HOLLOW

In this era of budget austerity, federal agencies are increasingly unable to perform the missions for which they were created.

BY MARK L. GOLDSTEIN

LEE SALSBERY

Environmentalists lobbied for nearly a decade before Congress last year set aside 35,000 acres of coastal wetlands near Jacksonville, Fla., for the Timucquan Ecological and Historical Preserve. It was supposed to be a model for wetlands preservation. The only problem is, the new park's superintendent hasn't been given a staff—or even a boat.

The Department of Veterans Affairs has such a shortage of doctors and nurses that many of its hospitals can only accommodate critical care patients. Overworked doctors are forced to do basic tasks, such as cleaning bedpans and administering medication, while patients may wait hours for help in hallways or unmade beds. Only an emergency congressional appropriation last spring averted the closure of more than 300 clinics and other VA programs.

The Federal Communications Commission (FCC), arbiter of advanced telecommunications technologies, still uses 1960s-vintage black rotary telephones at its M Street Washington headquarters. Its attorneys have spun the revolving door so fast that the professional staff of its private radio bureau has turned over almost completely in less than five years.

Welcome to the Hollow Government. This is the federal government of the present and, unless things change, it is the federal government of the future. In the aftermath

GOVERNMENT

of Reagan Administration cutbacks, structural changes in federal spending during the past 20 years, and a black-hole budget deficit, Americans are potentially faced with a problem much larger than the Hollow Army of the late 1970s. That term was coined by then-Army chief of staff Edward C. Meyer to describe the Army's inadequate funding and poor preparedness.

The Army and its sister services are less hollow these days, in the wake of the Reagan-era defense buildup. Even so, top military officers warn that U.S. worldwide commitments outstrip the services' ability to respond in wartime. And Defense Department agencies have not escaped the Hollow Government syndrome that has affected virtually the entire federal system in one way or another.

Pervasive shortfalls in funds for the basic infrastructure costs of providing government services—personnel, computers, training, capital equipment—have compromised the ability of almost every government entity to accomplish its traditional mission. And this has occurred at a time when the demands on the public service have never been higher.

"I am increasingly concerned about the lack of investment that our government is putting into the necessary resources that allow agencies to do their jobs," says Charles A. Bowsher, comptroller general and director of the General Accounting Office. "It is a calculated disinvestment. We are on a downward slope in government operations. We are denying ourselves the long-term investments needed to make government work. It could lead to a breakdown of operations that the public has always taken for granted."

Disinvestment in Government

Bowsher is not alone in his concern. In more than 40 interviews with current and former federal officials, longtime policy analysts and academics, *Government Executive* found growing unease about a lack of investment in federal government.

"There has been a deterioration of some agencies' abilities to cope with the demands being placed on them," says James C. Miller III, director of the Office of Management and Budget during President Reagan's second term. "Not all the agencies are overwhelmed, but there are definitely pockets of deterioration."

Others confirm this view: "There has always been a tendency to cut some budget accounts, to change priorities," says Lawrence J. Gibbs, Internal Revenue Service commissioner until last January. "But the wholesale disinvestment that has been occurring in the '80s is like nothing I've ever seen. If things don't change, we *will* be left with a hollow government."

The problem is dauntingly complex, embodying, as it does, many public policy questions about what people demand from government and what they are willing to pay for it. Some who warn of the consequences of disinvestment insist that nothing short of a sea change in public attitudes toward the role of government will help shore up the crumbling federal infrastructure.

"The question is, are taxpayers able to reconcile what they have come to expect from government during the past 50 years with any willingness to pay for it?" asks Rudolph G. Penner, senior fellow at the Urban Institute and former director of the Congressional Budget Office.

The problem is compounded by the political factors that influence many decisions about government operations. While agency services are increasingly mismatched to the country's aging, mobile population, officials often are unable or unwilling to close inefficient facilities. And since new offices are still needed, agencies are in the pinched position of allocating fewer and fewer resources to more and more places.

Most federal managers are given little leeway when it comes to implementing budget cutbacks. Agencies that try to close offices and bureaus in response to budget reductions face the ire of Congress. Members typically reject any reduction of jobs or federal presence in their districts.

The Pentagon, the VA, the Department of Agriculture, the National Weather Service

BRUCE REEDY

Government operations are on "a downward slope," says GAO director Charles Bowsher. "We are denying ourselves the long-term investment needed to make government work."

and the Coast Guard, for instance, all have been thwarted in their attempts to find budget savings by closing under-utilized offices. The Coast Guard, during its fiscal 1988 budget crunch, attempted to close its least essential air and sea rescue stations. Lawmakers from the threatened districts blocked the move with legislation prohibiting the elimination of those stations.

"I understand how the game is played," says Adm. Paul A. Yost Jr., Coast Guard commandant. "But any manager faced with this problem is going to try to cut least-essential services first. When someone stops me from making those decisions, my only choice to cut something more important."

Joseph Wright, who succeeded Miller as OMB director, likewise rails against Congress's insistence on keeping "old, inefficient facilities and unneeded [defense] production lines open," and its refusal to allow efficiencies through contracting out for such items as veterans' non-medical services. The Agriculture Department's field structure, he says, is "geared to the horse-and-buggy era." Agencies would be less hollow, providing more services, if they could rationalize their operations, Wright argues.

Doing More With Less

Inefficiencies aside, however, federal services have not kept up with the growth of the country or the economy. A population that has grown from 201 million to 247 million since 1968 is served by a civilian bureaucracy that has remained essentially flat during that period.

The escalating demand for government services has not been met with any commensurate increase in budget. In many cases, just the opposite has happened. After years of racking up gradual gains, many agencies in the 1980s saw their budgets cut in the cause of deficit reduction.

Prices increased by 50 percent between 1980 and the second quarter of 1989, as measured by the fixed-weight GNP price index. Just to keep pace with inflation, then, an agency's budget in the '80s would have needed to grow 50 percent over the decade. Some agencies have grown that much or more, but they are exceptions.

By far the biggest hits have been borne by the General Services Administration and the Department of Labor: Their budgets are 58 percent and 28 percent, respectively, below the 1980 levels. Other agencies pinched in the decade include the Commerce Department (down 11 percent since 1980) and the Environmental Protection Agency (down 8 percent).

In addition to the Pentagon, which saw its budget rise 121 percent, the winners in the 1980s money war include the Justice Department, whose funding jumped 127 percent during the 1980s.


RICHARD A. BLOOM

Cut the least essential services first? Adm. Paul A. Yost Jr., Coast Guard commandant, was blocked by congressional politicking.

Personnel has been the hardest-hit area. The Office of Personnel Management reports that most agencies lost significant portions of their staff during the 1980s. Between fiscal 1982 and fiscal 1988, for instance, GSA was scaled back 43 percent, the Tennessee Valley Authority by 35 percent, and the Education Department by 32 percent. Total non-postal, non-military personnel decreased 5 percent between 1982 and 1988, a loss of 60,000 work years, OPM reports. *(See table.)*

THE STAFFING SQUEEZE

Between fiscal 1982 and 1988, total non-postal, civilian employment was down 5.1 percent. Most agencies shrank, but a few grew.

Justice	+30.4%
Treasury	+23.1%
EPA	+11.5%
State	+11.3%
Defense	+6.8%
Veterans Affairs	+5.3%
NASA	−1.6%
Commerce	−3.4%
Transportation	−9.9%
Agriculture	−11.4%
Energy	−13.1%
Interior	−13.9%
Labor	−15.8%
HUD	−17.4%
HHS	−22.9%
OPM	−24.1%
Education	−31.6%
TVA	−34.5%
GSA	−42.7%

Source: Office of Personnel Management

This has occurred, of course, as government's work load has increased by several orders of magnitude. The GNP has nearly doubled in constant dollars in the past 20 years, piling new regulatory tasks onto the overburdened civil service. Entire agencies, such as EPA and the Occupational Safety and Health Administration, have been created to grapple with the growing complexity of an industrial society.

EPA, created in 1970, presides over thousands of regulations governing everything from pesticides to asbestos, toxic waste to water quality. And while its staff size increased 12 percent between fiscal 1982 and 1988, the agency's critical shortage of environmental engineers and other specialized staff has forced it to contract out many of its expanding responsibilities.

Superfund, the government's program to identify and speed cleanup of the nation's worst toxic waste dumps, has been criticized by both private and public sector organizations for the slow pace of its cleanup activities. EPA administrator William K. Reilly recently ordered the agency to beef up its Superfund staff, taking the money from the project's private contracts. Even so, the severity of the problem means that at current cleanup rates, it could take several decades to close most of the dumps.

Other agencies are also experiencing growing demands that contrast considerably with their resources. One telling example is OMB, which employed 769 people at the height of its expansion. Today, after deep cuts in personnel, it has only 525 employees, a handful more than its predecessor, the Bureau of the Budget, had in 1948. In the meantime, the federal budget has grown in current dollars from $30 billion in fiscal 1948 to $1.3 trillion in fiscal 1990. As a result, say some agency budget officials, OMB is unable to give more than a cursory review to many programs.

Both the Securities and Exchange Commission and the IRS have been deluged by a rapid rise in corporate and taxpayer filings. And, while attendance at national parks increased by 62 million between 1980 and 1988, full-time staff at the National Park Service remained fairly flat.

The slowing response of the federal regulatory process is another consequence of an overburdened government. The growth of new industries and the growing complexity of old ones has created congestion at the oversight agencies.

The recent generic drug scandal at the Food and Drug Administration occurred in part because drug approvals by the agency can drag on for two years or more. And tremendous backlogs in applications for various regulatory approvals have been reported at many agencies, from the FCC to the EPA; regulatory decisions often take two to three times longer than they did a decade ago. Even OMB's Office of Information and Regulatory Affairs, which is responsible for approving government's regulations, is taking longer to give agencies the green light.

Of course, holes have not been carved in the resources of every agency. Some, such as the Justice Department, did quite well in the Reagan era. The department was able to hire more attorneys and federal investigators to handle a growing work load, which included toughening up on drugs and white collar crime and implementing the Immigration Reform and Control Act of 1986.

The military also stayed clear of the carving knife, at least through the first half of the decade. The defense budget rose 40 percent in real terms during the 1980s. In the meantime, although the number of full-time uniformed and civilian DoD employees dropped from 3.7 million to 3.3 million, DoD more than offset the decline by expanding reserve and national guard forces and assigning more work to contractor personnel.

Since 1985, however, the Pentagon's budget has declined 11 percent in real terms, forcing the department to stretch out purchases of new military hardware far into the 1990s. It also has caused repair backlogs to rise and research spending to fall. "This budget is very tight when it comes to protecting a force of high quality," Adm. William J. Crowe Jr., chairman of the Joint Chiefs of Staff, warned earlier this year. "You will find military compensation falling short of inflation rates, declining investments in equipment modernization, smaller inventories of spare parts, more deferral of depot maintenance and a growing shortfall of base facility maintenance."


BRUCE REEDY

Government failed to plan for growth in aviation, says Transportation Secretary Samuel Skinner.

Shrinking Services

As agencies have cut back, the consequences have included less efficiency, less oversight of government and private sector activities and less safety; in general, services have constricted.

The scandal at the Department of Housing and Urban Development is a case in point. As HUD, during the Reagan Administration, was losing an estimated $2 billion to fraud and abuse in its mortgage rehabilitation and co-insurance programs, the department also cut more than 4,000 people from its payroll. Many of the cuts came from the program officer corps, people in the field who monitored HUD projects. "I can't tell you at what point the reductions created an oversight problem," says Paul A. Adams, HUD Inspector General. "But they certainly had some impact."

The IRS, even with new computers, has seen the percentage of tax returns it audits every year drop almost in half between 1978 and 1987.

The Coast Guard, burdened with increasing drug interdiction responsibilities, reduced its personnel this year to digest several years' worth of stagnant and sometimes reduced appropriations. The agency's fuel and spare parts budgets dried up, which ironically grounded new planes and newly trained pilots that had geared up to fight the Administration's war on drugs. In fiscal 1989, the Coast Guard operated at pre-1972 personnel levels.

A similar story unfolds at the Federal Aviation Administration (FAA). "It's pretty obvious to me that the failure to plan for the growth that we have in aviation travel is creating serious problems right now for the system," concedes Samuel K. Skinner, Secretary of Transportation.

Deregulation of the airline industry, a significant increase in air traffic, and a climb in the number of plane crashes and near misses during the 1980s came at a time when the FAA was losing employees. Not only have air traffic controllers been in short supply ever since Reagan fired striking union members in 1981, but the number of FAA inspectors and field maintenance employees has been reduced by about 20 percent. FAA officials now acknowledge the problem and have begun to hire new staff; nonetheless, they are still behind hiring targets set by Congress. "The pressure put on the air traffic system in the last decade has been enormous," says Kenneth M. Mead, director of transportation issues at the GAO. "When you reduce both the number of people and the level of experience they have, you're bound to have problems."

A 22 percent cut in personnel during the 1980s has also taken its toll at the Department of Health and Human Services. The Social Security Administration (SSA), the largest domestic program in the federal government, has shrunk from 80,000 to 63,000 employees. Not surprisingly, unions representing government workers are angry. The National Federation of Federal Employees charges that the 1,300 Social Security offices scattered throughout the country are about 40 percent understaffed. And while new computers have helped reduce some work loads, the staff shortages have meant that phones ring unanswered, training sessions often go unattended, and case folders, unfiled, pile high on the floor.

Cuts at the Health Care Financing Administration (HCFA) reduced that agency's work force by 20 percent since 1980 at the same time that radical changes to Medicare and Medicaid programs were being made; this has slowed the transition between old and new policies.

Personnel cuts at some agencies have done more than reduce service to the public. At the U.S. Forest Service, for example, a thinly stretched work force is costing millions of dollars in stolen property. Without an adequate staff to monitor private timber logging on federal lands, the Forest Service is in many cases unable to determine when companies cut more lumber than they've paid for. This costs the government more than $100 million annually in stolen, market

Empty Piggy Bank: The Hollow Ring of Federal Spending

The Hollow Government syndrome has many causes, but it results primarily from an extraordinary redistribution of federal funds in the last 20 years. Since World War II, but especially since the mid-'70s, the growth in federal spending has come mainly from transfer payments, also known as entitlements, and from interest on the national debt. Meanwhile, discretionary spending—the money that keeps agencies operating—has fallen.

The impact is best seen over the long term: While federal spending increased from 16 percent to 22 percent of the GNP between 1950 and 1990 (after hitting a high of 24 percent in 1983), almost none of that growth came from spending on goods and services (including procurement funds), which has remained fairly constant at about 7.5 percent over the 40-year period. Yet entitlements have increased from 5.9 percent to 8.9 percent of the GNP since 1950; grants to state and local governments rose from 0.9 percent to 2.1 percent; and interest on the debt climbed from 1.6 percent to 3.1 percent of the GNP.

Entitlement programs, such as Social Security, Medicare and VA benefits, now take up more than 40 percent of the federal budget. And the rapid buildup in defense spending during much of the Reagan era has further eaten into the portion of the pie left over for domestic agencies. While the government's purchase of goods and services has remained stable, the non-defense portion of that spending has declined in current dollars from $89 billion in 1985 to $81 billion in 1988. This includes purchases by the agencies to run their operations, including the national parks, construction of navigation projects, and the funding for medical, energy, space and other scientific research.

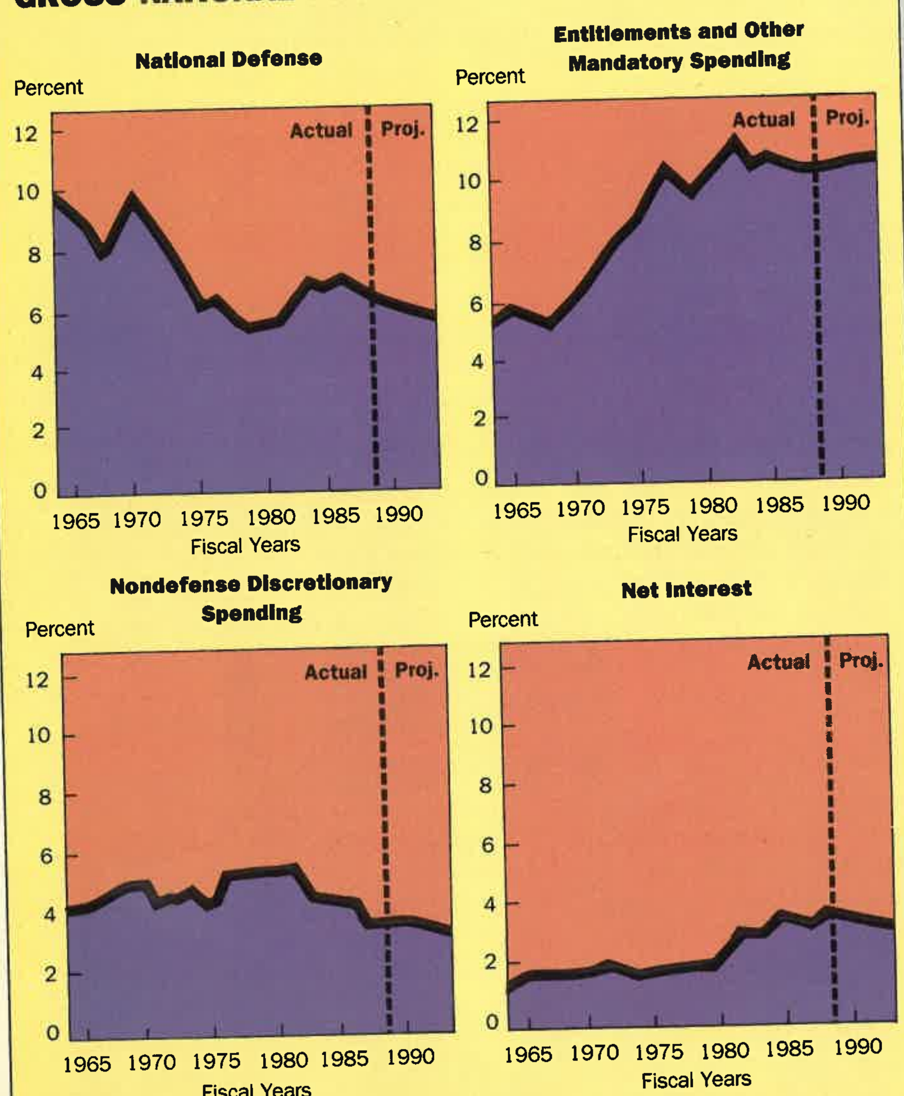
Non-defense discretionary spending, that portion of the budget from which most of the domestic agencies obtain their funding, has dwindled from roughly 6 percent of the GNP in the mid-'70s to about 3.7 percent in fiscal 1989; the Congressional Budget Office estimates that it will decline to 3.3 percent by 1994.

Viewed another way, controllable non-defense spending has dropped from 24 percent of the budget in 1981 to 16 percent today. Even more telling is the fact that the federal government will spend only slightly more on these programs in fiscal 1990 than it will spend for interest on the national debt.

Spending on the physical resources categories of the budget, including energy, the environment, transportation and community development, declined from the equivalent of 2.4 percent of the GNP in 1981 to 1.2 percent in 1987, a 48 percent decline. In the same period, the human resources category dropped from 12.1 percent of the GNP to 11.4 percent, a 6 percent decline. However, a 30 percent increase in Medicare within human resources was offset by a 40 percent drop in spending for education, training and social services. Spending on the general government portion of the budget, which includes legislative and judicial administrative functions, declined from 0.4 percent of the GNP to 0.2 percent, a drop of 55 percent. By comparison, national defense spending increased by 21 percent as a share of GNP.

The Balanced Budget Act of 198
hasn't helped. Gramm-Rudman has mad
it more difficult for programs to be elim

FEDERAL BUDGET OUTLAYS AS A PERCENTAGE OF GROSS NATIONAL PRODUCT



SOURCE: Congressional Budget Office

nated in an orderly way. Budget analysts argue that the law leads to random cuts in the budget, necessary to meet immediate deficit reduction targets set by the law. "There is no attempt to guide the budget for the long term," explains Donald F. Kettl, associate professor of political science at Vanderbilt University. "Everyone looks for the easiest, fastest cuts that can be squeezed under the limit and cause the least amount of political pain."

Government can be expected to get hollower in the coming years. Dwindling resources and the deficit's squeeze have come at a time when the Bush Administration may be forced to spend hundreds of billions of dollars to solve several long-festering problems. Bailing out failing savings and loans could cost taxpayers $166 billion in the next decade. Cleaning up safety and environmental hazards at the Energy Department's nuclear plants is expected to cost about $200 billion.

Repairing the nation's transportation infrastructure will cost upwards of $800 billion—only part of which is paid for by the federal government. Renovating the nation's public housing could run $20 billion. And the GAO reports that the Pentagon already faces a $125 billion shortfall in weapons systems funding for programs already started in its current Five-Year Defense Plan.

The crunch also comes at a time when the pent-up demands from the cutbacks of the 1980s are getting louder. Activists and advocates are clamoring for more money for health care, prisons, environmental protection and education. The Pentagon still has a laundry list of expensive projects in various stages of development. On top of all that, President Bush in July called for a space initiative that could send Americans back to the Moon and to Mars early in the next century—an expensive proposition.

"We are committing ourselves to all sorts of new programs at a time when we aren't effectively funding many of the programs already in existence," complains Charles A. Bowsher, comptroller general and director of the General Accounting Office. "The money needs to come from somewhere. We do the government and the public a disservice when we cut agency budgets to a point where it impacts their performance. It's probably more wasteful than if you had left the money in the budget in the first place."

able lumber, according to congressional reports. Only about 5 percent of illegal logging is discovered.

At smaller agencies, even small staffing cuts often have a great effect on service and performance. For some, there is simply less fat to cut. The Consumer Product Safety Commission, the Council on Environmental Quality, the Occupational Health and Safety Administration, the National Weather Service and the Equal Employment Opportunity Commission (EEOC) all have had their staffs pared back, causing case overloads, reduced services and, in the case of the Council on Environmental Quality, what amounts to a virtual standstill in the agency's mission.

Operations Trimmed

Operations accounts also have suffered from the domestic budget squeeze. Obtaining precise government-wide data is difficult, but anectodal evidence suggests that travel, training and program evaluation are among the first budget items to be slashed in austere times. And again, small agencies are hit harder. Travel at many agencies has all but ended, including at OMB, where budget analysts are often unable to visit the agencies to which they are assigned. Several experimental rural outreach programs at the EEOC were terminated when the agency was forced to slash its travel budget.

Program evaluation functions at many agencies have been decimated. A GAO study found that program analysis staffs throughout government decreased by 22 percent between 1980 and 1984. A follow-up study of 15 evaluation offices showed an additional 12 percent drop in 1988.

Likewise, funds for agency program evaluations decreased by 37 percent between 1980 and 1984, and another 6 percent between 1984 and 1988. And although the number of program evaluation studies declined by only 3 percent despite the drastic cuts in staff and funds, the GAO reports that the quality of the work has changed. Short, non-technical studies have been substituted for in-depth reports, and more of them are being done by outside consultants.

"The capability to perform program evaluation is drying up, not the least in such areas as defense, health care, education and the environment, where it is precisely needed most," the GAO wrote in its transition series report last November.

Cutbacks in career development programs are among the most frustrating of the austerity measures that have occurred in the past decade. Training accounts for the

Former Congressional Budget Office director Rudolph Penner suggests that taxpayers fail to reconcile what they expect from government with "any willingness to pay for it."

EEOC were slashed from more than $1 million in 1987 to less than $50,000 last year. Much of the agency's training goes to bolster the skills of its claims investigators. In fiscal 1988, the Defense Department stopped all OPM training for its employees during the last half of the year when it ran into a budget crunch.

Ironically, while anecdotal evidence across government indicates that not enough training is being done, OPM reports that funds spent on training in the federal government nearly doubled in the last few years. Still, with training costs at less than 2 percent of payroll, Uncle Sam spends only about half as much as companies recognized for their aggressive training programs, such as Motorola Inc., AT&T Co., and IBM Corp.

Capital Cutbacks

Capital budgets also have suffered at many agencies. The Coast Guard estimates that it only can afford to replace about 2.5 to 3 percent of its physical plant each year; replacement in the private sector averages 5 percent or better. At its current investment rate, then, the Coast Guard is replacing roads, buildings and machinery, on average, about every 33 years. The agency spends about $400 million in its capital accounts each year, but insists that $700 million is needed. "We have docks falling down, roads that are almost impassable and huge repair backlogs," complains Yost. "We are living off past investments."

The same is true at other agencies. Steven Whitney, national parks specialist for the Wilderness Society, charges that equipment at many parks is scarce and deteriorating. Rangers often drive vehicles so old that they have holes in the floorboards, and spare parts are difficult to find; the staff at the Death Valley National Monument, with 2 million acres of desert to oversee, has one aging pickup truck in which to make the rounds. And about half the hiking trails at Acadia National Park in Maine have been closed because there is not enough personnel or equipment to keep up with the work.

Many of the government's long-festering computer problems are also a consequence of disinvestment. One official describes a recent trip to a Strategic Air Command facility, where Japanese visitors seemed stunned by the ancient computers used to track military positions. The visitors expressed disbelief that the United States was defended by such old technology, the official recalls.

The FAA, the SSA, the IRS and HCFA all tackle increasing work loads in data processing and other tasks on 15-year-old, sometimes 20-year-old computers. The Defense Nuclear Agency still chugs along with a 22-year-old mainframe. And the U.S. government is the western world's largest buyer of vacuum tubes, the grandfathers of today's microprocessors. "The government once was a leader in computers," says former IRS commissioner Gibbs. "Today, the IRS's computer system is somewhere in the ice age. It's inefficient, and it wasn't made to handle the amount of work that's being demanded of it."

The government does spend increasing amounts on computer equipment and services—$17 billion in fiscal 1989, compared to $9 billion in 1982. But this growth masks a crucial problem: As with other capital equipment budgets, much of the money is spent for new automation programs, says GSA, which leaves less for upgrading and maintaining the vast computer kingdom that the government has amassed in the last 25 years.

Procurement Problems

Even when funds are earmarked for replacing old computers, the system implementation is often woefully managed. The FAA, for instance, has spent more than a decade designing the National Airspace System Plan, a high-tech upgrade for the outmoded computers that currently control the nation's air traffic. The plan's complexity is part of the problem, along with the agency's troubles in retaining a staff talented enough to design the proper system.

Former FAA chiefs also have complained that high turnover in the agency's legal and procurement staffs has delayed the acquisition of the system, the most expensive domestic computer procurement since NASA geared up for the Apollo program. Terminals for the system are vintage late-1960s, and the decoders that funnel radar information to terminals were manufactured in the 1950s; they still use vacuum tubes.

The National Airspace System Plan is nothing if not ambitious, but miscalculations about the system's requirements have boosted its 1981 sticker price of $11 billion to $24 billion.

The IRS faces similar problems. Although the installation of a new multibillion-dollar system is finally progressing after nearly a decade of delay, the complete computer network won't be finished for at least six years. In the meantime, the IRS is continuing to use an archaic, inefficient computer system that requires the agency to ship magnetic tape by airplane and truck from its field offices to a central processing facility in West Virginia. Information can be processed anc fed back to the field only in batches, which means offices often don't have updated data to use during conversations with or investi gations of taxpayers.

The delay at the IRS stems from the sam government-wide technology problems tha have hampered the Airspace System Plar poorly developed automation plans and a se vere turnover in the agency's technical staf

Such problems aren't likely to disappea Recent GAO surveys of federal manage indicate that their ability to hire enoug technical employees has worsened conside ably in the past five years. This predicame is, of course, part of the recruitment a retention problems affecting much of t public service. And as long as the feder government continues to pay its employe an average of 29 percent less than the p vate sector, and much less for some tec nical and senior positions, the Hollow Gc ernment probably will echo ever louder.