

How Can Our Nation Better Compete to Win in the Global Economy Today?

by Charles L. Prow

The traditional approach to increasing national competitiveness has been to increase innovation and government investments in research and development, workforce development, and public infrastructure. Given today's fiscal realities, the nation must explore alternative policy approaches and ways for government to do its business. These alternatives can enhance national competitiveness in an environment where major new investments will be difficult.

The book on which this forum is based addresses three topics that, together, offer a competitiveness agenda different from the traditional approach.

- Section I sets the context for the current national debate on fiscal stability by describing the long-term structural debt of the country, which will be a key priority of policymakers in coming years. Section I also offers a path for creating a nonpartisan framework for setting national priorities in that context, which should foster fiscal sustainability and thereby enhance national competitiveness.
- Section II identifies targeted policy interventions in key sectors of the economy that could lead to improved national competitiveness, but within the context of the fiscal austerity our nation will face for the foreseeable future.
- Section III offers a value-oriented, enterprise operating model for the federal government, based on commercial experience, which could lower operating costs by up to \$1 trillion over a decade while improving mission performance and services to citizens. Because the federal government, as an enterprise, is such a large segment of the overall economy, this new operating model could bring about similar changes in the broader economy, thereby improving productivity and enhancing national competitiveness.

The Imperative to Create Long-Term Fiscal Sustainability

The first section of the book sets the context for why the annual deficit and the long-term debt of our nation matter to our competitiveness in the global economy, and gives some strategic steps that can be taken to change course.



Lawrence Haas, a former top White House official, and David Walker, former Comptroller General of the United States, set the stage in stark terms. Haas writes, "We must make tough decisions about what we want government to do and how we will pay for it." Haas and Walker vividly describe how the federal government's long-term fiscal condition appears to be dire because of unfunded commitments, an aging population, and spiraling health costs. Walker notes, "Our greatest challenge relates to the tens of trillions of dollars in unfunded Medicare, Social Security, and other obligations" which total over \$65 trillion. Historically, when a nation's debt exceeds 85 percent of gross domestic product (GDP), its growth and competitiveness are imperiled. According to the Congressional Budget Office, the U.S. debt is projected to reach 75% of GDP in 2013.

Based on recent research by the Peterson-Pew Commission, budget expert F. Stevens Redburn describes in Chapter Three (which is excerpted in this forum) a new strategic approach for reforming our country's budgeting processes, noting, "We must learn to conduct our fiscal affairs in a larger way and

over a long horizon, to focus as much attention on benefits as on costs, and to measure our fiscal commitments both by their sustainability and by their contribution to society's highest aspirations."

Gail Fosler, former president of The Conference Board, says that national competitiveness "is no longer defined solely by measures of international trade or relative cost competitiveness." She says that it is increasingly being measured in terms of "a country's ability to raise living standards in a balanced way" and that "against these more powerful measures of economic welfare ... the United States is clearly falling behind."

By some estimates, the U.S. federal government faces an annual structural budget deficit of between \$500 billion and \$700 billion. The President's National Commission on Fiscal Responsibility and Reform (also known as the Bowles-Simpson Debt Commission) produced a plan in December 2010 setting a target of nearly \$4 trillion in deficit reduction through 2020. The Debt Commission's plan incorporates six major components:

- Discretionary spending cuts
- Comprehensive tax reform
- Health care cost containment
- Mandatory savings
- Social Security reforms to ensure long-term solvency and reduce poverty
- Changes to the governance process

In any case, restoring long-term fiscal sustainability is not sufficient. If we just do that, we haven't made the country more competitive—we have only made it solvent. We also need to change the way our national government does its business—both in the policy and operational realms—in order to be competitive in the global economy.

New Policy Approaches Can Enhance Competitiveness

The second section of the book describes how our nation can enhance economic competitiveness by making targeted policy changes in key sectors of the economy with relatively small new investments. It delves into those critical areas where the federal government needs to assert a leadership role, and needs to reframe how it views these factors.

The Banks of the Potomac Are Littered with Studies and Initiatives

There is an enormous body of knowledge about reforming government, some of it referenced in this book. Many credible experts and associations have shared ideas and pilot program results to help address the debt. Examples are the Bowles-Simpson Commission's 2010 "Report of the National Commission on Fiscal Responsibility and Reform," and McKinsey & Company's 2009 study, "The Case for Government Reform Now." The McKinsey study suggests that a 15-percent improvement in the efficiency of the federal government could generate up to \$1.3 trillion in savings over the next 10 years.

These studies were preceded by a number of other efforts over the past 40 years, including:

- The Advisory Council on Government Organization (The Ash Council), 1969–71
- The President's Reorganization Project (The Carter Reorganization Project), 1977–79
- The Executive Committee of the Private Sector Survey on Cost Control in the Federal Government (The Grace Commission), 1982–84
- The National Performance Review (The Gore Reinventing Government Initiative), 1993–2000
- The President's Management Agenda (G.W. Bush), 2001–2008
- The Accountable Government Initiative (Obama), 2010–present

The consensus view of these studies and efforts is that there are many paths to improving performance and reducing costs. There is no shortage of ideas on what reforms are needed and how they should be implemented. More attention needs to be spent on execution.

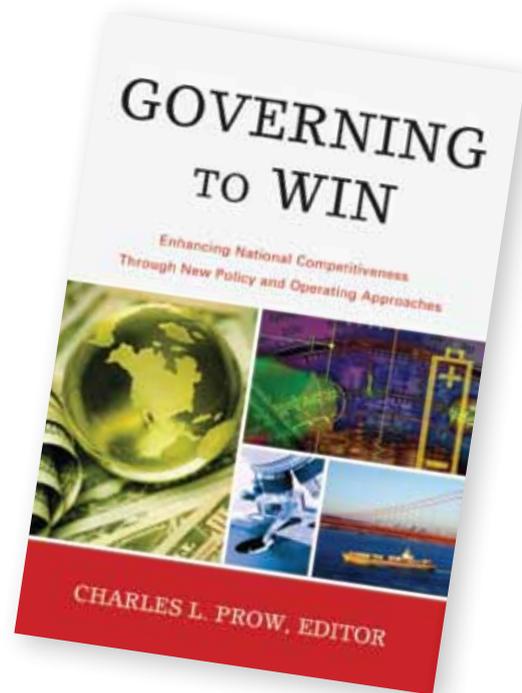
In Chapter Five, economist Jason Fichtner notes that “there are solutions to enhance United States competitiveness now, regardless of the state of today’s economic business cycle.” He offers several broad policy prescriptions in areas such as tax policy and regulatory and product liability reforms as approaches to improve national economic competitiveness in the near term.

Professor Anthony Carnevale observes in Chapter Six that better linking existing information between suppliers of higher education and the broader labor market could leverage greater economic growth. He recommends that state and national policymakers “tie job exchanges (online job-search engines) to learning exchanges that match job openings and career pathways to available courses offered by postsecondary institutions in the classroom and online.” He says the data exist in the U.S. Departments of Education and Labor, but they need to be better connected.

In Chapter Seven, Dr. Jack Meyer says, “Over the past several decades there has been a fundamental disconnect between government cost control policies and the underlying forces driving up health care spending.” He says the bottom line is that “government is not a smart buyer of health care.” In response, he offers specific initiatives to bend the health care cost curve using smarter strategies to control costs. These include continuing investments in health information technology systems, targeting effective new technologies to patient clinical needs, improving care management for people with chronic illnesses, moving to bundled payments, and focusing more attention and resources on community-based prevention programs.

Dr. Howard Geller writes in Chapter Eight that “The United States is farther behind than many other countries in its level of energy efficiency.” For example, he says that U.S. chemical and petrochemical industries could improve their energy efficiencies by 30 percent and this would allow them to catch up with their peers in other countries. He says, “Full deployment of cost-effective, energy-efficient technologies in buildings alone could eliminate the need for any new power plants in the U.S. through 2030.” He describes three strategies to increase energy efficiency, including setting more challenging efficiency standards.

Taken together, the chapters in this section offer an exciting roadmap as to what our country’s next steps in improving its national competitiveness can be if we leverage existing resources in new ways. But there are also ways the federal government, as the nation’s largest enterprise, can enhance competitiveness in the broader economy.



Moving to an “Enterprise USA” Approach in Government Can Enhance Competitiveness

If the federal government were viewed as an enormous enterprise—Enterprise USA—and if it were to focus its activities in ways that improve economic competitiveness, it could be a catalyst for improving the competitiveness of the broader economy. After all, the entire economy is severely constrained if the federal government, which is one-quarter of the economy, is underperforming.

The book concludes with Section III, focusing on ways to adapt private-sector best practices in managing operating costs to the federal government. The secret to increased productivity and reduced costs in the private sector in the past decade has been to focus on value and to take an enterprise-wide perspective. Mission-support costs in the government—for enterprise activities such as personnel, contracting, and supply chain management—historically average about 30 percent of total operating costs, while in the private sector these costs typically average about 15 percent. Section III offers opportunities for improvement.

No longer will traditional cost reduction programs that trim around the edges be an adequate strategy for paring costs. Instead, government leaders need to develop new value-driven business and operating models within and across departments and agencies that will cut cost and time, and enhance the service and quality of government operations. In addition, leaders will need to take an enterprise-wide

World Economic Forum Reports U.S. Is Slipping

For the past three decades, the World Economic Forum has published an annual report on global competitiveness. Its 2011–2012 report says “The United States continues the decline that began three years ago, falling one more position to 5th place.” The Forum’s report notes that the U.S. has strong economic fundamentals in place, but that its governance system is in question. It notes that the business community’s “trust in politicians is not strong (50th) ... policymaking is assessed as less transparent (50th), and regulation as more burdensome (58th).”

The Forum’s report defines competitiveness as “the set of institutions, policies, and factors that determine the level of productivity of a country.” It says that “a more competitive economy is one that is likely to grow faster over time.” It defines competitiveness further as having 12 pillars that serve as determinants of productivity and competitiveness:

- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education
- Higher education and training
- Goods market efficiency
- Labor market efficiency
- Financial market readiness
- Technological readiness
- Market size
- Business sophistication
- Innovation

The Forum also notes that these pillars matter to all national economies—ranging from developed countries such as the U.S. to emerging countries such as Zaire—but their mix and importance varies, depending on each country’s stage of development.

Source: *World Economic Forum, The Global Competitiveness Report 2011–2012.* (http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf)

approach to how they deliver their missions and operate their support functions. This is how the commercial world has significantly reduced its costs while improving both performance and competitiveness.

Adopting some of the commercial world’s operating models could result in an estimated \$1 trillion in cost reductions in mission-support functions over the next decade—approximately \$125 billion in cost reductions per year while also improving the value of all essential government missions. Because of the scale of government operations in the context of the overall economy, this could fundamentally improve our national competitiveness.

Chapter Nine offers a conceptual framework for how government leaders should approach their missions. They should start with the value their programs create. This is followed in Chapter Ten [which is excerpted in this forum] with a challenge by the former federal administrator of e-government and information technology, Mark Forman, who writes, “Government today spends more on information technology (IT) overhead costs than on the direct costs of mission systems.” And he asks the obvious question: “Why does the government spend more on managing IT than on the mission systems themselves?” In answering his own question, he describes the changes that need to occur in both the technologies government uses, such as increased reliance on cloud technology, and changes to how IT systems are governed.

In Chapter Eleven [which is excerpted in this forum], supply chain expert Raj Sharma notes that the federal government purchases more than \$500 billion of goods and services each year, but the process is “cumbersome and inefficient; hundreds of purchasing offices work independently with little or no coordination.” He says that adopting commercial supply chain best practices—where integrated purchasing staffs and strategic cost and supply chain management are common—could save hundreds of billions of dollars. For example, he recommends a shift in the role of government contract officers from managing purchases and price to managing supply chains and total cost. He says that to do this, though, would have “profound implications on everything from the alignment of purchasing staff and processes to key capabilities required of purchasing organizations.” But he also notes that the current fiscal environment offers “an unprecedented opportunity to not only transform the way government purchases but also the way it manages its supply chains.”

Former Assistant Comptroller General Jeffrey Steinhoff advocates the use of advanced business analytics to significantly improve government performance. He says advanced analytics can be used in “reduction of improper payments,



This is an election year. Americans will have a chance to engage in the candidates' debate of ideas on where we go as a nation in the coming years. I hope the book contributes to that debate. This forum introduces the main themes of book while also highlighting insights from selected contributors. ■

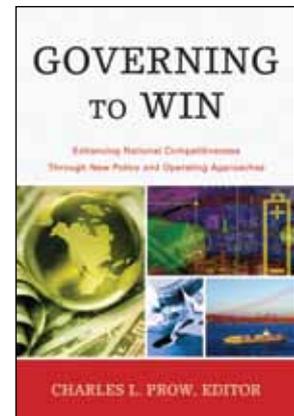
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targeting suspicious tax returns for audits, 'de-layering' administrative processes and controls, cutting the time for processing benefits claims, and identifying areas for risk management." Expanding the use of analytics, widely done in the private sector, can both "improve government performance and take out potentially billions of dollars of costs."

In Chapter Thirteen, defense expert William Phillips and commercial consultant Debra Cammer Hines share their experience in applying shared services models to both mission-support and mission-specific services. The authors then describe how private industry's use of the shared services model could be adopted and adapted more widely in the way government does business, if government were to view itself as a broad enterprise rather than a confederation of loose functions.

TO LEARN MORE

Governing to Win: Enhancing National Competitiveness Through New Policy and Operating Approaches
edited by Charles L. Prow



The book is available at bookstores, online booksellers, and from the publisher at www.rowmanlittlefield.com, or by calling (800) 462-6420.