dollar committed to prenatal care can save as much as $3.38 in costs of care for low-birthweight infants. A dollar spent on the Childhood Immunization Program saves $10 in later medical expenses. And the $750 cost of a year of compensatory education can save the $3,700 cost of repeating a grade.[4]

Although the current budget deficit creates a context in which federal spending must be closely watched, we should consider the extent to which federal expenditures on children actually save us money in the long run. This will require cost-benefit analyses of particular programs, as well as broader judgments about the importance of children's welfare to our society as a whole.

Prenatal and neonatal care

The infant mortality rate in the United States is greater than that of 19 other industrialized nations. (See the accompanying article, "The Fight Against Infant Mortality.") Infant mortality rates are important indicators of the health status of children, since they are closely associated with such factors as health care, food, shelter, education, and sanitation.

Thus it is disturbing that, after rapid improvements from the mid-1960s through the 1970s, the pace of the improvement in the U.S. infant mortality rate has slowed significantly in the 1980s. In fact, were it not for a decline in the mortality rate of low-birthweight babies — a decline due mainly to advances in technology — the early 1980s would have seen a *worsening* in U.S. infant mortality rates.[5]

The increase in U.S. poverty during the 1980s and the growing inadequacy or inaccessibility of federal programs to poor mothers and infants seem to have played a large role in slowing the progress of further reductions in infant mortality.[6] For example, the lack of sufficient prenatal care doubles a woman's risk of having a low-birthweight baby.[7] And low birthweight is the leading cause of infant death.

A recent study by the Office of Technology Assessment found that making all pregnant women in poverty eligible for Medicaid would be a good investment for the nation.

Low birthweight also has other human and financial costs. The overall expense of care for a very low-birthweight baby (under 3 pounds, 5 ounces) can often exceed $100,000. Furthermore, low-birthweight babies are prone to severe, lifelong problems — such chronic disabling conditions as cerebral palsy, seizure disorders, blindness, mental retardation, behavioral problems, and learning disabilities.[8]

Improved access to prenatal care could help prevent many cases of infant mortality and low birthweight. About 80 percent of women at high risk of low-birthweight births can be identified during initial prenatal examinations, and steps can be taken to reduce that risk. Yet, in a recent GAO study, 63 percent of women surveyed who received Medicaid or who had no health insurance did not get prenatal care early enough or often enough.[9]

One approach to this problem would be to implement a policy of universal access to prenatal care. A recent study by the Office of Technology Assessment found that making all pregnant women in poverty eligible for Medicaid would be a good investment for the nation.[10] It might also be appropriate to encourage the states to loosen their Medicaid eligibility requirements and reduce the amount of paperwork required to enroll in the program. The goal would be to create a minimum national standard of health care for pregnant women.

Well-child care

Access to medical treatment is essential to a child's well-being. This is true not just of treatment in response to illness or injury, but also of ongoing medical supervision. According to the American Academy of Pediatrics, preventive care enables children to achieve optimal physical, intellectual, and emotional growth, and betters their chances of developing into healthy and productive adults.[11]

One key indicator of young children's health status is immunization. Here, as with infant mortality, the immunization rates for U.S. infants are significantly lower than those for several other industrialized countries. The percentage of American 2-year-olds who have been immunized is well below the Surgeon General's target objectives for 1990. Between 1979 and 1985, the percentage of under-2-year-olds immunized against mumps (the category that was lowest to start with) increased but the percentage immunized against polio, measles, diphtheria, tetanus, and pertussis hardly changed; the percentage immunized against German measles actually showed a slight decline.

Furthermore, immunization status in the United States varies by geographic region and racial or ethnic group. In 1985, 31 percent of inner-city preschoolers weren't adequately immunized against polio and 30 percent weren't immunized against mumps. Many illegal aliens in U.S. cities have not been immunized at all.

For 5- and 6-year-olds, immunization rates are higher, primarily because of laws in all 50 states requiring children to be immunized before attending school. Perhaps one way to improve the U.S. immunization rate would be to reestablish schools as places for immunization, as they were several

decades ago. This would require additional funding, but studies have shown that childhood immunization not only confers medical benefits but also saves money.[12]

The availability of health insurance is another factor with tremendous impact on the accessibility and quality of children's health care. During the late 1970s, 13 to 14 percent of people under age 65 had no health insurance; by 1984, that fraction had increased to 17 percent. These new uninsured individuals include young people just out of school, not yet employed; those in service industries or small, marginal industries, where coverage may not be a standard benefit; the unemployed, or those who have only recently changed jobs; or married women not covered under their husbands' insurance policies.[13]

Children with the least access to medical services are those from "near poor" families whose incomes fall between 100 and 150 percent of the poverty level.

The decline in overall insurance coverage has had predictable effects on children. According to the U.S. Census Bureau's Current Population Survey, the percentage of children under 13 with no insurance was 17 percent in 1980, 18 percent in 1984, and 19 percent in 1986.[14]

What are the consequences of going without health insurance? For one thing, an uninsured family faces some risk of catastrophic health-care expenses far beyond its means. If a child's illness involves long-term disability and institutionalization, the family may become eligible for Medicaid despite an income above the poverty level. Otherwise, however, the family would have to either spend itself into poverty to qualify for Medicaid or rely on some other form of assistance.

In addition, lack of health insurance makes a child less likely to receive needed ongoing medical attention, including immunization, other preventive services, and developmental assessments. According to the 1980 National Medical Care Utilization and Expenditure Survey, the children with least access to medical services are those whose families' incomes are between 100 and 150 percent of the poverty level. Unlike those below the poverty level, these "near poor" families usually don't qualify for Medicaid, and they are less likely than those with incomes above 150 percent of the poverty line to have private medical insurance.[15]

Even a child with private insurance is not covered for every medical contingency. The extent to which a plan covers expenses depends on its particular characteristics, including deductibles and coinsurance payments, which require families to contribute to a portion of medical costs; maximum benefit limits, which restrict the total amount of payments the plan will make on behalf of the insured; and limits on the type or the amount of services covered.

Medicaid coverage has problems of its own. The fees physicians receive for Medicaid patients are lower than those for private patients. This disparity has been growing every year since 1979; as a result, physicians are sometimes unwilling to participate in Medicaid, making it difficult or impossible in some areas for Medicaid-eligible children to receive care from private physicians.

Together, these trends suggest that a number of children in America are not receiving the necessary amount of medical attention. This raises the question of whether the United States needs a national program to ensure that mothers and children have access to and get quality care. For the working poor, who don't qualify for Medicaid and have either inadequate private insurance or none at all, the best strategy may be a private sector-government initiative to guarantee minimum levels of coverage.

Food and nutrition

Federal initiatives such as food stamps and the school lunch and breakfast programs acknowledge the importance of nutrition to a child's healthy development. Undernourishment decreases an individual's resistance to infection and increases the severity and duration of illnesses. Furthermore, an undernourished, hungry child shows a low tolerance for frustration, increased irritability, and a reduced attention span — all of which limit the child's chances of success in school. As recent work by the Committee for Economic Development makes clear, the high failure rate in the U.S. education system has serious implications for national economic strength. (See the accompanying article, "Investing in the Very Young.")

Numerous other issues are important to children: child abuse and neglect, sexual abuse, accidents, congenital disorders, mental health, and the need for affordable day care. Relatively new problems, such as drug addiction and AIDS transmitted to newborns, are being added to the list.

Studies conducted by the U.S. Department of Agriculture between 1965 and 1978 showed a substantial narrowing of the nutritional gap between low-income Americans and the rest of the population. This was the period when federal food programs, especially food stamps, were being implemented on a wider scale. Yet more recently, between fiscal years 1982 and 1985, many of these programs were cut. Child nutrition programs, including school lunches and breakfasts, lost $5 billion. Food stamps lost $6.8 billion: 11 to 13 million Americans who are eligible for food stamps do not now receive them. (Regulatory changes in 1981 relieved states of the responsibility to conduct outreach programs targeted at those potentially eligible for food stamps.)

The results of these cuts are suggested by the findings of a recent survey of 25 large American cities by the U.S. Conference of Mayors. In 24 of these cities, overall requests for food assistance had increased by an average of 28 percent during 1985. In 23 of them, the number of families with children that sought emergency food aid had risen by an average of 30 percent.[16] In the face of such evidence, policymakers should consider whether present nutritional programs are adequate to meet the nation's needs.

A question of priorities

Numerous other issues are important to children: child abuse and neglect, sexual abuse, accidental injuries, congenital disorders, mental health, and the need for affordable day care. Relatively new problems, such as drug addiction and AIDS transmitted to newborn children, are being added to the list. Although some of these areas — AIDS, for example — require continued research, many others present clear paths for beneficial action.

We know, for example, that adequate prenatal care decreases the risk of low birthweight and infant mortality; we know that programs such as Head Start increase a child's chances of educational success and future economic independence; we know that childhood immunization reduces both future illness and future medical costs. The challenge we face is to make the care of our children a national priority by establishing policies that will safeguard their health and well-being, thereby enabling them to contribute to our country's future prosperity and stability. •

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2. *Prenatal Care. Medicaid Recipients and Uninsured Women Obtain Insufficient Care* (GAO/HRD-87-137, Sept. 30, 1987), p. 15.

3. *Healthy Children: Investing in the Future*, U.S. Office of Technology Assessment, OTA-H-345 (Washington, D.C.: U.S. Government Printing Office, February 1988), p. 49.

4. U.S. House of Representatives, Select Committee on Children, Youth, and Families, *Opportunities for Success: Cost Effective Programs for Children Update, 1988*, pp. 6-7.

5. *Healthy Children*, p. 6. Part of the slowdown in improvement of the infant mortality rate apparently may be attributed to more aggressive resuscitation of the tiniest newborns and more strict reporting as live births some that might in the past have been unreported altogether or reported as fetal deaths. But as *Healthy Children* points out (p. 46), this trend simply highlights the severe problem we face with low-birthweight births.

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9. GAO/HRD-87-137, p. 3.

10. *Healthy Children*, p. 10.

11. Joseph A. Cislowski, *Health Care for Children: Federal Programs and Policies* (Washington, D.C.: Congressional Research Service, 1988), p. 15.

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13. *Blessed Events and the Bottom Line*, p. 1.

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AMERICA'S CHILDREN
2

THE FIGHT AGAINST INFANT MORTALITY

A national commission offers some commonsense proposals.

THE NATION'S deeply troubling death rate for babies within the first year of life makes infant mortality, like AIDS, one of the most compelling public health issues of the decade.

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Annually, some 40,000 infants die before their first birthday, ranking the United States last among 20 industrialized nations in infant mortality rates. In contrast with AIDS, however, the causes of the high infant mortality rate are well understood, and are often not medical causes at all.

What makes infant mortality a particularly perplexing issue is that the United States has already spent a lot of money on the problem. Technological research has greatly advanced neonatology in this country, and social programs created over the past 50 years abound for poor women and children.

Neonatal intensive care has saved many low-birthweight babies (those weighing less than 5 pounds, 8 ounces—the infant population most at risk) since its introduction in the late 1960s. Social programs to aid mothers and infants are also not in short supply. Medicaid; Aid to Families with Dependent Children (AFDC); maternal and child health block grants to the states; community and migrant health centers; family planning clinics; maternal and child health clinics; the Special Supplemental Food Program for Women, Infants, and Children (WIC) — all have provided funds and services to the nation's needy mothers and infants.

How, then, does a wealthy and technologically sophisticated nation reconcile its poor infant mortality status with the substantial federal and state efforts that have already been made to address the problem?

The National Commission to Prevent Infant Mortality

This question was among those the National Commission to Prevent Infant Mortality sought to answer. The Commission was established by the Congress in 1987 to develop a national strategy for reducing infant mortality. Chaired by Senator Lawton Chiles of Florida, the 15-member Commission included Members of Congress, the Secretary of Health and Human Services, the Comptroller General of the United States, state government officials, and maternal and child health experts.

In its August 1988 report to the Congress and the President, the Commission acknowledged that its recommendations would have more to do with national resolve than with radical restructuring of programs or major infusion of funds. The Commission's positions on infant mortality prevention were derived from a series of public hearings, a review of current federal and state programs and policies affecting maternal and child health, and an examination of private health-care financing systems.

For many American women, access to proper prenatal care is severely limited by the fact that federal and state social programs often operate in isolation, without a network linking the financial, food, and medical benefits available to the needy client.

Why is there still a problem?

Past successes in reducing infant mortality have been due, in large part, to medical technology's ability to save smaller and smaller babies. But that technology is now reaching the limit of its ability to save these babies, contributing to the recent leveling off of the nation's infant mortality rate.

Other causes involve the financial barriers and bureaucratic tangles that inhibit poor women — often single and uneducated — from seeking the necessary prenatal care. These mothers often deliver babies who are victims of poor maternal nutrition; maternal consumption of tobacco, alcohol, and other harmful drugs; and inadequate spacing between pregnancies. These are the infants most likely to be born underweight and therefore most at risk.

The Medicaid program is illustrative of a well-intentioned federal-state assistance effort that often unwittingly thwarts its own objectives. The largest public insurance program for the poor, Medicaid covers only about 38 percent of Americans with incomes below the 1988 federal poverty level of $9,690 for a family of three. The low coverage is due in part to Medicaid's often stringent eligibility requirements. While Medicaid is funded jointly by the federal and state governments, it is administered individually by the states, so eligibility requirements and benefits vary tremendously from one state to the next.

In some states, applications run to over 50 pages, requiring reading and writing skills applicants may not have. Applicants are asked to provide verification of income and assets with documents that are often difficult to obtain. Processing applications takes up to 2 months; this means that some applicants in the first trimester of pregnancy, for whom early prenatal care is vital, simply will not receive it as soon as they should.

The near-poverty-level working poor do not fare much better at getting private insurance coverage. In 1985, about 7.3 million women of childbearing age who were employed or married to workers did not have health insurance. Another 5 million women of childbearing age had private health insurance that did not cover maternity care.

Another public program, WIC, is cost effective but is underfunded and reaches less than one-half of eligible individuals. A federal nutrition program offering food, nutrition education, and access to health-care services, WIC has been shown to save $3 in short-term hospital costs for every dollar it spends.

But WIC is not an entitlement program. Its caseloads are limited by the level of funding the Congress authorizes each year. As a result, although financial eligibility for WIC is set at 185 percent of the official poverty level, only a fraction of this population can obtain benefits. Overall eligibility is determined by a combination of qualifying factors — such as a pregnant woman's anemia or an infant's inability to gain weight — of which pregnancy is only one.

For many American women, access to proper prenatal care is severely limited by the fact that federal and state social programs often operate in isolation, without a network linking the financial, food, medical, and other benefits available to the needy client. Programs are frequently administered by different agencies and at different locations.

Medicaid, for example, is administered by the Department of Health and Human Services (HHS); WIC, by the Department of Agriculture. Medicaid is typically located in a state welfare or human services

department; WIC, in the local public health office.

The person in need of services is often not informed of what is available. AFDC recipients, for example, are automatically eligible for Medicaid, but there is no assurance that a woman will be told of the existence of other programs for which she may be eligible; if she is eligible, she will have to file a separate application, probably at another location. The AFDC and Medicaid application processes not only are lengthy and complicated, but vary from state to state.

The Commission report points to a decline in national emphasis to explain the contradiction between America's infant mortality rate and its status as a wealthy nation.

Other difficulties in obtaining care include inconvenient clinic hours and locations, lack of transportation and child care, and the scattering of services over a wide geographic area. These difficulties are compounded by a shortage of health-care providers willing to care for uninsured or publicly insured women and infants, providers unable to speak the languages of those they serve, low reimbursement levels, and providers' malpractice and liability concerns.

The Commission report points to a decline in national emphasis to explain the contradiction between America's infant mortality rate and its status as a wealthy nation. The United States held its first White House Conference on Children in 1909 and founded the Federal Children's Bureau in 1912. Since then, there have been six decennial White House Conferences, but none since 1970. The Children's Bureau was dismantled in 1969. Currently there is no federal institutional focal point for children's health issues.

What does the problem cost?

The primary cost of infant mortality is human, and therefore immeasurable. But to trace the economic costs to society of infant mortality and morbidity, we might begin with the expensive neonatal intensive care that low-birthweight infants require. The cost of "graduating" a sick infant from intensive care ranges from $20,000 to $100,000. Next comes the expense of long-term care for children who survive but need assistance in caring for themselves due to physical or mental handicaps. According to the Southern Governors' Association, the average overall cost for lifetime health and custodial care for a handicapped child can reach $400,000. The Office of Technology Assessment estimates that for every low-birthweight birth averted by earlier or more frequent prenatal care, the United States health-care system saves between $14,000 and $30,000 in newborn and long-term health-care costs.

Expensive as direct health-care costs are, however, they are not the only economic costs of infant mortality. Indirect costs — such as wages that might otherwise have been earned eventually by infants or parents — are also substantial. A recent study by the Actuarial Research Corporation places the total current value of the future earnings of 1985 infant mortality victims at $10.2 billion to $18.9 billion.

Of course, not all infant deaths or low-birthweight births can be prevented. But if the United States could reduce its infant mortality rate to the current Japanese rate of 5.5 deaths per 1,000 live births, or even halve the rate of low-birthweight babies born with disabilities, these infants could be expected to earn some $6.4 billion to $12 billion over their lifetimes and to pay $1.4 billion to $2.6 billion in federal taxes.

What are the proposed solutions?

The solutions to infant mortality are a matter of common sense. Adequate prenatal and pediatric care are the answers; every report on the subject since 1900 has said as much. Although taxpayers have committed substantial resources to the health and welfare of mothers and infants over the past 20 years, millions still cannot avail themselves of the services offered.

The Commission identified two main courses of action to help the United States break out of the stagnation that has characterized the infant mortality rate since 1975. First, access to prenatal and early pediatric care should be provided for all infants and mothers, without financial, administrative, geographic, educational, or social barriers. Second, the health and well-being of mothers and infants should be given national priority. To accomplish this, the Commission report recommends expanding private-sector insurance coverage to women of childbearing age and their infants; simplifying bureaucratic procedures; coordinating federal, state, and local agency services; and setting up a national council on children's health and well-being.

The Commission report also recommends that all employee-based health insurance cover pediatric care. To improve services to low-income families, the

Congress should see that Medicaid maternity and early pediatric services are available to those with incomes below 200 percent of the poverty line.

Where no existing services are available, health departments should establish them. Where there are long application forms, waiting lists, hard-to-reach clinics, poor transportation, lack of child care services, and other administrative barriers to care, agencies should streamline the process for obtaining care.

The Commission recommendations also speak to uniting the public and private sectors in a national campaign to focus the public's attention on infant mortality prevention.

The Commission report also recommends that the Secretary of HHS take the lead in ensuring that care is better coordinated. This could include, at the program level, developing a referral system for services to mothers and infants, establishing a national network of hotlines for information on access to services, and centralizing many maternal and infant care services at a single location.

As for the shortage of health-care providers — namely, obstetricians, family physicians, and certified nurse midwives — the Commission report calls for the combined efforts of HHS, state governments, and the private sector to ensure the availability of obstetric providers and quality care.

The Commission's proposal to create a national council on children's health and well-being seeks to centralize leadership in children's health issues. Comparable leadership was provided from 1912 to 1969 by the Children's Bureau, which was credited by some with the great advances made in maternal and child health during this century. The Commission felt that the council could assist the President in sponsoring a 1990 White House Conference on Children's Health, an instrumental step in returning children's health and well-being to the national agenda.

In addition, the Commission recommendations speak to uniting the public and private sectors in a national campaign to focus attention on infant mortality prevention. Heightening public awareness was at the core of the Commission's role and is fundamental to its proposed solutions. After all, the means to improve America's infant mortality rate are available. It's a matter of summoning national resolve. •

The National Commission to Prevent Infant Mortality

The Honorable Lawton Chiles, Chairman
United States Senator

The Honorable J. Roy Rowland, Vice Chairman
Member of Congress

The Honorable Otis R. Bowen
Secretary of Health and Human Services

The Honorable Charles A. Bowsher
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AMERICA'S CHILDREN
3

INVESTING IN THE VERY YOUNG

From the Committee for Economic Development, a plan to improve the future lives of disadvantaged children.

THE NATION'S public schools have traditionally offered a pathway out of poverty and a roadway to the American Dream. But today, in too many communities, the schools are ill equipped to deal with the many problems of the educationally disadvantaged — the 30 percent of children facing major risk of educational failure and lifelong dependency. While the education reform movement was primarily focused on raising standards in the nation's public schools, it has all but ignored the root causes of failure for the nearly 1 million young people who drop out each year or who graduate semiliterate and virtually unemployable.

Students from poor families are three times more likely to become dropouts than students from more economically advantaged homes, and schools with higher percentages of poor students have significantly higher dropout rates than do schools with fewer poor students. This is hardly surprising: Children of the poor suffer more frequently from almost every form of childhood deficiency, including infant mortality, gross malnutrition, recurrent and untreated health problems, psychological and physical stress, child abuse, and learning disabilities.

Many disadvantaged teenagers who are dropout-bound compound their situation by bearing children before they have the maturity and skills to handle the demands of parenthood, ensnaring themselves and their offspring in a web of poverty and despair.

In recognition of these problems, the Committee for Economic Development (CED) issued a report titled *Children in Need: Investment Strategies for the Educationally Disadvantaged,* which calls for a national campaign of early and sustained intervention in the lives of disadvantaged children as the only way to help them break the shackles of lifelong dependency and failure.

In its report, CED urged the nation to change the way it deals with children born into poverty, discrimination, or neglect. If we continue to allow nearly one-third of our children to fail, we will not

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only impoverish these young people, but we will also impoverish our nation — culturally, politically, and economically.

Children in Need recognizes the urgent need for early prevention to forestall problems that can lead to later educational failure. It is the first report by a major national business organization to argue that the health and social development of poor infants and children are key factors in their readiness for formal schooling.

The single most important contributor to productivity is not tools but people, and the ability of the nation to compete successfully depends ultimately upon our success in developing our human resources to their highest possible level.

The report recommends working both with disadvantaged mothers — many of whom are young and underskilled — and with their children from pregnancy through birth and to age 5, when most children enter the public schools. Among the major recommendations, CED's report calls for programs to give disadvantaged expectant mothers necessary prenatal care, education in parenting skills, and the encouragement and support they need to stay in school and successfully complete their education. Young fathers, of course, are not left out of this equation, and greater emphasis must be placed on pregnancy and dropout prevention efforts for both young girls and boys.

For infants and toddlers from disadvantaged homes, the report advocates vastly improved infant care, better access to child care for poor working parents and parents still in school, and quality preschool programs for all disadvantaged 3- and 4-year-olds. The report also looks beyond early prevention to recommend the changes needed in public schools for them to become more effective places of learning for the disadvantaged child.

Why business cares

CED's recommendations met with some surprise in the media and in the Congress. After all, CED is a private, nonpartisan, nonprofit organization funded primarily by business, and its Board of Trustees is made up of nearly 250 top corporate executives. The question many people ask me, as Chairman of the subcommittee that produced the report, is why a business organization like CED is devoting so much of its time and resources to sounding the alarm on behalf of disadvantaged children?

The answer lies in the groundwork CED laid more than 5 years ago in two studies that focused on improving the nation's productivity and international competitiveness. The research and discussion that went into framing those reports threw into sharp focus the relationship between education, productivity, and our nation's ability to compete in an increasingly challenging global economy. While completing those studies, our trustees realized that the single most important contributor to productivity was not tools but people, and that the ability of the United States to compete successfully would ultimately depend upon our success in developing our human resources to their highest possible level.

With that thought in mind, we brought together a subcommittee of top business and education leaders for a 3-year study of our nation's schools and the business role in education reform. The subcommittee's work resulted in the 1985 report *Investing in Our Children: Business and the Public Schools,* which spotlighted the profound gap between the skills needed in the workplace and those being learned by students in our schools. It provided a framework for general educational reform, highlighted the need for more intensive business-school partnership, and helped bring the issue of preschool education for the disadvantaged to the forefront of national debate.

Investment strategies for the educationally disadvantaged

Yet even as the subcommittee completed that study, it could see that its work was not finished. Our research into the best educational investment strategies convinced the subcommittee that the old maxim, "An ounce of prevention is worth a pound of cure" was as valid as ever. In investigating educational quality, we realized that students who drop out, become pregnant, or turn to crime are often easy to identify long before high school.

Children in Need represents a call from business leaders for every sector of our nation to make the needs of disadvantaged children a top priority. As heads of major corporations, CED members are asking the business community to recognize the stake it has in ensuring that every child has access to quality

education and a chance to benefit from it. The report calls for the business community to help lead coalitions of business, education, community groups, parent organizations, foundations, and every level of government to help address these problems.

If we fail to make the investment needed now to break this vicious cycle of poverty and ignorance, we will only have to pay more later, in financial terms and in human misery. Each class of high school dropouts costs this nation about $240 billion during their lifetimes in lost wages and unpaid taxes. The cost in crime control, welfare payments, remedial education, and health and social services accounts for billions more.

Should present trends continue, our industries will be unable to compete internationally because a growing educational underclass will lack the necessary skills and work habits to function productively on the job. Moreover, they will lack the levels of literacy needed to make informed choices about their lives or to take part in the political process.

We know enough to act

The shame of our society is that we allow the problem to continue when we already know enough to reverse some of the damage wrought by childhood poverty. For instance, we know that working with 3- and 4-year-olds and their parents in Head Start programs yields measurable benefits. The Select Committee on Children, Youth, and Families of the U.S. Congress has found that for every $1 invested in quality preschool education, we can expect a substantial return of $6 in the reduced costs of remedial education, welfare, crime, and other social services. However, only one out of every five children now eligible to participate in Head Start actually does.

The graduating class of the year 2000 entered kindergarten this year. Unless important changes are made in the quality of their education, we can expect close to one out of every three to drop out before receiving diplomas.

We also know that the earlier we start, the less we will have to spend. David Hamburg, president of the Carnegie Corporation, has pointed out that intensive care for low-birthweight babies can easily cost taxpayers $1,000 a day. Yet prenatal care for a pregnant teenager can cost as little as $800 per client.

With the right support from caring adults — parents, teachers, close relatives, or religious and community leaders — many children from disadvantaged backgrounds can overcome early deprivation and excel in school. Yet a disproportionate number of disadvantaged children cannot even benefit from quality education because they are damaged physically, intellectually, and emotionally long before they enter the classroom.

Children of children

In stressing the necessity of early prevention, the CED report does not mean to downplay the need to press ahead with education reform. In fact, it warns that there is little sense in giving disadvantaged children a head start if schools fail to build on early successes and instead promote failure. The graduating class of the year 2000 entered kindergarten this year. Unless important changes are made in the quality of their educational experience, we can expect close to one out of every three to drop out before receiving diplomas.

Girls who have babies at age 15, 16, or even younger frequently become permanent dropouts from school and society, forever dependent on government support. Children born to teenage mothers face special health risks; they are often born prematurely or suffer from low birthweight, conditions that predispose them to developmental retardation and a variety of learning disabilities.

The issue of teen parenthood needs to be addressed through a combination of policies and programs at the federal, state, and local levels. *Children in Need* makes a number of specific recommendations in the area of early intervention:

- Encouraging pregnant teenagers and those with babies to stay in school and develop good job skills, so that they can become independent and self-supporting,
- Providing parenting education for both mothers and fathers,
- Providing prenatal and postnatal care for pregnant teens and other high-risk mothers, and family health care and developmental screening for their children,
- Offering quality child-care arrangements for

teenagers in school and for poor working parents,
- Sponsoring pregnancy prevention programs that educate young girls and boys to their options in life other than early parenting, and
- Making quality preschool programs available to all disadvantaged 3- and 4-year-olds.

A number of promising models for early prevention and intervention were identified during the CED study or have been developed as a result of its recommendations. The New Futures School in Albuquerque, New Mexico, is a public high school that helps pregnant teens and teen mothers complete their education and develop job skills while providing an environment for improving parenting skills and child development.

In Chicago, the Beethoven Project is working with at-risk mothers who live in a large public housing project. The project is providing health and education support to help these mothers give birth to healthy babies and keep them on track developmentally so that they are ready for school at age 5. A similar effort in Minneapolis, called "Success by Six" and sponsored by United Way, will provide comprehensive support services to parents and children from prenatal care through age 6.

In El Paso, Texas, the Ysleta Pre-Kinder Center offers the kind of quality early education experience that disadvantaged 3- and 4-year-olds need to succeed in school and life. Ysleta is particularly noteworthy for its insistence on extensive involvement of parents in all aspects of the program.

Who is responsible

Developing and implementing the investment strategies CED recommends would require both significant increases in funding and better targeting of those funds to ensure that the necessary resources reach those children most in need.

In *Children in Need,* CED urges business to become a driving force in the community on behalf of initiatives for disadvantaged youngsters, particularly in communities that need stronger support for early prevention programs and have little political clout to get them properly funded, initiated, and administered. CED strongly supports increased funding for early prevention programs on the local, state, and federal levels.

While the federal government must play an active role in addressing the special needs of the disadvantaged, CED does not expect it to shoulder the full burden of the needed programs. Instead, CED sees the federal role as one of leveraging resources and pointing the way for state and local governments, which, ultimately, are responsible for education. The federal government can play an important role in establishing demonstration projects and providing the research that can track programs and evaluate progress.

The CED report does, however, ask the federal government to reaffirm its long-standing commitment to ensuring that the disadvantaged have access to quality education. CED considers it essential that funding of Chapter I remedial reading and mathematics programs and Head Start is brought up to levels sufficient to ensure that all eligible children are served.

The costs of a national early prevention program

The up-front investment for disadvantaged children would be considerable, but the eventual payoffs would be significant. In 1985, over 850,000 babies were born to mothers who received no prenatal care during the first trimester of pregnancy. To provide basic prenatal care for every mother who does not now receive it would cost about $700 million.

Good infant and toddler care (for children ages 1 and 2) would cost about $6.6 billion, a figure based on the premise that half of the children would require full-day care and the rest half-day care.

High-quality preschool education for 3- and 4-year-olds would cost about $4,000 per child, based on cost-estimates done by the Senate Labor and Human Resources Committee for their "Smart Start" bill. The total cost would be $6.6 billion.

Some federal moneys are already appropriated for programs like these, and CED would not expect such funds to be duplicated. Currently, $1.2 billion is

being spent on Head Start; $1.1 billion is being spent on federally subsidized child care programs; and $50 million of Chapter I money is used by states to fund preschool programs.

We also do not expect all the funds to come from the federal government. States are already picking up a larger percentage of the early education bills, and 24 states have some kind of preschool program. States like New York, Texas, and California, which have a large share of disadvantaged children, seem to be doing the most for them in terms of preschool. State leveraging of federal funds is one feature built into Senator Kennedy's "Smart Start" legislation — up to 50 percent by the third year.

What we spend to prevent lifetime failure is not an expense; it is an investment. Every year we delay, we condemn almost 1 million more children to lives of despair and our society to almost certain decline.

If it were possible to implement all the programs CED envisions at one time, new appropriations would total $11.5 billion. But in the first few years of these programs, the price tag would be considerably less. Why? Because even if we could write the check tomorrow, we would still lack the trained personnel and physical facilities to enroll every eligible child and parent. Of necessity, these programs would have to be phased in over a period of 5 years because it would take time to enroll all the at-risk parents who are themselves so crucial to the success of these programs. At $2 billion to $3 billion a year over the next 5 years, this program would reap a bonanza in paybacks to society and to our children.

Where do we go from here?

Some of the changes CED advocates could be put in place now; others would take longer to implement. It is an arduous political task to encourage cooperation among all levels of government and a multiplicity of constituencies.

But we can't afford *not* to undertake this enterprise. What we spend to prevent lifetime failure is not an expense; it is an investment. Every year we delay, we condemn almost 1 million more children to lives of despair and our society to almost certain decline.

The business community now recognizes its stake in our nation's children. And this concern extends far beyond the narrow dollars-and-cents issues. We view this as a survival issue. Whether the nation remains free and prosperous will depend on our ability to give every American child the opportunity to develop to his or her full potential. •

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Alexis P. Lautenberg

WORLD ECONOMIC DEVELOPMENTS: A VIEW FROM SWITZERLAND

In a free world economy now dominated by the United States, Europe, and Japan, effective cooperation is the key to sustained success.

THE WORLD ECONOMY is changing rapidly. An overview of these developments from a European perspective must take into account a number of trends determining the political and economic interplay among nations. Of particular importance is the evolution of the free world economy away from dominance by a single nation to one in which there are three primary centers of economic power: the United States, Japan, and Europe.

The globalization of trading patterns and financial flows has heightened the interdependence and need for cooperation among these economic powers. At the same time, however, the movement toward development of regional economic zones, major imbalances in macroeconomic performance among the economic powers, and rising concern about relative competitive position have caused stress in the cooperative relationship that has served us well in the postwar era. There has been some progress in dealing with this stress, but it has been slow. Our ability to sustain the needed level of international economic cooperation will determine whether the future development of world trading patterns and financial flows is as mutually beneficial as in the past.

For Europeans, who have been used to thinking primarily about transatlantic ties, it is a particular challenge to look at the world from the U.S. point of view, with its greater awareness of the formidable development of the Pacific rim. Since the end of World War II, the United States has been the primary force shaping the geostrategic situation and the international economic system outside the communist nations. But the dominant bipolar strategic balance has gone through a process of progressive diversification. While mutual nuclear deterrence has secured a long period of peace in the central areas, it has not been able to prevent progressive centrifugal developments away from the two main poles and a proliferation of regional conflicts.

Although the United States continues to constitute the main pillar of the western defense system, it has tended to fall prey to what Paul Kennedy[1] calls the phenomenon of "imperial overstretch." Thus the ratification of the Intermediate

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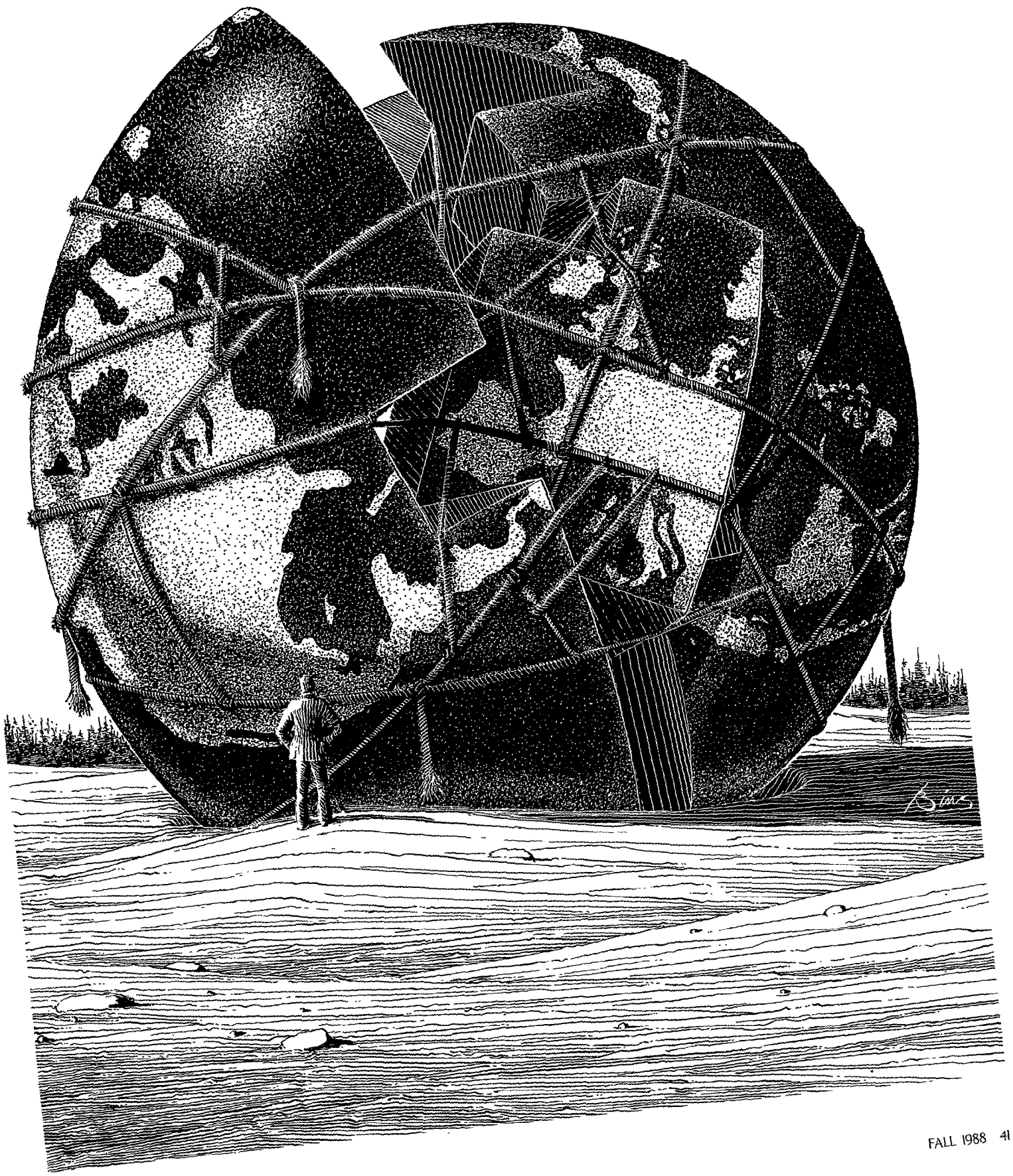

Nuclear Forces (INF) agreement will affect not only western Europe's but also Japan's security perceptions. This occurs at a moment when the European Community (EC) is becoming more aware of itself as a coherent political entity, rather than simply a collection of individual states. It is interesting to note, on the other side of the world, that in commenting on the INF accord, former Japanese Prime Minister Nakasone recently stated that Japan has to become increasingly aware of its strategic responsibilities in the Pacific area.

Changes in geostrategic relationships are reflected in the field of international economic cooperation, where two different trends have become more and more evident. On the one hand, due mainly to the growing significance of competition in various attributes of products (such as design, name brand recognition, and quality) rather than competition in price alone, new technologies are changing the economic environment in various countries and increasing the need for trading areas designed for large-scale production. On the other hand, the importance governments attribute to their relative competitive postures affects their approaches to trade policy. This increases the potential for conflict within a system of cooperation conceived for classical forms of competition based primarily on price.

One consequence of this change in the economic environment is the growing importance of the three main poles: the United States, Japan, and the EC. Each of these major centers of gravity tends to exert a strong attraction on its geo-economic environment. This is true not only in the North American context where the recently concluded U.S.-Canadian Free Trade Agreement represents clear evidence of such a trend. In western Europe the efforts of the EC to achieve a fully free internal market have gained momentum and call for parallel steps toward a fruitful relationship between the European Free Trade Association (EFTA)[2] countries and the EC.

In the Pacific, Japan is becoming more and more the driving force for the development of the whole area. In other regions, too, the economies of a number of developing countries are growing at a rapid pace. These economies feel the same need for regional cooperation, aiming, at the same time, at their progressive integration into the global economy. Only through such cooperation and integration will they be able to gain the full benefit of greater specialization in providing the goods and services that each can produce most efficiently — the essence of the economist's principle of comparative advantage.

In parallel with this multipolarization, we witness a clear interdependence among various types of markets, ranging from commodities, to financial, to foreign exchange. Due to the phenomenon of globalization, around-the-clock trading has developed, which again affects the decision-making process at national, regional, and global levels.

As this evolution takes place, it is evidently difficult for the existing mechanisms of cooperation to cope with the rapid changes. The Bretton Woods System of fixed exchange rates and the multilateral trading rules of the General Agreement on Tariffs and Trade (GATT), focusing on the need for open access to markets, were the two pillars of the postwar international economic system. The collapse of one and the progressive erosion of the other call for a new way of ensuring equilibrium in the economic and financial relationships among the dominant economies. In a regime of flexible exchange rates, where the weight of tariffs has decreased — and notwithstanding the role of nontariff barriers — the external economic position of countries is largely determined by movements in exchange rates.

In light of the globalization of economic relations, the answers to our current difficulties over trade require both an improvement in and an adaptation of the existing multilateral rules. This is essential if one wishes to achieve an international

trading system that functions effectively in the longer term. That is a necessary condition for stable relations between industrialized countries and for the effective integration into the world economy of a rising number of developing countries. For many of the latter, a reliable and open trading system, with full opportunity for their export sectors to compete for world markets, is also the key to a structural reduction of their debt.

The challenge of the new round of GATT negotiations is to find mechanisms allowing, on the one hand, for the establishment of rules taking into account these new interdependencies and, on the other, for reversing the tendency toward an almost systematic departure of a growing number of the economic sectors from the open market discipline of GATT. That discipline is widely credited with the enormous expansion of world trade—to the benefit of all parties—in the postwar era.

Success in overcoming the erosion of GATT will depend, among many other points, on the ability of the contracting parties to tackle the safeguard provisions. These permit limited, temporary restrictions on trade as part of a nation's strategy for adjusting to shifts in trading patterns. However, there has been an increasing number of mainly bilateral agreements involving trade restrictions that are incompatible with GATT. Tackling this issue represents the cornerstone for developing nondiscriminatory and multilaterally agreed-upon procedures for regulating the delicate process of structural adjustment.

IN SPITE OF THE SPECIAL CHARACTERISTICS OF TRADE IN SERVICES, PRINCIPLES MUST BE ELABORATED THAT ARE AS COMPATIBLE AS POSSIBLE WITH THOSE GOVERNING TRADE IN GOODS.

The trend toward the creation of integrated economic areas creates a further vital challenge for the current GATT round. This lies in improving the compatibility between the provisions of GATT defining custom unions and free trade areas, as they were foreseen by the drafters of the General Agreement, and the increased polarization that is emerging among a limited number of large economic actors.

Together with the need to adapt the existing rules of GATT to the new environment, the most ambitious task of the present round probably resides in the elaboration of a new multilateral framework for the rapidly growing field of services, which already constitutes between one-fifth and one-fourth of world trade. Although some of the restrictions on trade in this sector have been reduced over the past 25 years, that liberalization was essentially limited to relations among the industrialized countries in the Organization for Economic Cooperation and Development. It is the task of the present GATT negotiating cycle to tackle this area in an effort to preserve both the global character of the Agreement and its most-favored-nation principle.

In spite of the special characteristics of trade in services, principles must be elaborated that are as compatible as possible with those governing trade in goods. But principles alone are not sufficient. This is why Switzerland has submitted an approach aimed at progressively liberalizing trade in services by multilateralizing bilateral or plurilateral sectoral agreements. Due to the growing importance of

integrated areas, the concept we have offered for consideration includes provision for special trade regimes. This would recognize the special trading relationships that exist among particular groups of nations, a philosophy already embodied in GATT.

Another key element for improving the effectiveness of GATT would involve complementing the multilateral surveillance mechanism with a greater coherence in

IT IS TO BE HOPED THAT FORMULAS CAN BE FOUND TO ENSURE THAT NATIONS ADDRESS THEIR BALANCE-OF-PAYMENT DIFFICULTIES THROUGH APPROPRIATE MACROECONOMIC AND EXCHANGE RATE MEASURES RATHER THAN BY RESTRICTING TRADE.

global economic policy-making between GATT and the international monetary and financial organizations. This effort must address the delicate relationship between import restrictions and balance-of-payment problems. It is to be hoped that formulas can be found to ensure that nations address their balance-of-payment difficulties through appropriate macroeconomic and exchange rate measures rather than by restricting trade. As noted previously, restrictive trade measures should not be more than a transitory element of a strategy designed to ensure the adaptation of a nation's economy to changing external economic circumstances.

The trend toward increased polarization in the trade area finds its counterpart in the monetary field. The U.S. dollar, the yen, and the Deutschmark, as the leading currency within the European Monetary System (EMS), are held responsible by the countries concerned for a whole set of economic developments. This creates the danger that monetary policy will be used inappropriately to influence external economic relations among the various blocs, in an attempt to avoid needed changes in fiscal policy or normal exchange-rate adjustments.

In times of considerable macroeconomic imbalances, the potential for monetary policy being used in this way contributes to the perception of uncertainty by the markets. This reflects the multiplication of tensions originating in different areas of policy with a constant danger of escalation. On the other hand, the economic dominance of three key nations—the United States, Japan, and the Federal Republic of Germany (FRG) — should facilitate rather than impede the difficult process of gaining better coordination of macroeconomic policies.

There was a serious divergence of macroeconomic policies among these governments at the beginning of the 1980s. The Plaza Agreement of September 1985 represented the beginning of a more cooperative stance with the announcement of the common intention of bringing the exchange value of the dollar more in line with the economic fundamentals, such as relative prices and growth rates. Due to inadequate adjustments in fiscal policy, the dollar's fall did not yield an equivalent improvement in the balance of trade as measured by the current account[3] figures. At the Tokyo Summit in the spring of 1986, the need for coordination of economic policies was reemphasized. The technique chosen for this purpose was to be regular exchanges of views about broad indicators of economic performance and the

appropriate policy response, a process termed multilateral surveillance. This line of policy was confirmed at the meeting in September of the same year of the Group of Seven (G-7) countries.[4]

As the dollar continued to slide, the Louvre Accord of February 1987 led to an understanding on a coordinated approach involving both monetary and fiscal policies. The implementation of the agreement by the nations involved was clearly insufficient—with the possible exception of Japan—and the relative stability of the dollar in the exchange markets mainly registered the growing intervention of the central banks. The monetary expansion that followed introduced a renewed element of strain, particularly when interest rates began to move upward. This created the perfect background for what became the October crash.

Following the crash, there was an immediate injection of large amounts of liquidity by central banks in order to stabilize the financial markets. There was also agreement within the United States on a modest 2-year package of budget savings, as well as a timid step by the FRG to stimulate its domestic investment. Beyond these actions, the present cooperative profile is essentially centered around a common interest in more stable exchange rates. In recent months, there has been a progressive correction of the nominal trade imbalances, as can be seen in the improvement of the current account surplus as a percentage of Gross Domestic Product for Japan (2.4 percent) and the FRG (3.1 percent), with an equivalent reduction of the U.S. current account deficit (2.5 percent). Although this change in tendency is encouraging, the adjustment will take time. If it is to succeed, an active correction of the savings-investment imbalances in the dominant economies must accompany efforts to stabilize exchange rates.

In the course of the past 2 years, there has been growing discussion of the practical aspects of implementing the multilateral surveillance approach. As the main focus was progressively diverted from the central role of money supply, and data on the production of goods and services alone was clearly recognized as being an imperfect basis for judging the adequacy of policies, the search for complementary price indicators grew. From that point of view, the recent agreement of the G-7 and the Toronto Summit to study the inclusion of a commodity price indicator as part of the multilateral surveillance approach is a noteworthy development. It underscores the importance governments now attribute to exchange-rate relations within the panoply of objectives of economic policy.

Internal political considerations in both the United States and the FRG make it difficult for the time being to achieve the further corrective steps that will be needed, mainly in the monetary and fiscal area. Thus, the markets remain sensitive to any seemingly unfavorable information, as we have witnessed from time to time in the reaction to the U.S. trade figures. Despite these obstacles, there is no alternative to a credible cooperative approach.

Harmonious and mutually beneficial economic relationships can be achieved only if there are policy adjustments on two levels. One entails movement by the dominant economies toward convergence on economic fundamentals, such as their domestic savings-investment relationship. This is essential to avoid the distortion of exchange rate movements caused by undesirably large and volatile flows of capital. The other entails a determined push toward structural adjustment that requires the painful elimination of artificial support for inefficient sectors, an area in which Europe has a particular responsibility.

The underlying uncertainties about achieving these goals are clearly perceived by the markets. They contribute to shortening the perspective of market

participants, in the first instance on the exchange markets, thereby heightening their volatility. This puts considerable strain on investors, particularly on industrialists, who must take a longer-term view of affairs.

Together with the difficult process of adjustment among trading partners, there have also been some interesting developments within the main currency areas. In the case of Europe, the EMS has endured the recent turbulence remarkably well. While it is likely that the German currency will remain the pillar of the system, it is interesting that there have been active discussions concerning the establishment of a European central bank. The more determined efforts and the recent decision by the EC to achieve a full liberalization of capital movements, the strengthening of the Franco-German monetary and financial consultative process, as well as the active discussions in the United Kingdom about its position vis-a-vis the exchange-rate mechanism, make it plausible to anticipate a further development of the system.

From the monetary point of view, the east Asian area is divided today into a dollar zone and a yen zone. The formidable economic performance of the Asian newly industrialized countries (NICs) raises the problem of how to achieve their more systematic macroeconomic integration. While giving evidence of the success of liberal economic policies, they have, of course, heavily profited since 1985 from the pegging of their currencies to the U.S. dollar. As one possible way of mitigating the present misalignment, the President of the German Bundesbank recently suggested a reorientation of the Asian NICs' exchange rate policy away from the dollar and toward the yen.

This plea for an Asian monetary system underlines the tendency toward multipolar relations extending to the monetary system and is less unrealistic that one might believe at first glance. In the Pacific area, the strong competition among Tokyo, Hong Kong, and Singapore is developing into a more cooperative profile under the lead of Japan. Such a trend has been clearly facilitated by the impressive liberalization that has characterized the Japanese financial center in recent years. This is typified by the greater use of the yen as an international currency, the positive steps toward deregulating interest rates, the introduction of a full set of financial instruments, and the more systematic admission of foreign financial institutions. These are not only modifying the financial landscape of Japan but also improving the attraction and strength of Tokyo.

Some important obstacles remain, such as the segmentation of the financial sector (the Japanese equivalent of the U.S. Glass-Steagall Act) and the extent to which economic decisions are based on government policy ("administrative guidance") rather than market forces. In time, these obstacles also will be first eroded and then overcome, if only because of the natural feedback of a more and more global Japanese presence abroad. I therefore expect the main partners in the Pacific to intensify their cooperative efforts. The development of Tokyo as a financial center of gravity will profit not only Hong Kong and Singapore, but also Sydney, a trend that I expect to be particularly profitable to the trade in new financial and currency instruments.

I do not want to leave the field of macroeconomic cooperation without mentioning the substantial increase in direct investment in the United States from Europe and Japan. This increased flow represents a positive contribution to balancing out the American external sector by a clear strengthening of its productive capacity. When such direct investment involves the construction of a new manufacturing plant, it may mean more than the simple addition of capacity. It can also involve the introduction of new technology and management methods that may improve the efficiency and competitiveness of the sector as a whole. Thus, in spite of

some calls for caution, it is essential that international efforts to achieve a further liberalization of international investment be allowed to continue.

In summary, I would emphasize the following points:

- The clear strategic and economic dominance of one leading nation is progressively being replaced by a set of economic leaders that includes the EC and Japan alongside the United States. All three main actors exert a growing influence and attraction in their respective regional spheres. This evolution is apparent not only in the trade policy area but increasingly in the monetary and financial field as well.

THE LEADERS OF THE DOMINANT ECONOMIES MUST RECOGNIZE THAT MULTILATERALLY AGREED-UPON RULES ALLOW FOR GAINS THAT EXCEED THE COST OF SACRIFICING STRICTLY DOMESTIC CONSTRAINTS.

- The resulting phenomenon of larger regional economic zones will tend to produce an increase of intra-area trade. This carries with it the danger of stimulating protectionist postures toward competitors outside the respective regional zones.
- In order to avoid such a danger, there is a strong mutual interest in developing and maintaining an awareness of and respect for the rules governing international economic interaction. These rules must be multilateral if they are to be effective. This implies that the leaders of the dominant economies recognize that multilaterally agreed-upon rules allow for gains that exceed the cost of sacrificing strictly domestic constraints. This means also that larger countries, in particular, renounce unilateral and bilateral measures that are incompatible with the agreed-upon rules of the system.

In conclusion, we should note what Michael Blumenthal[5] in a recent article has said about what he calls the principle of nonexclusivity: "The need to take account of the broader interdependencies of economic problems affecting the many, should also be recognized and understood. Technology will tie all of us together on this earth. And more than before, broad interrelationships will have to be taken into account, whether they concern the communist bloc or the wider range of LDCs [lesser developed countries], and whether they deal with currency problems or the connection between market access and economic aid." •

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1. Paul Kennedy, *The Rise and Fall of Great Powers* (New York: Random House, 1987).
2. EFTA was established by the Stockholm Convention in 1960. The current members are Sweden, Norway, Finland, Austria, Switzerland, and Iceland.
3. The current account reflects investment income, military transactions, and transfer payments, as well as trade in goods and services.
4. The G-7 countries are the United States, Japan, the FRG, the United Kingdom, Canada, France, and Italy.
5. W. Michael Blumenthal, "The World Economy and Technological Change," *Foreign Affairs*, Vol. 66, No. 3, 1988.

043669

Harrison J. Goldin

THE VALUE OF MUNICIPAL AUDIT COMMITTEES

IN PHOENIX: The 7th Biennial Joint Intergovernmental Audit Forum Conference, May 1988

Harrison J. Goldin was a featured speaker at the 7th Biennial Joint Intergovernmental Audit Forum Conference, which drew more than 600 audit executives from throughout the United States. The three-day program featured plenary sessions and workshops on such topics as implementation of the single audit, revisions to audit standards, quality control systems, continuing education, the impact and uses of new technology on auditing, financial integrity legislation, audit resolution issues, and fraud and abuse. This text was adapted from Mr. Goldin's remarks.

THE AUDITING PROFESSION in government has made rapid progress in recent years. I remember addressing this audience 4 years ago in Manhattan. I spoke then of creating within the 60 or so agencies of New York City's government an "internal control environment" to impose financial and, in effect, management accountability for their operations, from the commissioner down to the lowest-level supervisor. My "Directive 1," modeled after the Federal Managers' Financial Integrity Act of 1982, required agency heads to report on their internal control weaknesses and on how their agencies had resolved or planned to resolve audit issues raised by my office and outside auditors.

The directive was designed to put teeth into audit recommendations, enhance the status of auditors, make internal controls a genuine management tool, and spur the improvement of municipal operations. In the optimism and enthusiasm of the moment, I thought of my "Directive 1" as the ultimate management tool, facilitating solutions to most management problems as soon as they arose and enabling us all to live happily ever after in Audit Heaven. Four years later, human nature being the imperfect reality it is, we are still a long way from management perfection in New York City or even perfect implementation of Directive 1.

Nonetheless, the case of Directive 1 should be understood to imply progress. For while in 1984 New York City was one of the first municipalities in the country to install such internal controls governmentwide, today many cities have such systems. Today, the notion of requiring municipal managers to resolve outstanding audit issues is commonplace. A mark of the progress is that one of the topics at this conference is the improvement of the internal control systems that are now thought of as an ordinary facet of many local governments.

Rapid change in the field of auditing tends to make us forget that auditing goes back a long time. People have asked questions, critiqued operations, and made rational recommendations on an informal basis from the beginning.

While auditing may not be quite the oldest profession, the first auditor was the Almighty Himself in the Garden of Eden. Seeing that His prime regulation had been violated, the Lord asked Adam and Eve, "What have you done?"

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And like most municipal agencies responding to the findings of an auditor that cannot be denied outright, Adam said, "It wasn't my fault." Further, like most bureaucrats, Adam passed the buck: "The woman you gave me — she made me do it." And Eve, herself no slouch in ducking accountability, said, "It wasn't my fault. The serpent tricked me."

The difference between that early experience and audits today is that the Lord was able to make His audit recommendation stick. They were implemented all too fully! If only city comptrollers had that kind of all-inclusive clout!

Which brings me to say a few words about municipal audit committees, ours in particular.[1] The Audit Committee for the City of New York is, in effect, an auditor auditing an auditor auditing an auditor auditing an auditor.

In New York, the process of developing the city's annual financial statements begins with the accountants and internal auditors of the city's five dozen agencies, departments, and administrations. Each agency is responsible for its own numbers and enters them through our citywide Integrated Financial Management System.

My office audits what comes in, raises questions, gets answers, and resolves ambiguities. We then compile, consolidate, check, and recheck all the data and prepare the city's comprehensive financial statements according to Generally Accepted Accounting Principles (GAAP).

The entire process leading to the publication of the financial statements is audited on a continuing basis by an independent certified public accounting firm hired by the city to attest to the statements.

Finally, work by the outside auditor is overseen and reviewed by the city's Audit Committee.

In other words. the Audit Committee checks on the outside auditor, who checks on me as Comptroller, as I check the validity and accuracy of the various agencies' accounting data.

The seven-member Audit Committee, which includes three elected officials of the city, is, in both fact and appearance, independent from the city's management, because four of its members, including the chairman, are outsiders: private-sector professionals well-known for their expertise in accounting and municipal finance. The basic function of this independent committee is to ensure that the outside auditor is also independent of management and that management heeds the findings of the auditor.

The Audit Committee reviews the selection of the independent certified public accounting firm, oversees the audit engagement, reviews audit findings, monitors the work of the internal audit staff, and arbitrates differences between the audit firm and management.

Our Audit Committee meets at least six times a year. At its first meeting, it develops its agenda for the year, reviews the selection of the auditor in years in which a new auditor is hired, reviews the details of the audit plan, discusses anticipated problems and issues with the auditor, explores with the auditor the latest developments in governmental accounting and audit practices, and inquires into the coordination of the outside auditor's efforts with those of the internal auditors.

At this first meeting, the Audit Committee may also recommend changes in the scope of the audit. One year, for example, the committee, concerned over the failure of several securities dealers, asked the independent auditor to expand its review of controls over the city's investment activity.

At another meeting, the Audit Committee reviews the city's financial statements — already reviewed by the independent certified public accountant — preparatory to publication. Additional meetings may be scheduled if the work load is especially heavy or there is not enough time at this meeting to discuss and fully evaluate

complex issues. Another practice to help ensure the independence of the auditor is a formal, private meeting between the auditor and the four private-sector members of the Audit Committee—without the presence of management or any city employees.

The Audit Committee holds a final meeting each year to review the year's work, the auditor's management letter, and management's corrective actions. The committee also prepares its own annual report; the city has been widely praised for this public disclosure of the committee's work. As David Gabhart and Alan Reinstein wrote in the August 1987 issue of *Government Finance Review:*

> "The flagship here is New York City, whose 33-page 1985 audit committee report included sections on the charge to the committee, responsibilities, operations, relationships with independent accountants, a review of the annual financial statements, a review of the auditor's management letter and internal control, and detailed listings of units and organizations whose financial statements and management were and were not reviewed."[2]

Most companies have independent audit committees that oversee the preparation of their financial statements. But while on the increase, audit committees in government—fully functional and genuinely independent from management—are still uncommon. Perhaps a dozen of them have been around for more than 10 years. New York City became an early advocate of independent audit committees when it established its own in 1979 in the aftermath of its 1978 annual financial statement—its first in accordance with GAAP.

In its third report on government audit quality, GAO said audit committees are useful overseers of the audit process. I agree fully. We in New York City have found our independent Audit Committee a very helpful vehicle for maintaining and enhancing the independent audit process.

Because the committee exerts a certain pressure on the independent auditor, municipal agencies find it more difficult to ignore or subvert my accounting directives or requests for specific data in a specific format for inclusion in our annual financial statements.

Because we have an Audit Committee, it is next to impossible now—at least in matters relating to the city's formal financial statements—for a city agency to tell me, "It's not my fault. The serpent tricked me." •

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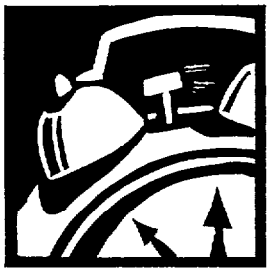
1. I will not dwell on the technical intricacies of setting up a municipal audit committee and devising rules by which such a committee should operate. For details of that sort, I refer the reader to two articles by Patrick Hardiman, Chief of our Bureau of Management Audit and Executive Secretary of the Audit Committee for the City of New York: Patrick F. Hardiman, Alan Reinstein, and David R. L. Gabhart, "Audit Committees for Governmental Units — How To," *The CPA Journal* (June 1986), pp. 38–44, and Patrick F. Hardiman, "Independent Audit Committees in Government: The New York City Model," *Government Finance Review* (August 1987), pp. 27–29.
2. David R. L. Gabhart and Alan Reinstein, "A Comparison of Governmental and Private-sector Audit Committees," *Government Finance Review* (August 1987), pp. 23–26.



GAME PLAN

C. Jackson Grayson, Jr. and Carla O'Dell

AMERICAN BUSINESS: A TWO-MINUTE WARNING

New York: The Free Press, 1988. 368 pp.

By Sarah F. Jaggar

This book is another in the recent spate of calls to action in the crisis over American competitiveness. But while its authors, C. Jackson Grayson and Carla O'Dell, concede that it may not be possible for America to retain its preeminence in the world economy, they neither predict doom nor mourn the passing of our great society. Instead, they argue that the United States *can* regain its competitiveness and continue its growth. Doing so, however, will take diligent effort.

Grayson and O'Dell make plain their belief that Japan will become the world's economic leader by the 21st century. They also note that Japan is already concerned with its future competitors — the developing Pacific Rim countries, such as South Korea and Taiwan. The task for Japan tomorrow, as for the United States today, will be to adjust to the possible future shift of economic power to the newly industrializing countries. No one, say the authors, should be surprised by these changes; after all, in the 1890s, the baton of economic leadership passed in much the same fashion from Great Britain to the United States.

Grayson and O'Dell go further than most commentators to propose a program of change and adaptation for survival. Their credentials encourage the reader to pay attention: Grayson is, among other things, Chairman of the American Productivity Center (APC) in Houston, while O'Dell, formerly a vice president of APC, is founder of a consulting and research firm specializing in improving productivity and the quality of the work environment. Their hands-on experience with clients is reflected throughout the book.

Grayson and O'Dell present an "agenda for adjustment" to enable companies to focus on 10 tough issues that touch upon their competitiveness:

1. To help companies compete in the marketplace, redesign their operating systems to make them simpler, leaner, more flexible. The wave of the future consists of "sociotechnical" systems — more like those of present-day small businesses where staff work in teams, office design facilitates communications, and capital and technology are directed toward improving productivity.

2. Redesign the structure of firms to avoid the "silo" approach, wherein decisions are made at high — meaning distant or removed — levels. A flatter structure will encourage initiative, innovation, and renewal.

3. Make the quest for quality "Job One." This means doing things right the first time, not correcting them later.

4. Structure compensation systems to reward productivity, promote continuous learning and improvement, and encourage a sense of participation in the company's accomplishments. This means tying compensation to performance, sharing profits with employees, and ensuring that bonuses are not just for executives.

5. Employment-security considerations should include greater job flexibility, stronger employee commitment, and a more skilled work force. Inflexible job-classification systems should be avoided; they allow complacency and poor performance and often discourage innovation.

6. Expand the opportunities for employees to help solve business and management problems. Today's widely used "quality circles" are a start.

7. Change the approach to training workers. One reason the United States surpassed Great Britain as the most productive nation on earth was that the American work force was better educated. Today, say Grayson and O'Dell, Japan probably has the best-educated work force. Compared with the Japanese, American children are less well-trained when they enter the job market, and opportunities for on-the-job training are less frequent and less relevant.

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8. Modify today's financial and cost accounting systems to meet current business demands. Current accounting systems, say the authors, "cannot handle today's decisions regarding capital-intensive flexible manufacturing systems, the greater emphasis on human capital, and the rise of the service sector." They propose supplementing financial systems with measures of productivity and quality, using human resource accounting techniques, sharing operating and financial data with employees, and charging for use of accounting and information services within the company to identify who really needs the data.

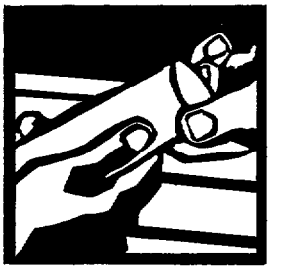
9. Break down the status symbols that create distinctions between managers and workers. Demonstrate that "we are all in the same boat" by eliminating differences in such things as language, dress, dining areas, and parking privileges.

10. Where a union exists, creative a "competitive partnership."

Is that it? Well, not quite. Drive, flexibility and self-renewal, direct and ongoing leadership on the part of management, continuous learning and improvement, and a shared sense of purpose are also needed for American companies to regain their competitiveness. Grayson and O'Dell also offer specific do's and don'ts for the federal government: Don't stoop to legislated protectionism. Do continue to privatize appropriate government services. Do reduce the federal budget deficit. They devote a chapter to a plea for the United States to upgrade its educational system to qualify its youth for the tasks and the thinking needed by business today and in the future.

American Business: A Two-Minute Warning presents a broad, impressive agenda. Its authors do not always fully explain the rationale behind the various elements, but to do so would have hampered the crisp, rather punchy flow of the book.

What Grayson and O'Dell don't address is the difficulty and importance of obtaining consensus at the national level so that the actions of the federal government will mesh with those of the private sector. For example, the educational issues the authors stress are remarkably divisive and personal. Can industry focus the attention of the American people on the education crisis so that the necessary changes are made? Traditionally, national commitment to action has come in the face of external challenges. Without a Japanese Sputnik to arouse American emotions, can the nation's resolve be galvanized into concerted action? The "Two-Minute Warning" in the title is taken from football. In that framework, perhaps the necessary direction-setting and motivation will fall to the coach of the team. The next President of the United States will have his work cut out for him.



PASSING THE BATON

Frederick C. Mosher, W. David Clinton, and Daniel G. Lang

PRESIDENTIAL TRANSITIONS AND FOREIGN AFFAIRS

Baton Rouge and London: Louisiana State University Press, 1987. 281 pp.

By Gregory D. Knight

This is the year for passing the baton. *Presidential Transitions and Foreign Affairs,* authored by Frederick C. Mosher, W. David Clinton, and Daniel G. Lang, examines the transfer of presidential power in hopes of "[promoting] understanding of the hazards and roadblocks so as to facilitate effective and responsible change." The book is an outgrowth of the authors' work with the Commission on Presidential Transitions and Foreign Policy, sponsored by the Miller Center of Public Affairs at the University of Virginia. The Commission's membership — and the book's acknowledgments — read like a pantheon of present and former U.S. policymakers.

The text is divided into two major sections: (1) general observations on the nature of presidential

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transitions since World War II and (2) summaries of the five interparty transitions of the postwar period, including case studies of two vexing foreign policy issues affecting each.

Considering the President's awesome role as both commander-in-chief of the armed forces and chief arbiter of foreign policy, outgoing and incoming administrations must work together to ensure a smooth transfer of power. Indeed, as the authors point out, every outgoing president since World War II has made the effort to instruct the president-elect on at least some aspects of the conduct of his foreign policy. The passage of the Presidential Transition Act of 1963 helped institutionalize the process by authorizing funds to assist both the outgoing and incoming administrations in the transition. Federal agencies, notably the Office of Management and Budget, and think tanks, such as the Brookings Institution, have also lent a hand in preparing incoming administrations for the rigors of international leadership.

These efforts notwithstanding, the authors demonstrate that smooth presidential transitions during the postwar period have proved more the exception than the rule. Any number of things can go wrong, and problems are particularly acute when the transition involves an interparty transfer of power. The Eisenhower-Kennedy transition, for example, suffered for lack of communication between the incumbent and the president-elect. Designated Secretary of State Dean Rusk did not learn of plans for the ill-fated Bay of Pigs operation until after the inauguration, even though the plan had been in the works for most of Eisenhower's last year in office. More recently, the Carter-Reagan transition suffered from the effects of vitriolic campaign rhetoric and the strains of the cresting hostage crisis.

In general, the authors of *Presidential Transitions and Foreign Affairs* place the blame for difficult transitions on the shoulders of incoming administrations. Newcomers, it seems, are slow to recognize the "enormity and intransigence" that characterize U.S. foreign policy issues and fail to acknowledge "the enduring bedrock of government and its commitments and problems at home and abroad." Partially as a result of this lack of familiarity, presidents-elect and their aides are prone to bureaucrat-bashing—haranguing career officials at the State Department, the Central Intelligence Agency, the Department of Defense, and other agencies for their ostensibly overcautious and inept management of U.S. foreign relations and national defense. Only with time, the authors say, do the newcomers learn that career officials "sort, shift, and draft most of the documents and oral information on which future decisions and actions will be based. They know where the bodies are buried. They know how to manipulate the throttles for action and for delay of action." It is not surprising, therefore, that one of the major recommendations made in 1987 by the Commission on Presidential Transitions and Foreign Policy was a greater respect for career foreign policy officials.

Whether, following this year's presidential election, the baton will be passed smoothly or mishandled will depend not just on which party wins, but on the attitude the incoming administration brings to the process. As *Presidential Transitions and Foreign Affairs* emphasizes, an effective transition will require "active collaboration in an extended task of immense complexity and delicacy."

MEANS OF INFLUENCE

Congressional Quarterly

THE WASHINGTON LOBBY, FIFTH EDITION

Washington, D.C.: Congressional Quarterly, 1987. 212 pp.

By Fuller Griffith

"Politics has got so expensive," Will Rogers said, "that it takes lots of money even to get beat with." Almost 60 years later, political campaigns are costlier than ever, and the price being paid may be in more than just dollars, given the impact of high-powered,

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high-stakes Washington lobbying on the political process. Congressional Quarterly's latest edition of *The Washington Lobby* gives the reader a valuable understanding of how interest groups in the 1980s are affecting almost every conceivable issue — though it probes this netherworld of public policy and private interest only up to a point.

Since the days when those seeking to curry favor with Washington's elected elite claimed the lobby of the old Willard Hotel, the goal of lobbyists has remained the same: influencing the Congress. For persons interested in the history of lobbying, as well as its current forms and techniques, *The Washington Lobby* is timely, readable, and informative, explaining how the emergence of political action committees (PACs), new technology, and mass-communication techniques have brought greater sophistication to the field. Several recent trends in lobbying are examined. These include:

- Coalitions in which blocs of lobbyists with similar interests band together for greater effectiveness.
- Direct lobbying, in which knowledge yields influence.
- Grass-roots techniques, in which constituent pressures are mobilized to flood Members of Congress with letters, mailgrams, and phone calls.
- Campaign support, most often through contributions of money.

The Washington Lobby points out that lobbyists exert pressure at any of several key points in the legislative and policy-making process. "If a group loses a round in Congress," the writers explain, "it can continue the fight in the agency charged with execution or in the courts. A year or two later, it can resume the struggle in Congress. The process sometimes continues indefinitely."

While noting the concerns of groups such as Common Cause that dependence on PAC money is making Members less responsive to constituent needs, *The Washington Lobby* relies on the views of political scientists who discount the influence of PAC money on the way Members vote. They argue that the evidence of ties between contributions and votes tends to be anecdotal, that correlations between PAC spending and legislative outcomes do not yield firm evidence of cause and effect because it is impossible to determine why a legislator votes one way or the other on a given bill, and that constituent pressures influence lawmakers more than PAC contributions do.

In its examination of the Arab and Israeli lobbies, the book takes up the role of money in lobbying. But the effectiveness of campaign contributions, as opposed to other lobbying techniques, is not always clear. Measured in terms of legislative outcomes, what is the impact of campaign contributions as opposed to information or grass-roots techniques? And to broaden the question, what is the effect of lobbying in general on the overall behavior of politicians and our system of representative government?

These matters are better dealt with in Elizabeth Drew's 1983 book, *Politics and Money: The New Road to Corruption.* Drew writes that the raising of money for political campaigns has heightened the influence of lobbyists, allowing them to bring new pressures to bear on the legislative system. At a time when politicians are preoccupied with raising money to stay in office, PACs, a ready source of funds, can exercise considerable leverage. The result, Drew believes, is homogenization of issues: Members who are concerned with fund-raising are less likely to take difficult or independent stances on the issues. Drew perceives a basic compromise of representative government, and concludes that the problem of money has to be addressed.

The evidence of links between PAC support and votes in the Congress may be anecdotal, but it can be compelling. For example, Drew writes that in 1982, used-car dealers were successful in getting the House and Senate to overturn a Federal Trade Commission (FTC) regulation that dealers list the known major defects of their automobiles. From 1974 to 1980, auto dealer campaign contributions rose from $14,000 to $675,000; 242 of the 286 House Members who voted to overturn the FTC regulation received a share. While the role of money in lobbying tends to be subtle, the conclusions one can draw from the numbers are hardly obscure.

In spite of its limitations, *The Washington Lobby* provides solid grounding in the basics of lobbying. Congressional Quarterly is known for the quality of its legislative research, and this work is no exception. It guides the reader through lobbying-reform efforts

in the 98th and 99th Congresses and, in a series of case studies, the journey and the fate of specific bills that lobbyists targeted for passage or defeat. For those whose interest in lobbying has been sparked by the attention the process and its participants have attracted recently, this book is a good introduction.

FAMILIAR FEARS

James T. Patterson

THE DREAD DISEASE: CANCER AND MODERN AMERICAN CULTURE

Cambridge, Massachusetts: Harvard University Press, 1987. 380 pp.

By Eleanor Liebman Johnson

With a title like *The Dread Disease* and a dust jacket enticement that begins: "Cancer is that 'loathsome beast, which seized upon the breast, drove its long claws into the surrounding tissues, derived its sustenance by sucking out the juices of its victims, and never even relaxed its hold in death,'" one knows this volume is not for the faint of heart, much less the casual reader.

ELEANOR LIEBMAN JOHNSON, author of The Indispensable Cancer Handbook *and* Recurrent Cancer, *is a social science analyst in GAO's General Government Division.*

James T. Patterson, a professor of history at Brown University, begins with President Grant's highly publicized, losing struggle with cancer in 1884–1885, and proceeds to trace the history of cancer and the American public's reaction to this disease over the next hundred years. He has brilliantly synthesized a vast quantity of material, presenting a decade-by-decade history, capped off by chapters analyzing the amazingly consistent patterns and trends that have run through a period known for enormous societal and scientific change. Patterson also provides a topically organized annotated bibliography and a carefully constructed index. In sum, this is must reading for anyone interested in medical history; medical ethnography; or the complex interplay of forces surrounding policy, propaganda, and funding issues that has always characterized the way this society has dealt with cancer.

What is most striking about this account is the persistence of cultural patterns in reaction to the disease despite all the changes that have taken place during that time. For example, Patterson notes that at the start of the century, the public was wary of doctors and their ability to treat cancer because of the degree of professional ignorance, the practice of "impersonal" medicine, high fees, and little support given to public health measures. He also talks about the "continuing gulf separating the claims of medical expertise from reality." Despite the growing faith in professional expertise, the author compiled a disturbingly similar litany of complaints against the medical profession in the 1970s.

Even with the exponential growth in scientific advances that characterize the past hundred years, certain issues seem to recur each decade: the phobia against cancer, the fear of contagion, a morbid fascination on the part of the media and the telling of celebrity cancer stories; unreliable statistics; surgery as the prime form of treatment; prevention and early detection as the primary ways to lower morbidity and mortality; and etiological arguments over possible causes (such as genetic predisposition, trauma, psychological stress, environmental carcinogens, diet, germs and viruses, and cell physiology) and single- versus multiple-cause theories. Doctors could not do much for most cancers during the 1880s — and they still can't. (See, for example, *Cancer Treatment 1975-85: The Use of Breakthrough Treatments for*

Seven Types of Cancer (GAO/PEMD 88-12BR, Jan. 25, 1988)). Guiding the reader decade by decade through the past century, Patterson documents the persistence of these issues and themes.

However grim its subject, *The Dread Disease* is not without humor. For instance, Patterson relates some of the slightly off-beat theories of the powerful regarding cancer's causes and cures. President Taft, for one, thought that trout-filled waters caused cancer and called on the Congress to appropriate $50,000 to support research to investigate this idea, which was actually proposed by Dr. R. Gaylord, Director of the New York State Institute for the Study of Malignant Disease, and was endorsed by *The New York Times.* (The Congress, by the way, referred the proposal to the Committee on Fisheries, where it died.)

The author relies heavily on *The New York Times* as his source of stories in the popular press. To get the feel not just of the content but the flavor of the popular press over the past century, *The New York Times* might not be the most representative choice. But in any work of this scope, it is possible to find areas in which improvements might be made. For instance, although Patterson notes many of the links between historical trends, he omits others. One is the connection between work-related tumors, environmental carcinogens, and other focuses on reforms in the workplace in the 1920s (such as working hours, ventilation, lighting, child labor, and hygiene). But such shortcomings are truly minor. *The Dread Disease* is a mandatory addition to any comprehensive library on cancer or health in America. •

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