MAKING SMART CUTS
Lessons from the 1990s Budget Front
The Partnership for Public Service is a nonpartisan, nonprofit organization that works to revitalize the federal government by inspiring a new generation to serve and by transforming the way government works.

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Providing consulting services in strategy, operations, organization and change, and information technology, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.
As the nation confronts historic deficits and major economic decline, our
government leaders will have to make a series of difficult choices: deciding what
is important, what is expendable, which programs make effective use of taxpayer
dollars—and which do not—and how best to achieve savings based on sound public
policy. They will have to eliminate wasteful and duplicative spending, rethink the
way they do business and become more accountable for what is spent.

As this process unfolds, we must not repeat the mistakes of the past by making
arbitrary or across-the-board cutbacks, whether in programs, services or staffing,
that might save money in the short term, but do great damage in the long run by
creating a less effective government. We need to make the hard choices now.

Hopefully, agencies will see their current budget challenges as an opportunity to
focus on their mission and what it costs to accomplish it, reassess their priorities,
invest in what is working and reorganize and restructure operations and programs
to improve service delivery to the public.

This report examines some of the lessons learned from government downsizing
during the 1990s—the successes and the failures—and offers a guide for
policymakers and agency leaders as they confront the current economic crisis. It
is our hope that this report serves as a resource for them as they make difficult
fiscal decisions that can impact our government, and all of us, for years to come.

Sincerely,

Max Stier
President and CEO
Partnership for Public Service

Jack Mayer
Executive Vice President
Booz Allen Hamilton
Late one night in 1993, Vice President Al Gore chose to publicize the Clinton administration’s efforts on “reinventing government” by smashing apart an ashtray on the “Late Show with David Letterman.” Wearing safety glasses and carrying a hammer, Gore took the bully pulpit that night to highlight overregulation in federal procurement rules, which at the time required that the ashtray break “into a small number of irregularly shaped pieces, no greater than 35.” The gimmick got a laugh, but the reinvention plan it promoted was a serious effort to reduce deficit spending and reform government, and launched an era of major budget cuts and changes to how agencies carried out their functions.

Nearly two decades later, the country again is facing a dire financial situation. Congress and the administration have promised to rein in the nation’s $14.3 trillion dollar debt, prompting large budget cuts. If not implemented carefully, the cuts could have widespread impact on agencies’ ability to carry out their statutory functions and provide services to the public. But this is uncharted territory for many agency executives, because few of them were in place during other periods of significant budget cuts and downsizing.

Congress is looking for quick action. Agencies that wait to see what lawmakers do may have little time to plan where and how to absorb spending cuts, which could be draconian for some of them, particularly those not involved in national or homeland security.

Therefore, it’s important to consider what happened in the 1990s as agencies respond to the current situation. The circumstances leading up to reinvention and Gore’s television appearance began in the late 1980s, when Congress passed the law known as Gramm-Rudman to stem the growing federal deficit. The law imposed spending caps and automatic spending cuts known as sequesters, but it ultimately failed to prevent large deficits and Congress avoided the mandated cuts when these cuts were deemed politically unacceptable. The law’s failure set the stage for the National Performance Review (NPR) after the 1992 presidential election. And, after the 1994 elections, new Republican majorities in Congress undertook large-scale, government-wide reform that included major budget cuts and significant reductions in the number of federal employees.

The NPR, an eight-year initiative created by President Clinton early in his administration, and headed by Gore, was far reaching, setting goals not only to cut the size of government but also to improve it. The performance review called for government to remove unnecessary regulation, and as a result, simplify burdensome processes.
and incorporate some private-sector methods. Federal employees were empowered to suggest improvements and agencies were encouraged to use new technologies to improve service to the American people. In 1994, Congress expanded on NPR’s aims, setting an even higher goal for federal personnel cuts and program eliminations. The Workforce Restructuring Act called for reducing full-time equivalent positions by 12 percent over five years, which amounted to 272,900 employees, a higher number than NPR’s goal. The Department of Defense already started down this path with the end of the Cold War, cutting military and civilian strength by several hundred thousand.

The success of the legislative initiatives and the performance review have been analyzed and debated. Proponents say that the NPR achieved many goals and changed the face of government, while critics point out that some successes were not long-lasting, actual cost savings are difficult to calculate and verify, and some agencies and federal occupations are still feeling the negative effects today.

Since then, the world has grown increasingly complex and the government faces the demanding task of serving the public with fewer funds, while also transforming itself to meet domestic needs and ever-changing international challenges.

Despite the additional complexities the nation is confronting now, the 1990s offer valuable lessons for responding to budget cuts and provides examples on how agencies handled funding reductions. The Partnership for Public Service, with Booz Allen Hamilton, gathered those lessons by interviewing more than 30 current and former senior federal officials, academics and other public-policy experts for their insights into how agencies responded to the steep budget cuts of the 1990s. By documenting their experiences and offering direction for leaders facing similar challenges today, we shine a spotlight on the more effective strategies and conditions for success.

Our interviewees outlined eight strategies used during the previous budget-cutting era of the 1990s, and shared insights on the advantages and disadvantages of each. However, they cautioned that none of the strategies would be successful in isolation, and they identified four cross-cutting conditions integral to the success of any downsizing effort. First and foremost, they cited the need for top-level leadership willing to make difficult decisions and present a vision to employees and key stakeholders. Second, they noted that the most successful agencies planned ahead and were prepared for how to respond, envisioning new ways of doing their work. Third, those who have experience with budget cuts recommend that leaders decide for their individual agencies how best to apply a combination of eight cost-cutting strategies we identify below. And finally, most emphasized the need for a thoughtful change-management strategy that would mitigate the adverse effect of budget cuts on citizens, federal employees and contractors.

THE EIGHT BUDGET REDUCTION STRATEGIES AGENCIES EMPLOYED MOST OFTEN IN THE 1990S:

**Across-the-board cuts**, which reduce budgets, programs or functions by an equal percentage, are easy for leaders to implement since they apply to all alike, but they ignore differences in priority, performance, or efficiency.

**Programmatic cuts**, which reduce programs or functions according to relative importance or efficiency, may allow agencies to protect those programs that are the highest priority or achieving the best results, but they require difficult decisions that may be opposed by affected stakeholders.

**Decreasing administrative costs**, which can reduce overhead, but may lead to a weakening over time of managerial capacity or critical support functions, such as human resources and financial management.

**Personnel reductions**, which can contribute to major cost-savings through attrition, forced layoffs, or both, but can also create severe skills imbalances, degrade morale and “hollow out” organizational units.

**Consolidating or centralizing functions**, which can lead to greater efficiency, but may degrade responsiveness or citizen and customer service.

**Reengineering**, which can improve service quality and speed but may require significant upfront resources, particularly if technology is employed, as is often recommended.

**Investing in information technology (IT)**, which can significantly increase productivity and efficiency, but requires significant initial investment and may result in unanticipated implementation costs.

**Outsourcing**, which assigns functions or tasks to external organizations, when allowed, ideally at a lower cost, but requires oversight by skilled government personnel and may not achieve expected savings.
Those we interviewed also suggested that budget cuts can present a valuable opportunity for reform and that if planned and implemented properly can lead to a stronger, better government.

With that in mind, we recommend:

**The president and congress should communicate a clear vision for what the federal government should deliver, and how it can serve citizens well, operate efficiently and effectively and still reach deficit-reduction goals.** The president also should designate a high-level official to lead the cost-savings effort, establish strategic priorities to guide reductions and communicate those priorities to agency leaders and the American people, making sure they know and understand what his plan entails. He should also establish measurable goals that include mechanisms for accountability and transparency.

- New or updated workforce and downsizing strategies should be considered, along with better recruiting and retention tools.
- OPM should provide guidance and support to agencies that choose to downsize employees, offering direction and assistance, but also allowing agencies to make decisions that will be best for their own needs.

**Federal agencies should think about long-term consequences of cuts and systematically reexamine missions and functions, determining how to achieve them in the most cost-effective way.** Leaders should take into account the characteristics, shape, size and skill composition of the workforce and create an environment that welcomes innovation and empowers employees to contribute new ideas on how to save money or improve business processes.

- Use the best data available on high-priority goals to understand program strengths and weaknesses and guide decision-making.

**Congress should set cost-reduction targets and allow agencies flexibility in determining the best way to meet those targets.** Studies and experience show conclusively that better results are achieved when leaders make cuts strategically, rather than slicing a little from everywhere. The potential negative effects of substantial across-the-board cuts can be particularly severe on the composition of an agency’s workforce, which could lose skills and diversity. Across-the-board cuts also tend to penalize the most efficient agencies. A better approach is to allow agencies to identify how to realize savings, based on strategic plans, performance measures and a clear understanding of each agency’s responsibilities and priorities.

- Congress should also use its oversight role to make sure agencies consider mission, employees, and customer impact when making cuts.

**Agencies leaders should consider alternative ways of delivering services and performing functions, not just doing the same things the same way, with fewer people.** They also need to plan and communicate with all stakeholders and develop a strategy for routinely exchanging important information with employees, central agencies, Congress and citizens. This is especially critical for the federal workforce. Government requires good people and a strategy for retaining top performers. Many employees will need to learn how to perform different functions or carry out new responsibilities. They will need supportive leadership to carry them through these trying times, as well as the tools and technologies to do their work efficiently.

The above strategies and recommendations are particularly relevant in light of recent Office of Management and Budget (OMB) guidance to federal agencies requesting them to submit two different fiscal 2013 budget proposals: one that is 5 percent lower than fiscal 2011 spending levels, and one that is 10 percent lower. With the focus on investing in priority needs and improving operational efficiency without resorting to across-the-board reductions, the guidance thus far comports with the conclusions and recommendations reached in this report.
Budget cuts are here. The cuts that are emerging from the stormy deficit debates that raged in Washington for months in 2011, in an attempt to set the nation back on a path to fiscal health, are sure to affect federal agencies and the people they serve and employ for years to come. Leaders will have to figure out how to continue to provide services and sustain operations in an era of major budget cuts. Billions of dollars in cuts to programs have already been agreed to, ranging from block grants for housing rehabilitation to state-level law enforcement assistance to Department of Veterans Affairs information technology contracts and construction projects. Additional cuts—some across the board, some surgical, some potentially deep and indiscriminate—will affect virtually every agency.

But agency leaders do not have to start from square one to figure out what to do. Many former top federal officials had to confront deep cuts to their budgets, most notably during the 1990s, when aggressive deficit-reduction efforts and the post-Cold War peace dividend combined to drive cuts that were historic at the time. Those officials offer a wealth of experience when it comes to budget cutting, with lessons regarding the various types of strategies they employed and what happened as a result.

The Partnership for Public Service, with Booz Allen Hamilton, interviewed more than 30 current and former senior federal officials and government experts, on how federal agencies responded to past budget cuts. Their insights and experiences, presented here, are useful for leaders now facing similar challenges, and can assist agencies and members of Congress develop and implement effective strategies as they navigate the difficult path ahead.

There are no silver bullets, only hard choices
A simple route to major cost-cutting doesn’t exist. Agency leaders have to determine how their specific organizations can achieve the necessary cuts and how those cuts will impact mission and results. That takes time and a good strategy. “It is difficult to trim or eliminate programs or functions and shrink the number of employees quickly and also do so in a smart way,” said Eileen Harrington, a leader at the Federal Trade Commission (FTC) in the 1990s and currently its executive director.

Potential negative effects of major budget cuts can be wide and varied. Not only could they make the nation less secure, but they could lead to major backlogs in programs and agencies, leave the public with limited or no access to programs, benefits or services and lower productivity levels, according to interviews with current and former federal leaders.

But the dire budget situation also may present a rare opportunity for leaders to make changes that weren’t politically palatable before or even possible during normal times. The situation presents a chance to rethink and restructure agency operations to serve the public more effectively.

While large budget cuts can be destabilizing, they also can instill a sense of urgency. How to forge ahead with
fewer resources and possibly an altered mission becomes, in essence, a change-management issue. It takes strong leadership to overcome the major difficulties presented by reduced funding and to seize the opportunity to perform important tasks in a more streamlined and innovative way, often with fewer people. “Downsizing is an opportunity to get it right and to help you rethink structure or staffing,” said John Palguta formerly director of policy and evaluation at the Merit Systems Protection Board, now vice president of policy with the Partnership for Public Service. “The ability to reshape the organization is very important.”

Yet, as public concern with the national debt and deficit grows, Congress and the president seem to have a sole focus on saving money rather than rethinking on how the mission of government can be achieved. The current administration has undertaken a number of management-improvement and cost-saving initiatives, such as consolidating data centers or improving customer service with technology. However, these individual initiatives do not appear to be linked to an overarching vision of how to serve the American people more effectively and efficiently with significantly fewer resources. And, with a deficit-reduction trigger looming, there is little time to consider the effects of deep budget cuts or how those cuts can be used to improve program focus, outcomes and efficiency, according to officials we interviewed.

Decision-makers at the agency level also may have little time to plan how to absorb cuts, which could be draconian for some. “Reshaping the workforce is not something you do in three months,” said Mike Brostek, director of strategic issues at GAO. “If you haven’t been thinking about critical jobs, you are likely not to do too well.” Moreover, few agency leaders have experience dealing with major budget cuts or workforce reductions, nor do strapped chief information officers and HR offices necessarily have the experience or capacity to assist in developing plans for doing so intelligently. Even at agencies where leaders do have experience operating with a drastically reduced budget, government systems and structures are not always agile enough to adapt easily to changes that result from funding cuts.

OMB recently issued guidance to federal agencies that aligns with many of our conclusions and recommendations. In requesting that agencies submit fiscal 2013 budget requests that are between 5 percent and 10 percent lower than fiscal 2011 spending levels, OMB requested that federal managers focus on investing in priority needs and improving operational efficiency without resorting to across-the-board reductions.

**Is history repeating itself?**

Understanding what has happened during other times of fiscal stress will benefit today’s leaders.

- What were the conditions and drivers that led to the cuts?
- What strategies were used and to what effect?
- What parallels might be drawn between the past and what is happening today?

Apprehension over a burgeoning federal deficit is not new. Although the size of the federal deficit in 2011 may be historic, the nation was gripped by a similar challenge in the 1990s, when budgets sustained major cuts as Congress and the administration continued efforts begun in the mid-to-late 1980s to lower the federal deficit.

The “Balanced Budget and Emergency Deficit Control Act,” passed in the late 1980s and commonly referred to as Gramm-Rudman, imposed spending caps and automatic spending cuts, or seques-
tions beginning in 1995, including bills to eliminate entire cabinet departments and consolidate their functions within other government agencies.

As the NPR evolved, its focus shifted, leading to a decision in 1998 to rename it the National Partnership for Reinventing Government. The new label highlighted its objectives as a reform effort to improve government. Although the NPR and reinvention were government-wide initiatives, cuts were not equal across agencies. The federal civilian workforce ended up being reduced by more than even the NPR or the Workforce Restructuring Act called for—approximately 300,000 people. DOD absorbed by far the greatest percentage of cuts. With so many government employees gone, agencies increasingly began to turn to contractors to get some of their work done. As in the 1990s, many of today’s proposed budget cuts target the overall size of the federal workforce. Some would, for example, reduce the size of the workforce by 10 percent or limit the replacement of departing employees to one new employee hired for every two or three departures. Current proposals also call for reducing or freezing federal employees’ pay and benefits.

The executive branch civilian workforce has actually remained relatively stable since the 1960s, at slightly more than two million civilian employees, not counting the U.S. Postal Service, although it serves roughly 110 million more Americans. Federal spending and the scope and complexity of the government, however, have grown significantly, due to the shift in emphasis to areas of national security, homeland security, veterans care and justice since the September 11 terrorist attacks. Civilian employment grew by 22 percent in security agencies from 2001 to 2010 and fell by 4 percent in non-security agencies.1

The budget challenges facing Congress and the administration are enormous. Understanding the similarities and differences between the 1990s and today can help decision-makers as they weigh their options (table 1).

### Table 1

**Similarities and differences between the 1990s and today**

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<th>Conditions</th>
<th>1990s</th>
<th>TODAY</th>
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<td>The economy was stable and growing after recovering from a relatively mild recession.</td>
<td>Large federal deficits and attempts to balance the federal budget drove substantial across-the-board budget cuts and workforce reductions.</td>
<td>The nation’s economy remains stagnant following the worst economic downturn in decades and despite a massive economic stimulus intended to reverse it. Attempts to reduce large federal deficits and the federal debt are likely to drive across-the-board budget cuts and workforce reductions.</td>
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<td>With the brief exception of the 1991 Gulf War, it was a period of relative post-Cold War peace, permitting major reductions in defense and related spending.</td>
<td>With 9/11 and wars in Iraq and Afghanistan, the nation’s focus turned to national and homeland security, with corresponding increases in defense and related spending.</td>
<td>Long-term continuing resolutions are now the rule rather than exception, making it difficult for agencies to plan and execute programs.</td>
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<tr>
<td>With a focus on reduced spending, Congress struggled to pass annual appropriations bills, sometimes resorting to continuing resolutions to fund government, making it difficult for agencies to plan and execute programs.</td>
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<th>Relations between the administration and Congress</th>
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<td>Change in party leadership in the House ushered in periods of impasse between the executive and legislative branches.</td>
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<td>Lack of compromise and agreement after contentious debate brought the country to the brink of government shutdown in 2011.</td>
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<td>After contentious debate, both branches and political parties are working on how to reduce the federal deficit and the nation’s debt, but there is no consensus on how to do so.</td>
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STRATEGIES FOR MAKING SMART CUTS

- Across-the-Board Cuts
- Programmatic Cuts
- Decreasing Administrative Costs
- Personelle Reductions
- Consolidating or Centralizing Functions
- Reengineering
- Investing in Information Technology (IT)
- Outsourcing

10  PARTNERSHIP FOR PUBLIC SERVICE  |  BOOZ ALLEN HAMILTON
Although the senior federal leaders and government experts we interviewed identified eight strategies agencies used most often to implement the 1990s budget cuts, they emphasized that none of them could have been successful unless certain conditions were met. The president, Congress and agencies needed to provide leadership; plan ahead; deploy a range of strategies such as consolidation, reengineering and cutting programs; and take a change-management approach to execution.

FOUR CONDITIONS ESSENTIAL FOR SUCCESS IN THE 1990S

ONE
Top-level leadership made all the difference
It was vital that then-President Bill Clinton set the goals for, and actively supported, the National Performance Review. There was no question that he backed the NPR and the reinvention initiative, and expected agency leaders to provide the same strong leadership in their agencies. Vice President Gore’s leadership and outreach to the American public and business and industry leaders helped to convey the president’s goals and engage the public around them and this cascaded down through cabinet officials and the senior ranks at agencies. Business leaders offered insights and willingly shared best practices, which strengthened the approaches of the NPR.

Overall, the president’s vision was about improving government and using federal resources to do more for the American people. It was not solely about cutting government and services. In addition, agency leaders had clear goals to follow and were given flexibility to consider factors unique to their agencies. Their difficult job was to make complex decisions on how to implement cuts, streamline and modernize processes, and downsize their workforce, in a manner that would strengthen their agencies and enable their employees to continue to accomplish their missions.

TWO
Planning was crucial
The most successful agencies planned ahead and were prepared for cuts. When determining what they would trim, they considered new ways of meeting their responsibilities, factoring in whether their operations needed to change or could improve with the use of new technologies. Agencies that had planned ahead could often avoid across-the-board cuts and other actions that were easy to implement but did not produce the best results.
They emerged better prepared for upcoming challenges. “When the pressure is on and time is short, too many agencies find they must resort to the easiest solution, which often is blanket cuts,” said Harrington, who has weathered budget cutting at both the FTC and the Small Business Administration (SBA).

The Bureau of Labor Statistics was a prime example of the benefits of being ready in advance. The agency knew the relative costs of each of its product lines, allowing it to make informed decisions on what to cut. Similarly, DOD went to extensive lengths to examine comprehensively how it would meet the post-Cold War challenge of providing security for the United States with significantly reduced budget and personnel after world circumstances had changed, leading to changes in security needs.

**THREE**

Multiple strategies are available for implementing budget cuts, and using them in tandem was more effective than using one alone

Agencies had options to use personnel reductions, reengineering, information technology and other approaches to respond to budget cuts. Agencies usually needed to use more than one option to absorb significant budget cuts, sometimes simultaneously. A large agency, for example, may have offered several buyouts and reductions in force (RIF) and selectively frozen hiring to get numbers down to specified employee ceilings. DOD found that it had to use different strategies in different ways and often work closely with Congress to carry them out, according to Ron Sanders, former director of civilian personnel policy at DOD and currently senior executive advisor at Booz Allen Hamilton. It meant considering a range of resources and approaches—from centralizing functions to automating processes to contracting out and refocusing mission.

**FOUR**

A change-management approach was essential

Leaders who used a change-management approach by providing a vision, establishing clear priorities and measuring performance found more success adjusting to budget cuts.

“Government doesn’t use change management as a discipline but every successful business does, said Stan Soloway, former DOD deputy undersecretary for acquisition reform. Leaders frequently highlighted the critical importance of working closely with their agencies’ stakeholders, a change-management component.

“We put in place a communications protocol and designed and implemented a toolkit which was a road map for all levels of managers and leaders to share information with staff,” said Dave Mader, assistant deputy commissioner at the Internal Revenue Service (IRS) in the 1990s and currently a vice president at Booz Allen Hamilton. “What we did differently … was continuously communicate with staff, almost weekly, to tell them where things were in the process. There needed to be a continuous dialogue and communication even if you did have an answer and were still working an issue.”

Charles Rossotti, former IRS commissioner seconded that conclusion. “It’s not a one-way process where you are trying to share solutions with people in order to get buy in,” he said. “You need two-way communications. Staff need and want to be heard.”

For federal agencies, these stakeholders include, at a minimum, customers, employees and Congress. Successful agencies minimized the negative impact on employee morale, engaged employees in decisions when implementing big changes and kept them in the information loop. “Sometimes how you do things is just as important as what you do,” said Alan Balutis, former chief information officer at the Department of Commerce. “Things can be done with communication, collaboration and care.”

These cross-cutting conditions created the environment necessary for agencies to successfully implement several existing strategies for adjusting agency processes, innovating and cutting programs, people or functions. In the next section, we detail eight strategies that assisted agencies with their activities as they went about making the cuts and changes necessary to continue to operate with smaller budgets.
Decision-makers may view it as easy and equitable to cut a percentage of programs, functions, people or systems across the board. In some ways, when an entire agency or department is “in the same boat,” employees may feel inclined to work together to tackle the challenge of getting more work done with fewer resources. This could lead to more collaboration, innovation and employee engagement and lead to incremental efficiencies.

But this approach also can delay tough decisions on what programs and functions to cut and which priorities to fund. Some functions are high priority and should be preserved even under duress. These cuts also are inherently unfair to well-run agencies that are so efficient that they may end up slicing “muscle and bone” when forced to trim. “We know that across-the-board cuts are not an intelligent approach,” said David Walker, former comptroller general of the Government Accountability Office (GAO). “Some actions and functions are core.”

Interestingly, most agencies have learned to live with small across-the-board cuts over the years. Unfunded employee pay increases each year are one example. These become unfunded mandates and the money to pay for them has to come from somewhere. Agencies have managed by postponing purchases, the hiring of new employees and other agency spending for short periods. But agency officials then must identify other cuts or savings within their budgets. Agencies also face routine increases in rent, utilities, travel and other basic operational costs. This budgetary erosion has been dubbed, “death by a thousand cuts.”
Cuts over multiple years also can end up weakening agencies’ ability to carry out functions, especially if the tools and technologies employees need get defunded as well. This can contribute to decreased efficiency and capacity and lowered employee productivity as morale sinks and workers try to adjust to each new round of reductions.

“Cutting 10 percent of employees is arbitrary. Those agencies that are a bit bloated will be successful while those that manage well are penalized”

— John Koskinen
Former Deputy Director for Management
OMB

ADVANTAGES

- Easy for agency leaders to implement as they don’t require tough decisions on what or where to cut.
- Perceived as equitable by agency personnel, since few distinctions are made about who to cut and by how much.
- Can drive incremental improvements in efficiency.
- Can be effective with small reductions or one-time cuts that are relatively easy to absorb.

DISADVANTAGES

- Allows leaders to postpone hard decisions.
- Delays major improvements, even though incremental efficiencies may be realized.
- Disadvantages those streamlined, well-managed agencies and programs that don’t have fat to cut.
- Can hollow out some missions and functions if percentage cuts, even small ones, continue for an extended period.

IN FOCUS

With the end of the Cold War, the DOD entered into a period of sizable budget cuts, a number of which were across the board. GAO, reporting on the potential negative effect of these multi-year, across-the-board reductions in a 1996 report, found that military readiness had not yet been negatively affected at the installations they visited. But that was because other resources had been shifted to ensure that the priority areas of military training and maintenance of mission-essential equipment were sustained. However, Army and Air Force officials highlighted the adverse impact reductions had on civilian functions and services. Specifically, repair time increased for non-critical equipment, recreational and family services were decreased and civilian workers’ morale declined due to longer working hours, limited career and promotion opportunities and job insecurity. The military services noted that while they had strategic guidelines for downsizing military resources, they did not have similar guidance for strategically downsizing civilian functions. Some functions that civilians had performed were outsourced. Overall, military officials expressed concern that future civilian reductions could unfavorably affect military readiness.

Programmatic cuts are the flip side of across-the-board cuts. A strategy for cutting requires having the data and leadership to differentiate between worthy programs and well-intentioned ones that aren’t working well or are of lower priority. They can be one of the most difficult cost-cutting strategies to implement. Often, there are no clear, common metrics or differentiators that permit an apples-to-apples comparison. Even with objective criteria, leaders must make hard judgments and there may be winners and losers. And, since each program has supporters either on Capitol Hill, in industry or on Main Street, the decision to discontinue any program can meet resistance. This is one of the reasons that this strategy is relatively infrequently employed even when it might make sense.

Past criteria for cutting programs has included how effective or efficient programs were, how strategically aligned they were with agency or national goals and whether they overlapped with or duplicated other programs. A recent GAO report documenting dozens of overlapping and duplicative government programs underscores the challenges associated with a programmatic approach to budget cutting. Even though the elimination or consolidation of those duplicative programs would save hundreds of millions, the redundancies exist in multiple departments and agencies with multiple constituencies, and those agencies and departments answer to numerous appropriations and oversight committees on Capitol Hill.

One type of programmatic change made in the mid-1990s included shifting responsibilities to other agencies. General Services Admin-
Advantages

- Allows agencies to refocus attention and resources on priorities by cutting or de-emphasizing programs deemed lower priority or less effective.
- Enables agencies to preserve and protect the budgets of their most effective, efficient programs.
- Can help identify and resolve issues related to conflicting or overlapping programs or functional responsibilities resulting from more than one agency performing the same functions, leading to more streamlined, cost-effective and efficient operations.

Disadvantages

- Often requires difficult decisions about what to fund and what not to fund.
- May trigger resistance from citizens, states, workers and companies that benefit from programs slated for cuts, and sometimes requires congressional approval, which is not always easy to obtain.
- Can be difficult and time-consuming to implement, depending on the nature and magnitude of the program.
- May reduce services to internal or external customers, or require agencies to introduce new ways to meet their needs; customers also may need to transition to new ways of doing business.

One of the most dramatic programmatic cuts occurred in 1995 when the Office of Technology Assessment, a congressional agency established in 1972, was “defunded” during the appropriations process. OTA’s purpose was to provide members of Congress and congressional committees with objective and authoritative analysis of complex scientific and technical issues. Since the early 1980s, critics had called it an unnecessary agency that duplicated government work done elsewhere. At the time it was defunded, OTA had a full-time staff of 143 people and an annual budget of $21.9 million.

DOD offers another example. After the Cold War officially ended, the department had to fundamentally rethink the roles and missions of the military services, their force structure, major weapons system procurements in the pipeline and its civilian and industrial support structure. In 1990 to 1991, the department undertook a comprehensive Defense Management Review that put everything from planned procurements to overhead functions under a microscope and found substantial savings. The savings were not without controversy. Many of them had to be revisited and revalidated in the first year of the Clinton administration, when then-Secretary Les Aspin conducted a comprehensive “bottom-up” review of the department’s program budget.

NASA also offers an example of the difficult decisions associated with a programmatic approach to cuts. Faced with the dilemma of declining budgets and cost overruns for the International Space Station, NASA had to make the difficult decision to delay, curtail or cancel a number of scientific programs, each valuable in its own right but deemed less important in the relative scheme of things. These decisions drew fire and forced a fundamental debate over the nation’s space program, but ultimately hard choices were required.

In Focus

The BLS offers an example of a programmatic approach that proved successful. Faced with cuts that could have been spread evenly across the agency, the Bureau’s leaders determined the agency’s fundamental value to the American taxpayer was found in the precision and integrity of its data and survey results. Those leaders decided it was better to sacrifice some of the reports it produced to preserve the integrity and accuracy of others. BLS had devised a performance management and cost accounting system that allowed it to calculate what each of its product lines cost to operate, and officials used it to decide which of their surveys, reports, and publications and database products to keep and which to cut. For example, they identified the Consumer Price Index to be of critical importance to businesses and citizens across the country and chose to cut other products as a way to preserve its budget and the quality and timeliness of the remaining products.


Cutting overhead was one of the NPR centerpiece initiatives. Among other things, the leaders determined that the executive branch had become top heavy and they decided on an increase in the federal government’s supervisory ratio. The objective was to force reductions in supervisory or managerial ranks. While it did so on paper, many agencies, such as the Social Security Administration (SSA) and GSA, simply reclassified supervisors as team leaders, which didn’t count against the ratio target.

Another cost-cutting focus of the NPR was on reducing the size, cost and bureaucracy of selected administrative functions, such as HR, procurement, information technology and budgeting. These cuts were to be complemented by better technology and fewer rules and by delegating authorities to others. However, this negatively affected the agencies’ administrative functions in ways that persist today, according Irene Rubin, professor, at the Department of Public Administration, Northern Illinois University. She and other leaders we interviewed said that the changes weakened the acquisition workforce, leaving it with fewer employees, a lower overall skill level, and a degraded ability to oversee contracts and contractors.

To reduce overhead costs, agency leaders often tighten their belts by cutting back on training, travel, printing or other costs deemed low priority or unnecessary. For example, NASA saved on employee flights to distant locations by conducting meetings via videoconferencing. “You usually go

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3 Rubin, M@n@gement.
to the easy things first to make cuts—training, travel and supplies,” said Mader.

These cuts can achieve a measure of short-term savings, but he cautioned that they can have long-term consequences. Large cutbacks in training left employees either unprepared to do their jobs or without the skills to do them well. “You can’t gut the training budget and expect your workforce to deliver satisfactory services in the future,” the IRS’ Mader said. He noted that in the late 1990s the IRS had to make significant investments in training to “re-skill” its workforce and recover from cuts made in previous years that ultimately had a demonstrable adverse impact on agency performance.

The government’s HR workforce continues to feel the effects of cuts made during the NPR years. Weaknesses in the current HR workforce often are also attributed to the National Performance Review’s de-emphasis of the HR function, its decentralization by OPM and the lack of importance placed upon the discipline for a number of years. The resulting workforce is focused on carrying out simple transactions and is ill-prepared to help agency leaders meet the strategic hiring, performance and retention challenges agencies now needed, according to leaders we interviewed and senior officials attending a recent symposium on the federal HR workforce.4

ADVANTAGES

- Frees up scarce resources to focus on accomplishing mission.
- Can force cost-saving efficiencies in overhead functions.
- Can decrease the number of managerial layers.
- Can engage employees in identifying unnecessary costs, empowering them to make improvements for saving time and money and increasing safety.
- Prompts a focused reexamination of administrative processes.

DISADVANTAGES

- May weaken an organization’s leadership and managerial capacity and harm ability to accomplish mission.
- Can have significant adverse impact over the long-term or give rise to shadow staffs, when indiscriminate cuts are made in critical support and oversight functions such as procurement and HR.

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IN FOCUS

The NPR’s focus on reducing positions of “management control” identified acquisition positions as overly controlled and wedded to outdated practices. Acting on the NPR’s concerns, the Office of Federal Procurement Policy spurred procurement reform and achieved a major success by facilitating the adoption of a commonly used commercial practice—charge cards—saving the paper processes involved in purchase orders. This reform was accompanied by cuts in the acquisition workforce across government, especially in DOD, over several years.

However, repeated staff reductions weakened the acquisition workforce, leaving it with lower skill levels than were needed in subsequent years, despite the benefits of reengineered processes. GSA, for example, met workload needs by moving unqualified people into contracting positions, training them for their new roles. That worked for some agencies, but not others, creating long-term problems, according to Lovelace.

DOD’s acquisition workforce reduction goals were established through the defense appropriations process. Although DOD initially was able to handle its procurement demands despite the cuts, by the late 1990s the agency found it had lost seasoned, experienced acquisition professionals to attrition and was increasingly unprepared for the complexity of major procurements. “The mistake we all made at the time was overestimating the capacity of the workforce to do the acquisitions that were coming,” said Soloway.

Recently, many efforts have been undertaken to address the lingering impact of the 1990s downsizing and to strengthen the acquisition workforce. Mandatory education requirements have been set for contract specialist positions. In addition, the National Defense Authorization Act of 2009 required the development of an Acquisition Workforce Development Strategic Plan by OMB’s Office of Federal Procurement Policy to guide the growth in capacity of the civilian (non-defense agency) acquisition workforce over the five years spanning 2010 to 2014.

Personnel costs, including employee salaries and benefits, are a substantial portion of an agency’s budget, so personnel reductions can achieve major savings quickly. Agencies have two key strategies for reducing the size of their workforce: They can lay off employees involuntarily, through complex, seniority-based reduction-in-force procedures. Or, they can use voluntary attrition, augmented by early retirement authority, monetary or other incentives to leave and hiring freezes to bring down the size of their workforce. Early retirement and incentives to leave can be offered to eligible employees or they can be limited to target employees in specific job categories, pay grades or locations. Most agencies usually attempt to meet reduction objectives through voluntary means, with RIF seen as a last resort, according to those we interviewed.

Our interviewees also noted the limitations in relying on voluntary attrition and hiring freezes. Agencies have little control over who leaves, and employees with high-demand skills are most likely to have alternative employment opportunities. Targeted early retirement authority and incentives can help influence who goes and who stays. But this comes at a time when agency funding has been reduced, money is scarce and buyouts have become devalued, since the maximum incentive of $25,000 before taxes has remained largely unchanged since authority was first granted. The efficacy of these tools also varies depending on the job mar-

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5 Voluntary Early Retirement Authority, or VERA, allows employees to retire at a younger age and/or with fewer service requirements than normal, with a reduced annuity; Voluntary Separation Incentive Program, VSIP, offers financial incentives to eligible employees who voluntarily leave through resignation, optional retirement or early retirement (VERA).
When there is high unemployment and a weak, uncertain economy, fewer people are likely to leave their federal jobs, no matter the incentive. “Hiring freezes are the equivalent of cutbacks,” said OMB’s Koskinen.

Hiring freezes also close off the pipeline of entry level employees moving up through the ranks and mid-level employees often lost opportunities to grow their supervisory skills by not having junior employees to supervise.

By 2004, less than 4 percent of NASA’s employees were under age 30, down from about 18 percent in 1989, according to Toni Dawsey, NASA’s chief human capital officer in the mid-2000s. Meanwhile, technology had been changing rapidly and novel approaches and ideas, often contributed by younger employees, were needed to meet NASA’s changing mission. “When we were going to the moon, we could use tried-and-true propulsion systems,” said Dawsey. “But when you are doing something different, it made sense to get newly educated employees.”

Many agencies also found they lost their recruiting know-how and university connections as a result of hiring freezes, making them less competitive with the private sector when hiring picked back up in the 2000s.

The alternative is a RIF, which can be applied surgically to positions and people. But the disruptive effects of layoffs can be devastating for employee morale, productivity and workplace diversity and the effects can last for years, those we interviewed said. Complicated RIF rules emphasize seniority over performance and allow tenured employees to displace more recently hired people. Employees sometimes ended up mismatched to functions. “RIFs would result in moving people into jobs that they couldn’t and shouldn’t be doing,” said Sanders.

Workforce diversity was also negatively affected by RIF’s and other targeted cuts, particularly when cuts were directed at mission-support occupations, typically filled by a higher proportion of women and minorities. And a RIF’s cost may far exceed savings.

Often multiple strategies need to be used together or in succession for best effect. Personnel reductions are an important and sometimes inevitable response to budget cuts, and have far-reaching implications for the agency’s mission and operations. Agencies that make tough, strategic decisions to evaluate their staffing levels and skill needs may ultimately create a stronger workforce with employees who have the tools and competencies to adapt to a new and changing workplace.

### ADVANTAGES
- Can achieve significant savings in the short term since employee salaries and benefits comprise a significant portion of most agency budgets.
- Relatively easy to administer and do not require difficult decisions or complex procedures. (applies to attrition and hiring freezes)
- Can help agency leadership reshape the workforce to fit program and fiscal conditions. (applies to targeted personnel cuts)

### DISADVANTAGES
- Can hinder agencies’ ability to fulfill missions if people are cut but responsibilities are not.
- Can result in skills imbalances when employees with high-demand skills leave and hiring freezes prevent their replacement. (applies to voluntary attrition)
- Are less effective in a poor job market if employees are less likely to find alternative employment and choose not to leave. (applies to buyouts and other incentives to leave)
- Cost money and must be offered early in a fiscal year to recoup the expense. (applies to buyouts and other incentives to leave)
- Tend to have a disproportionate impact on new employees, especially women and minorities, because RIF rules are seniority-based. (applies to reductions in force)

### IN FOCUS
Deep personnel cuts in 2004 left the SBA with what Harrington, then-chief operating officer, called “irrational staffing.” The agency’s preoccupation with meeting reduction targets gave rise to a series of non-strategic decisions to cut across the board. GS 9-11 positions were eliminated entirely and the number of agency employees was effectively cut in half. Yet, with a workforce half its original size, SBA was still expected to continue with business as usual—guaranteeing loans, providing low-cost training to new entrepreneurs and helping small businesses get off the ground. The agency was severely stressed in its efforts to deliver the vital services to small business owners.
The challenge is to downsize and protect mission and protect talent. And doing this in a realistic timeframe is difficult. Employees were stretched thin and were also demoralized by the absence of a clear career path, particularly those employees at the GS-7 and -8 levels, who had no opportunities for advancement.”

—Eileen Harrington
Former Chief Operating Officer
Small Business Administration

For example, the Merit Systems Protection Board (MSPB) had become heavy with retirement-ready employees in the 1990s, preventing mid-level employees from moving into senior positions, according to Palguta. Also, some interagency transfers—employees who had been assigned to the agency when it was established—were improperly matched to their jobs. MSPB used targeted buyouts and RIFs to reduce the number of employees whose skills were not a good match for the job or who underperformed.

But agencies with no strategic workforce plan did not fare as well. “They did not realize what would happen when they gave general buyouts,” said John Kamensky, formerly deputy director of the NPR. “This was a problem because it left gaping talent holes. One of the big lessons is you really need to have a thoughtful human capital plan. Know what you have. Know what you need.”

At GSA, many employees took the $25,000 buyouts that were offered, but most were retirement eligible, according to Gail Lovelace, GSA’s chief human capital officer. “We had a knowledge drain and no new blood coming in. So by the time we got to the 2000s, we had a huge skills gap,” she said.

DOD had a different problem, according to Sanders. “We were the first federal agency to use buy-outs to induce voluntary attrition and we knew going in that if we offered them across the board in combination with early retirements, we would create skills imbalances downstream.” However, DOD had few choices since the agency had to cut more than 250,000 civilian jobs. “Our post-Cold War reduction targets were unprecedented and we simply couldn’t meet those targets any other way,” Sanders said. “We wanted to do everything we could to avoid RIF-ing the employees. We knew the department would pay the price later in the decade, but I have no regrets.” Between 1987 and 1995, reductions of civilian personnel eliminated approximately 25 percent of DOD’s civilian workforce, or 284,000 people.6

Targeted buyouts were often preferred for reducing staff. Agencies could focus attrition on lower-priority occupations or functions or locations, while protecting those critical to agency operations. In general, targeted downsizing protected mission-critical functions and enabled agencies to target the occupations that the NPR marked for workforce reductions. At the National Park Service, for example, agency leadership successfully targeted certain occupational series, organizational levels and management positions consistent with the NPR’s goals of reducing HR, IT, budgeting and acquisition workforces and changing the employee-to-supervisor ratio across government.7

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6 U.S. General Accounting Office, Civilian Downsizing.
CONSOLIDATING OR CENTRALIZING FUNCTIONS

DEFINITION
Merging workplaces, functions and programs, or closing locations that are no longer necessary.

Consolidating functions, programs or offices can achieve savings when fewer locations need to be staffed and operated, according to those we interviewed. These consolidations can bring about economies of scale, but to maximize savings, agencies have to be prepared to make an initial investment. They must have patience, since savings may be measured in years, and they must rethink their operating model to ensure that providing services in fewer locations can save resources eventually. Centralizing agency functions, such as claims processing, payroll and other tasks, allowed some agencies to achieve substantial savings and streamline functions.

Perhaps the best example of the savings and the costs of closures and consolidations comes from DOD, now in its fifth round of Base Realignment and Closure (BRAC). DOD learned many lessons, according to O’Keefe and Sanders, who were involved in the initial round. First, DOD underestimated the cost of closing and realigning dozens of installations and the costs associated with environmental clean-up, relocation of military units and their accompanying infrastructure, of mitigating the local economic impact and the displacement of thousands of civilian and contractor employees. Those costs ultimately were recovered and then some, out of the savings that BRAC has realized, but it has taken years.
A GAO report\(^8\) identified a number of instances in which original locations were closed and functions were consolidated into fewer offices. NASA consolidated operations associated with its financial management and procurement functions, reducing the number of service centers, and the people they employed, from 10 to one. And the Bureau of Reclamation in the Department of the Interior (DOI) consolidated 35 project offices into 26, and centralized its administrative, research, scientific and technical services operations into one Reclamation Service Center in Denver. After careful study, GAO itself closed several of its regional offices, saving on rent, utilities and other office expenses. And the Department of Veterans Affairs, (VA) which at one time had personnel offices located in every regional headquarters and every hospital, merged those offices into a few central locations, gaining efficiencies and lowering rental costs.

Agencies can realize substantial savings from closures and consolidations, and those savings do not have to come at the expense of customer service, our interviewees said. As government organizations have become more proficient at employing centralized telephone, and eventually, Internet-based, customer support centers, customer service has improved. For example, the IRS replaced hundreds of its walk-in sites with a large call-center operation that allowed it to deploy skilled customer service representatives who were far more capable of answering complex taxpayer questions using online support tools. “Whatever level of resources we have, we have to make the best use of them,” said Rossotti. “Question how you provide support services and move toward a shared services model, especially in IT,” he said. “Where there are widely accepted processes, share the services. It fosters having an organization that runs more effectively versus having a lot of people doing it on their own.” Similarly, SSA found that with call centers and Internet assistance, they could direct complex questions to employees with specialized knowledge and actually improve the accuracy and quality of responses.

**ADVANTAGES**

- Can yield significant savings, such as real estate and operating costs.
- Can also achieve economies of scale, especially when consolidations are coupled with process reengineering and IT investments.
- Can provide opportunities for employees to get cross-training and gain experience in other skill areas.

**DISADVANTAGES**

- Often requires an up-front investment to end leases, close facilities and relocate or expand operations in fewer locations.
- May create perceptions of service decline for customers served by closed or relocated locations.
- Adds costs for relocating employees or when a RIF, buyouts or other incentives must be authorized to release them.
- Requires employees to become proficient in other skill areas, potentially degrading service if training is insufficient.

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**IN FOCUS**

The Department of Housing and Urban Development (HUD) underwent a significant contraction during the 1990s. In response to budget cuts, the agency made a number of decisions to trim its workforce and improve its operations to achieve cost savings. The Office of Housing consolidated several activities it believed to be “location neutral” into fewer offices, according to GAO. In 1994, 17 HUD field offices were combined into the Denver Homeownership Center and HUD made plans to consolidate remaining single-family loan processing, quality assurance, marketing and outreach and asset-management activities from its 81 field offices into four homeownership centers. That would enable the office to reduce staffing in that area by a projected 50 percent. In 1995, HUD consolidated voucher processing for the multifamily program into the Kansas City office. A year later, it consolidated property disposition in the Atlanta and Fort Worth offices, and the following year, combined some lender activities in Greensboro, N.C. Additional consolidations were planned under a HUD reinvention effort to adjust to fluctuating workloads while maintaining performance. Customer service improved and staff resources were used in new and more efficient ways, according to the report.

Process reengineering was one of the chief responses to 1990s budget cuts. In some cases, agencies were proactive, employing reengineering to gain efficiencies and achieve savings in anticipation of cuts. In other cases, its use was more reactive. With less money and fewer employees, many agencies were forced to change how they performed their work.

For example, GSA’s Public Building Service introduced its “Can’t Beat GSA Leasing Program,” which modernized operations and dramatically reengineered the procedures needed to secure leases. GSA offered federal agencies more options for obtaining design, construction, management and remodeling services and it delegated to agencies some building service functions that it used to own. GSA also moved from warehousing goods to direct buying as needed, saving on storage and handling costs. Similarly, under its “Can’t Beat GSA Space Alterations Program,” GSA offered federal agencies more, better and less expensive options for obtaining design, construction, management and remodeling services for office renovations.

Interior’s Bureau of Reclamation reengineered its administrative, research, scientific and technical services and made them available to other DOI organizations. It also restructured the Technical Service Center—an engineering, science, research and support center for water resources projects—to be self-supporting.

The switch to credit cards for many small federal purchases is another example of reengineering. By allowing employees to use credit cards to buy goods and services, agencies could eliminate several paper processes.

**DEFINITION**
Redesigning and streamlining business processes to improve the flow of information or work.
ADVANTAGES

- Identifies and eliminates unnecessary steps and bottlenecks that can increase operating costs and processing time and is best as a precursor to automation.
- May result in improved service quality for customers and clients.
- Relies on and engages front-line employees in identifying process improvements.

and require fewer staff resources for their purchasing programs. Steve Kelman, Administrator of OMB’s Office of Procurement Policy during the NPR years, said, “The credit card allowed downsizing without affecting the government’s ability to get its work done. The fact was that you had a major process efficiency gain.”

But employees do need to be trained on new processes and training often is neglected or underfunded. “Training, development, improving processes—these are the kinds of investments that need to be made in those who are left so that they are not demoralized, but empowered to do more with less,” Walker said.

ADVANTAGES

- Can be hard to quantify and realize savings sometimes and those savings often are incremental.
- May require investment in IT to maximize results.
- May not align with more strategic priorities.
- May require staff training in business-process reengineering to carry out the analysis and develop the recommendations.

DISADVANTAGES

- Reengineering has to be continuous ... Whatever level of resources we have, we have to make the best use of them. Use technology; eliminate unnecessary activities; work toward improving efficiency ... Share the services.”

—Charles Rossotti
Former Commissioner
Internal Revenue Service

IN FOCUS

As part of its overall effort to cut costs and downsize, DOD launched a series of major reengineering efforts, including reducing the administrative cost and burden of approving temporary duty travel and filing for travel reimbursement and receiving payment; changing the household goods transportation process to provide better and cheaper service to military and civilian personnel who move each year; and moving to a paper-free process for paying contractors. It also sponsored 30 reengineering pilots to improve service and reduce costs in depot maintenance, material management and transportation. One of the most successful reengineering efforts involved civilian personnel management. As a condition of making a major investment in a single, modernized HR information system for the entire department, officials examined hundreds of civilian personnel processes across all of DOD’s various components, mapping them in great detail, identifying unnecessary and redundant steps and ultimately using those process maps to developing a common set of reengineered processes that paved the way for a new, common HR system. The reengineering effort not only helped streamline in some cases decades-old personnel procedures, but it also demonstrated to the military services that at their root, their separate legacy processes could be collapsed into a common set to maximize efficiency, according to Sanders. “And without that, we never could have justified the investment in a new IT system,” he said.

Technology can lead to significant operational cost savings over the long term, particularly if it is consolidated and standardized across an agency. However, technology must be kept up to date and upgrades and replacements can be costly and complex. In their efforts to reduce costs and adjust to lower staffing levels, agencies in the 1990s employed technology to automate manual, paper and other staff-intensive processes. They focused mainly on modernizing systems and expanding the use of technology for administrative tasks.

The NPR was instrumental in changing regulations that had made it hard to justify and get funding to buy technology because it was classified as an office expense. The regulatory change helped to foster agencies’ adoption of new technologies.

GSA was able to move forward with a plan to use commercial technology applications to process online transactions instead of doing data processing on a mainframe. HUD’s Office of Housing implemented a paperless process for changing mortgage records, reporting defaults and making other changes to records. DOD consolidated 22 technology-based personnel systems across the services to create a next-generation civilian personnel system, allowing the agency to also consolidate personnel offices and reduce staffing costs. And IRS standardized information technology configurations, hardware and software to save on infrastructure costs.

Telephone technology provided benefits to the SSA. “The agency was faced with staffing and service challenges from call volume that varied from 200,000 to 2.5 million calls a day,” according to Larry Thompson, former deputy commissioner. The agency established an 800 number and a directory with menus offering callers immediate information and allowing them to leave messages. This helped shift customer demand from walk-in service centers and freed staff resources to handle other priorities.

Still, budget cuts prevented some agencies from taking advantage of emerging technologies. Facing other priorities, some made the decision to curtail IT investments, but that short-term thinking had consequences. Agencies that put off technology investments ended up with outdated systems and unsupported software, which hampered their efficiency.
sometimes took years for agencies to invest and catch up. Smaller agencies were especially hamstrung. “It is particularly challenging for small agencies to apply technology solutions, given their small staffs and financial resources,” said Janet Murphy, former chair of the Small Agencies Human Resource Council. However, they can benefit from using shared services offered by a larger agency if they are willing to adopt the business processes employed by that larger agency.

Even when agencies were able to make that up-front investment, savings and ROI were significantly reduced if they succumbed to the temptation to over-customize commercial off-the-shelf software, according to those we interviewed. Customized software often didn’t work as well as the out-of-the-box version and was costly to maintain and upgrade. DOD found that instead of being able to implement a new version of a software product, it had to pay the vendor to recode that product to accommodate all of those custom changes, at considerable expense and delay, according to Soloway.

However, no investment in IT will be successful unless agencies take people and process into account. “Technology is a tool,” said IRS’ Rossotti. “It does not solve managerial problems.” That applies to today’s robust technology environment as well.

These days, federal agencies can find significant technology savings in ways that were not options in the 1990s. They can buy new systems with lower maintenance costs, collapse individual software licenses into one enterprise-wide license, employ cloud computing and consolidate data centers, among other options. The nation’s former federal chief information officer released a 25-point IT plan last year aimed at assisting the federal government with deploying IT.9 But none of that changes the essential need for sound strategic planning and management.

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The federal government has a long history of using contractors and other third parties to support agency operations under the assumption that they often cost less or offer more flexibility or unique expertise. The idea is that organizations can focus on their core mission and become more efficient overall. Outsourcing, often driven by a need to save money, is especially relevant during a budget crunch, especially when agencies may have to cut government staff without reducing overall workload. Outsourcing can allow agencies to refocus on critical mission activities and fulfill their commitments to the general public without performing certain tasks themselves, such as building maintenance functions.

There are rules in place to guide agencies. The Workforce Restructuring Act of 1994 required the president to “take appropriate action” to ensure that reducing the federal workforce did not lead to increases in service contracts, unless a cost comparison indicated it was financially advantageous, and that comparison is generally conducted in accordance with OMB Circular A-76. The circular essentially sets up a competition between the government’s most efficient organization, as devised by teams of federal employees and managers, with one or more private sector bidders to determine who can perform an activity most cost effectively. It emphasizes what is “best value” to the government. Evidence suggests such competitions have successfully driven government costs down—particularly people costs—even though federal employees his-

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10 U.S. General Accounting Office, Federal Downsizing.
Importantly, the circular provides examples of functions that must be performed by government agencies and cannot be done by contractors.

Not surprisingly, where agencies lacked the capacity to deliver certain functions, they turned to contractors to help them. NASA, for example, focused on core functions—high-tech research and development—and turned to outsourcing to accomplish other necessary functions, such as operational support of space flights. DOD, which faced the largest civilian workforce reduction across government, was a leader among federal agencies in outsourcing and using the competitive process to reduce operating costs to free up funds for other priorities. The effort was deemed a priority by DOD leadership in 1995 and later was incorporated into the Defense Reform Initiative of 1997, a strategic blueprint for the agency that provided a comprehensive approach for streamlining and adopting better business processes.12

However, because of reduced budgets, some agencies were not able to expand readily the use of contract vehicles to provide services and some had to reduce funding on existing contracts to meet budgetary restrictions. For example, HUD made long-term contracts short term, funding them year to year rather than multiyear, which in the end resulted in increased costs. Renewal costs grew each year when contracts came due. GAO cut back on existing IT contract services and delayed IT upgrades.

By the end of the 1990s, contractors had replaced federal employees in many support functions, such as custodial services and travel management and, in many cases, outsourcing became a one-way street as the government essentially gave up its capacity to perform those functions because significant rehiring and retraining would be required. Outsourcing also occurred incrementally, as agencies reduced their civil service employment rolls. In many cases, the number of personnel was reduced while the workload stayed the same and agencies often had no choice but to augment their staffs with contract support, sometimes without regard to cost.

GAO’s High Risk List and numerous other GAO and inspector general reports document the hazards inherent in outsourcing, from inadequate or insufficient oversight staff to potential cost overruns and fraud. Outsourcing may not save agencies money in the end and it may further remove agency staff from interacting with the public or customers they serve.13 Outsourcing also can lead to a dependence on contractors that prevents agencies from developing the expertise to perform critical work in-house.


The contractor pendulum has swung back and forth. In the 1990s, Congress and the Clinton administration encouraged competition as a way of driving savings. In 1998, Congress enacted the Federal Activities Inventory Reform Act, requiring that agencies annually identify functions that can be done by contractors and are subject to competitive sourcing. The Bush administration strongly emphasized competition. However, the Obama administration has focused on insourcing, with the stated goal of saving $40 billion annually in contracting costs, even while recent draft legislation in Congress directs greater use of contractors. Federal agencies have to consider contractors and contract personnel part of their overall workforce, especially when it comes to workforce planning, as required by the Chief Human Capital Officers Act of 2002. This means the relative cost and value of contractors must be considered in downsizing. “In the past, agencies picked artificial measures, such as the number of people, for cutting,” said Walker, former comptroller general of the United States. “But if you leave out the shadow workforce then you have not accomplished much in terms of downsizing. The contractor workforce sometimes ends up costing as much.”

IN FOCUS

OPM took a novel approach to outsourcing, privatizing its government-wide background investigations operation and staff under an Employee Stock Ownership Plan in 1995, establishing a private corporation known as the U.S. Investigations Service, Inc. (USIS) The agency’s first step was to determine whether the work could be performed by non-government staff. After that hurdle, OPM moved forward with its plan, communicating its intent to staff.

Ultimately, about 90 percent of the OPM staff accepted job offers at USIS while the remaining 10 percent voluntarily left the agency or stayed on in the new OPM investigations services unit. OPM employees strongly resisted the privatization at first, according to George Nesterczuk, former staff director of the House Civil Service Subcommittee. So, too, did those agencies that relied on OPM to conduct thousands of background investigations. However, by 1997, the investigations service was able to complete about 20 percent more investigations than the year before and in a timely way.

OPM decided it would also get out of the training business, for the most part, and transferred its government-wide training operations to the U.S. Department of Agriculture’s Graduate School or the private sector.


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Some say that the magnitude of the nation’s deficit should be viewed as a crisis of such import that it calls for a profound reconsideration of what government does, and more importantly, what it will be able to do for Americans in the future. But this is not the first time our nation has faced dire fiscal straits, and much can be learned from the past. Some of those lessons on operating with fewer funds require difficult choices but are relatively straightforward. Others are more complex, such as how to make government more effective and efficient amid substantial cutbacks.

Leaders who set policy—and others responsible for implementing it—told us in interviews that cutting budgets does not have to be a negative exercise. Agency leaders successful at doing more with less used challenging times to reenvision a path forward and inspire employees. In-depth, risk-based planning that guides agencies in making changes and cuts can lead to new, innovative ways to use resources and help leaders meet their agencies’ objectives and needs.

It is a complex art to make government more effective and efficient amid substantial cutbacks, but those agency leaders who have been through it offer valuable experience to those who face a similar situation now. We base the following recommendations on insights from those leaders, and other government experts, into what today’s leaders need to think about and do to adjust programs, functions and personnel, and potentially readjust goals in the coming weeks and months if budgets shrink dramatically, as expected.
The president (working through central agencies such as OMB, OPM and GSA) and Congress should create a vision for what government should look like and how it should serve the American people as the country pushes forward during the current fiscal crisis. We recommend that:

➤ The president identify a leader with enforcement clout, backing and expertise, for making a vision a reality; assign resources to carry it out; and communicate that vision and what it will take to achieve it.

➤ The president, working through central agencies, especially OMB, fully empowers agency leaders to be responsible for implementing the vision.

➤ Administration and agency officials work closely and collaboratively with Congress on policy options, program priorities and performance measures, engaging with congressional appropriations, oversight and authorizing committees.

➤ Central agencies set priorities and provide guidelines for federal agencies on how to implement the cuts. Specifically, we recommend that:

• OMB and GSA seek to remove regulatory barriers and other impediments that prevent agencies from streamlining or taking advantage of new technologies.

• OMB engage the President’s Management Council and other leadership councils to help guide the executive branch as it deals with the challenges of budget cutting and downsizing, including sharing best practices from the private sector.

• OPM, specifically, provide guidance and support to agencies that downsize employees, offering direction and assistance, but also allowing agencies to make decisions that will be best for their own operating requirements and constituencies—paying special attention to how best to use which type of downsizing authority.

• OPM focus specifically on agencies’ need to retain key employees in mission-critical occupations, helping agencies maintain a high-performing, diverse workforce in the face of downsizing and looking for new ways to support agencies’ HR staffs; OPM should not lose sight of the need to keep the talent pipeline filled so people are available to step into mission-critical positions as the environment changes.

• OPM, working with the federal Chief Human Capital Officers Council examine the need for new or updated workforce rules and better recruiting and retention tools.

Government leaders should keep in mind the long-term consequences of past budget cuts and the need to create a stronger, more nimble and effective government. We recommend that the relevant congressional and agency leaders:

➤ Re-examine agency mission and structure, and determine whether and how best to reorganize and restructure.

➤ Use the best data available to understand program strengths and weaknesses, as outlined in the Government Performance and Results Modernization Act of 2010, a vehicle for improving planning and performance management.

➤ Expect and plan for a demoralized federal workforce as the government undertakes major cuts.

➤ Foster innovation, creating an environment that promotes creativity and innovation, eliminates barriers and prompts input from stakeholders, especially employees.

Congress should work closely with agency leaders as budgets are cut and the workforce is downsized. We recommend that congressional leaders:

➤ Set cost-reduction targets and give agencies flexibility in how they meet those targets, allowing central agencies to work with line agencies to identify how best to realize savings, based on strategic plans and information on each agency’s goals.

➤ Work with agencies to identify and address structural, administrative or other long-standing problems and eliminate duplication or overlap in programs performed by more than one agency, which may yield significant savings while improving services to the public. Information about these kinds of problems can be found in agency inspectors general reports, GAO’s ongoing “high risk” program and other GAO reports that identify high-cost or problematic areas in government.

➤ Use its important oversight role to make sure agencies consider mission, employees affected by cuts and customer impact, and improve that oversight by using performance data and measures—from the 2010 performance modernization law and elsewhere—to drive actions and decisions.


Line agencies should strategically implement budget cuts and reduce the number of personnel. We recommend that agency leaders:

- Consider alternative ways of delivering services and performing functions, not simply doing the same things, the same way, with fewer people; determine if additional authority is needed to do so.

- Use data derived from customer and employee feedback and other sources to measure the effect of cuts and take actions to mitigate negative impacts; track customer satisfaction and the timeliness of service or processing; use the requirements of the new government performance modernization act, which also sets requirements for government-wide reporting as an incentive for agencies to compare their progress to that of other agencies.

- Make performance data and results easy to understand in reports to Congress to improve communication and encourage data-based decision making.

- Plan employee cuts with an eye toward preserving valuable agency knowledge, retaining the skills needed to carry out the mission and minimizing the impact on citizen services, national security and state and local governments.

- Communicate with all stakeholders for successful implementation of required changes. To do so we recommend that leaders:
  - Build strong working relationships with appropriate congressional committees.
  - Involve agency employees extensively in planning and developing approaches for operating effectively with less funding and fewer people.
  - Convene with others facing a similar situation and share information and best practices in real time about what works; agencies should not be operating in isolation.

- Prepare employees for what lies ahead, understanding they will be apprehensive about cuts and changes and will look to leadership to help them through. We recommend that leaders:
  - Think about how employees can carry out their work with limited resources.
  - Provide tools and technology that make jobs more efficient, provide training where needed if those jobs have changed and provide opportunities for development of the next generation of agency leaders.
Methodology
To determine the best approaches to dealing with budget cuts, the Partnership for Public Service, in collaboration with Booz Allen Hamilton, conducted an extensive literature review of articles, reports and assessments related to federal government downsizing and budget cutting initiatives over the previous two decades. In addition, we interviewed 32 past and present federal government executives who had direct experience dealing with budget cuts as well as thought leaders in the private sector and academia. All governmental interviewees were selected based on their firsthand experience with budget cuts during their time in government as senior leaders at agencies that were most affected. Corporate interviewees and academicians we spoke to also had significant direct experience with budget cutting either in their current roles as senior executives or in their former positions.

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APPENDIX B

INTERVIEWEES

**Individual Interviews**

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*United States House of Representatives*  
Director of Congressional Affairs, 2001–2006  
*National Nuclear Security Administration*  
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