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Downsizing: Managing the Muddles

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This article argues that expectations that cutback will produce better management in the public sector are unreasonable. The model is of ambiguous worth in the private sector: though vigorously pursued, its benefits there have been dubious. But in the public sector, the likelihood of achieving major managerial improvements through downsizing is even less, since several of the key assumptions in the private sector do not hold in the public sector. One such assumption is that agencies forced to cut back will redefine their core functions and eliminate marginal and expensive activities. This article shows how this assumption has actually worked out in a number of case studies. A second assumption is that the cuts will be be taken and then the agencies will be able to recover. The reality for some agencies has been continuing chaos, threats of termination that last for years, and repeated budget cuts. The case studies include qualitative interviews with agency officials and documentary analysis. The data is taken from a forthcoming book tentatively titled, *Balancing the Federal Budget: Eating the Seedcorn or Trimming the Herds.*

In recent years corporate ideology has been widely adopted in the public sector. The thinking seems to be, if business does it and approves it, it must be good. Since business has been engaged in a great deal of downsizing, then downsizing must be good for the public sector. Presumably, public organizations will run better and cost less if they are downsized.

That reasoning leaves some gaping holes in logic. First, it assumes that downsizing has been good for business, while the evidence is far more ambiguous. A study by the National Research Council (see Friel, 1997) found that «downsizing as a strategy for improvement has proven to be, by and large, a failure.» Seventy-four percent of senior managers whose companies downsized said that morale, trust and productivity declined after downsizing. «The fear, distrust, uncertainty and potential for personal harm may mitigate against any organizational downsizing strategy,» the study says.

The study says that although many managers are embracing Total Quality Management, downsizing and reengineering, each risks «being relegated to the management fad ragbag, however, because none has been rigorously studied in systematic, empirical ways, especially regarding its impact on organizational effectiveness.» And, the study concludes «evidence also exists that each is useless if not harmful.»

A second problem with the reasoning is the assumption that what is good for business is good for government. Yet we know that the goals and values of government and business are not similar, and the authority structures of businesses and governments are radically different. Why should anyone assume that what is good for business would also be good for government or would even work in government's very different context?

Third, the argument presumes that all government agencies, just as all business organizations, are overstaffed, so a reduction in staffing will be helpful. But clearly, some agencies and some bureaus are understaffed while others are overstaffed. A more fine-grained approach is warranted. Why then are we so eager to downsize government across the board, and why should we assume that the result will be leaner and better managed government agencies?

Staff and budget cuts during the Reagan administration combined with continuous pressure to eliminate agencies or render them ineffective. These cutbacks did not have the effect of improving management in the short run (2-3 years) (Rubin, 1985). The staffing reductions were accomplished primarily through Reductions in Force (RIFs). The staffing ceilings were pulled out of the air, not related to work demands or program size or complexity and the cuts came with such speed and insistence that little could be done in the way of planning. Agencies often spent years recovering from the managerial harm of Reductions in Force, downgrades, transfers, and staffing reductions, and the prolonged chaos of reorganizations. Reductions in force often left the remaining staff demoralized, lacking commitment and fearful of trying anything new. In some agencies, downsizing was done without sufficient reengineering of the work tasks or program simplification, leading to financial scandals and performance gaps.

But what of the longer term, after the initial cuts and after the reorganizations? Presumably organizations gradually adapt to their new staffing levels, Congress eventually passes whatever legislative changes are necessary, and the organizations become more efficient, using computers more extensively, for example, or transferring people back to offices where their skills were in demand and appropriate.

But the model of long-term benefits from downsizing also makes a series of assumptions. It assumes that the cuts are one-time events that can be gotten over, that there is a rationally selected target for downsizing that fits the workload or that the workload can be made to fit the new staffing and budget levels, that Congress will make whatever simplification in program design is necessary, and that there is sufficient flexibility to transfer staff to where the need is greatest. It assumes as well that staff will be trained for their new positions, or will be released from their new assignments to go back to older ones where they had skills. Most heroically, the model assumes that the new shrunken and demoralized staff will recover, will be energized, and will be able to carry on the necessary work while responding to the need for reinvention and reengineering.

Many managerial improvements have been made in agencies since the early 1980s, but many of them have been in spite of not because of the downsizing. Blindsided by admiration for the business model,

many public administrators have expected too much benefit from downsizing. More modest expectations are in order, because the assumptions underlying the model of lean and efficient government through downsizing are often incorrect and the difficulties of implementation have been underestimated.
The model of rational management of cutback makes a huge number of assumptions which are often not fulfilled in public sector agencies, not because managers are not rational, but because they face conflicting demands from those who control their agencies. Cutback may be carried out in such a way that it is not possible for agencies to respond to them efficiently.
This article discusses some of the obstacles to rational management of cutback with reference to case studies of federal agencies over the last fifteen years. Some of these obstacles could be removed; others would require a rescission of the laws of politics that is not likely to occur any time soon.

PLANNING VERSUS REACTION AND ADAPTATION

The fully rational decision model assumes that cuts are announced in advance, with sufficient time to plan for them and that the level of cuts is based on some widely known and generally agreed to criteria. In the early 1980s, these preconditions did not exist, giving rise to the modified hypothesis, that hastily made cuts would be followed by adaptation to smaller size and recovery from the damage done. Professionalism would overcome demoralization after the RIFs, and service levels would remain high or recover from troughs.
For some agencies, this react first and adapt later model was reasonably descriptive. For example, the Department of Commerce was severely cut during the Reagan administration. The cuts came so fast they allowed virtually no planning:

«The Reagan cuts in 1980, they came fast is an accurate description. The Spring of 1981, Secretary Baldridge was appointed January 29, just after Reagan took office. [Office of Management and Budget Director David] Stockman already had plans in place. On the first day, Baldridge called together the budget staff, he had a list of Heritage [Foundation recommended] cuts, including the EDA [Economic Development Administration], parts of NOAA [National Oceanic and Atmospheric Administration], etc. We gave up on EDA, but defended other programs, and got thrown out of the office as having the wrong frame of mind. Deputy [I missed the name] called us back to work on it. We redid the budget six times in two months, each time OMB [the Office of Management and Budget] added additional cuts, either in funding levels or positions.» (interview with Mark Brown, Budget Director).

While the agency was struggling with figuring out where to cut, it was also trying to focus its mission more clearly by swapping some functions with other departments. The result presumably would be a more easily defensible organization, less subject to picking off agency by agency:

«There were also some swaps with other departments to change the focus to trade, traded maritime to transportation, to get trade from [I missed this]. [The Secretary] wanted more trade functions in commerce.» (Mark Brown, Budget Director).

The Secretary wanted to focus on management issues, but could not as long as the department was struggling to define and make cuts:

«Baldridge came in with a management agenda, Stockman had an agenda of budget cuts. Internally, there could not be a lot of planning. By 1982 and 1983, there was much more effort [to deal with management issues], set up an MBO [Management By Objectives] program, there was more emphasis on management in the office of the assistant secretary for administration, to deal with the consequences of the cuts. The department had reached a steady state and began to get well by 1984.» (Mark Brown, Budget Director).

The General Accounting Office (GAO) had a similar experience in the 1990s, in which it experienced deep cuts, tried hard to minimize the damage from them and contain the period of cutback to speed adaptation and recovery. Rather than fighting the cuts, GAO leadership said it would accept the cuts with good grace if they would be fixed at an agreed on level and not repeated thereafter. To get the damage over as quickly as possible, the agency used Reductions in Force rather than attrition. GAO pushed forward on a number of projects underway in computers and in work process reengineering to cope with reduced staffing. Agency officials forbade transfers and concentrated the RIFs in the field rather than at headquarters, to contain the spillover damage.

However, even where the model of cuts followed by adaptation worked reasonably well, some problems lingered. In the Commerce Department in the early 1980s, where the model fit reasonably well, there was not one attack that stopped. Rather the assault on department programs continued for years. As the Chief Information Officer Alan Balutis described:

«At the same time [that we were recovering], we continued to put together budget proposals that called for the elimination of EDA and especially NOAA, which constituted more than half the department.»

The uncertainty was extensive and long lasting.

At GAO, the agency was definitely functioning more efficiently at the end of the its reduction and recovery period than it had before the reductions began, but there were also long term consequences that were less positive or more ambiguous, including more reliance on secondary data, fewer studies, more short studies and letter reports, and more studies not released to the public. In the effort to make their products more timely, the GAO often testified on the basis of work in progress rather than finished studies.

The finished GAO studies often had narrower scope. For example, in one recent study, GAO investigated the consequences of deep staffing cutbacks in five agencies. Staff asked agency officials if they were still carrying out their missions and satisfying their clientele; GAO investigators also asked how their agencies had adapted to the cutbacks. The researchers did little beyond requesting self reports from agency officials and copies of customer satisfaction surveys; they made little effort to either to test the statements' validity or to qualify officials' statements. At least in some cases, the new shorter studies lacked depth. In the past, GAO frequently cited its own previous work on a subject, to give the context and provide some depth, but unless some breathing room is built into the recovery period, GAO is in some danger of depleting its reserves of knowledge.

Another long term effect at GAO occurred because the staffing reductions and hiring freezes combined with increased work load that was not easily accommodated. All agencies were required to produce auditable financial statements and GAO was to help audit those statements. GAO had to transfer into the accounting and auditing section all staff members who had any audit experience, whether they wanted to go or not. Their skills were often rusty, they were not necessarily happy in the new job, but had to remain there. Presumably they would gain skill as they went, but they were lost to their original program units, and they were not necessarily motivated to be where they were. This so-called "forced march" from across GAO into the auditing function left a long-term problem.

Moreover, the model of quick reductions followed by recovery assumed that when Reductions in Force were over, staff would recover. But it was very difficult for anyone to get over the trauma of Reductions in force. As one informant who had been "RIFed" in the early Reagan administration and then hired at another agency reported:

«You never feel the same way again about your agency. You had felt there was mutual loyalty, that your agency would go to bat for you, and you discovered that it didn't care about you. You did your work, but you went home at 5:00 PM and didn't feel guilty for it.» (name of interviewee withheld by request).

By contrast, in agencies that avoided RIFs staff members described a family-like atmosphere and intense agency loyalty.

After the wave of RIFs in the early 1980s, studies were done that found that RIFS frequently were not as efficient as reductions by attrition. Congresspersons who represented districts with many federal employees remembered the trauma of RIFs and took steps to see that they were not repeated. The result was that during the second wave of personnel cutbacks during the 1990s, the reductions were made primarily by attrition (GAO was an exception), assisted by buyouts and early retirements. Attrition reductions are much slower, introducing a kind of rolling decline in staffing that lasts six or seven years. The model of the quick cut and gradual recovery became very rare in the 1990s.

Some agencies or departments, such as GAO and Commerce, were able to take the cuts and gradually recover, more or less. But other federal agencies were less able to recover. They found themselves with considerable mismatch between their staffing levels and skills on the one hand and responsibilities on the other hand. The result was serious service gaps and highly publicized failures. Both the United States Department of Agriculture (USDA) and Department of Housing and Urban Development (DHUD) found themselves in this situation in the later 1980s. Cutbacks in staffing that occurred without commensurate reduction in program responsibilities contributed to lack of oversight and poor performance. These widely publicized failures prompted pressures to close down or radically change the departments. Both USDA and DHUD were harried for years with threats of termination as departments. These continued threats made close relations to congresspersons regarding individual programs crucial for survival, and made it more difficult to take appropriate steps to simplify or eliminate programs and reorganize.

The USDA tried to learn from its cuts in the early 1980s and its service deficits in the later 1980s. When the second round of major cuts was announced in the 1990s, USDA administrators carefully but quickly worked out a reorganization that would close and merge field offices and revamped administration at headquarters. Having a plan in hand helped fend off the kinds of ad hoc cuts that had driven Commerce in earlier years. Agriculture was also able to get some program simplification from Congress. However the ability of the USDA to adapt to cuts was uneven. The department was unable to get authorization to reorganize one of its biggest agencies, the Forest Service, and was unable to negotiate agreement on the Forest Service’s mission.

As budget pressures tightened under the Budget Enforcement Act and then the balanced budget agreement between the president and Congress, budget cuts became so top down that all planning efforts were washed out. This complaint was heard from budget officers all around Washington. The idea that the agency could think about the coming financial constraints and plan what to do was just wrong.

As one budget director in an other agency put it, the budget process became so top down that the role of the budget director shifted from budget request and justification, and the policies implied therein, to budget implementation, doing the best you can with what you got. Adaptation in this sense was not only after the fact, but short term, within the budget year, and kept on going, from one year to the next, a series of incremental adjustments.

DHUD’s experience was even more troubled than the USDA’s. Initially, DHUD was unable to plan for many of the personnel cuts. To gain a little time, the budget office engaged in strategies of nickling and diming, or cutting into the Salaries and Expenses Budget (S and E budget), such as the mail budget or the phone budget. (Many other program budgeters reported cuts in travel and in training, also in the S and E budget, so deep that normal functions could not be performed. The idea was that these could be restored later, if budgets improved, while cuts in staffing were more permanent in that particular individuals with their own history and expertise might be dismissed or displaced).

In its programs, DHUD scored savings by reducing budget authority without cutting outlays. It accomplished this apparent magic by shortening the term of long-term contracts, until they needed to be renewed annually. The result was to put off until tomorrow larger and larger bills.

Rather than a quick cut and recovery, DHUD's personnel levels were drawn down slowly and inexorably, toward a goal selected seemingly at random, having nothing to do with program obligations or work demands. Plans to consolidate programs and ease some of the administrative burden stalled in Congress. DHUD has therefore not been able to engage in substantial program simplification as it has downsized, despite its efforts to push major legislation.

As downsizing continued, the gap between workload and staffing levels became more acute. This problem is being addressed through increased emphasis on training and also on contracting. The contracting has not been done with a view to whether it is more efficient to contract for that service or provide it in house; the staffing ceilings declines combined with continued high work loads have made contracting necessary whether it is efficient or not. Many in DHUD worry that there is not sufficient experience and expertise in some units to supervise the contractors, to evaluate their performance, and to learn from their experience, in order to pass on that learning to the next contractor, when the contractors change.

In the absence of new simplifying legislation, and in the face of continuing criticism of its management and financial practices, DHUD has tried to do what it can to improve management without additional legislation. These efforts have undoubtedly been slowed by the staffing losses and by continuing demands from the administration and Congress to satisfy mandates such as performance budgeting, performance planning, risk evaluation, and providing auditable financial statements. DHUD's management is improving, but the cuts have not been the vehicle for that improvement and have in fact been a contributing factor to many of the managerial problems.

The model of adaptation after cuts assumes the downsizing will stop: In DHUD, it didn't, it spread across many years, with a very low staffing target at the end. The target is so low, it is difficult to imagine how the agency will be able to provide timely services without program changes.

The model of adaptation also assumes that there will be flexibility in reassignments of staffing, but at DHUD, some units were over staffed, some understaffed. The 1990s reductions came from attrition and buyouts, which affected some units much more than others. A recent GAO study noted that staffing reductions were as low as 7.8% in some units and as high as 31.8% in others (see **Table 1**).

Table 1. Full-Time Employees Reductions at the Department of Housing and Urban Development Components between Fiscal Years 1993 and 1996

Component	Full time employees reduction between fiscal years1993 and 1996	Percent of fiscal year 1993 full time employees reduced	Percent of Housing and Urban Development full time employees reduction
Office of Housing	977	15.9	51.6
Office of Administration	187	15.9	9.9
Community Planning and Development	172	16.9	9.1
Public and Indian Housing	171	11.2	9.0
Field Directorate & Operational Support	157	31.8	8.3
Other components	230	7.8	12.1
Total	1,894	14.2	100.0

Source: GAO calculations based on agency-provided data (General Accounting Office, 1998).

A decentralized structure in which the assistant secretaries each controlled a program domain made it difficult for the secretary to reassign staff across program areas. On the one hand, the result was less likely to produce staff who didn't know their jobs; but on the other hand, it resulted in very uneven patterns of staffing that persisted year after year.

DEFINING CORE FUNCTIONS

Part of the business model of downsizing is redefining and reemphasizing core activities. The argument is that organizations grow by adding functions and product lines that may not be related to what the organizations are known for and have the expertise to deal with, making them less efficient and less focused. After a period of deliberation as to what the core functions are, the corporation should shed those functions defined as outside the core. It will then be leaner and more efficient.

This model has been difficult if not impossible to operationalize in the public sector, despite the fact that many of the cabinet level departments have indeed been loose agglomerations of unrelated and sometimes even contradictory functions and programs. The Commerce department, which may represent an extreme of hodgepodgeny, tried to focus more on trade functions during the early 1980s, but it remains diverse. The Census Bureau gave the agriculture census to the Agriculture department, but still continued to do a variety of surveys. The Office of Personnel Management shed a variety of functions, but apparently without a clear vision of what its core was or what would remain after its functions devolved. Overall, these efforts have been marginal, and many departments are still loose aggregations of different functions.

Why has this part of downsizing been so difficult? In part, because there is no logical best way to group functions, so any kind of loose connection seems to suffice. It may therefore be difficult to define what the core mission of a department or bureau really is.

Second, building coalitions of support for a department requires the accumulation of different clienteles, and hence different programs. The more a department or agency is under threat of termination, the more likely its officials will try to expand its support by adding missions, programs, and clientele groups. Whether these groups are compatible or not seems irrelevant to survival. But once done, interest groups lock on their programs, making those programs difficult to eliminate. Program beneficiaries often speak through their legislators who refuse to allow a program to be cut out or simplified.

Part of the problem stems from ideological differences in political officials. Sharp differences in policy preferences may show up in legislative stalemates that make it difficult or impossible to agree on either what functions to shed or to permit the department enough autonomy to reorganize itself.

Program administrators and departmental managers may be reluctant to propose termination of programs. It is much more difficult to get initial approval for a new program than to rejuvenate one that has become moribund or that has not been funded for years. Moreover, proposing to terminate particular programs that have legislative and client support may put the agency at odds with its supporters, aggravating its budgetary and staffing problems. But even when they do propose program terminations or the elimination of product lines, as suggested earlier, they are not always allowed to cut programs.

Finally, Congress and or the administration may be interested in eliminating programs and product lines that the agency feels are core functions. Thus the administrators' and staff's considered opinion about what functions are core to its operations and goals may run counter to the political calculus and loyalties of politicians, who cut other programs instead.

Several examples follow of agencies that tried to define the core and cut the rest. Some were successful, others much less so. The Bureau of Labor Statistics (BLS) conforms closely to the idealized rational response to cuts to protect the agency's ability to continue to deliver quality work. The agency devised an accounting system that allowed the agency to figure out exactly what each product line cost, and cut by product line rather than across the board after deliberating about what product lines were more marginal than others. Other agencies were less able to cut product lines of their choice, such as the Census bureau, which received a lot of pressure to cut in other places instead that provide much of the basic information for decision making in business and for tracking demographic trends. The Office of Personnel Management (OPM) reportedly tried to redefine its core, but the drive to decentralize and to cut personnel was so strong, half the agency was privatized, and it was not clear what the remaining functions represented. OPM seemed to be in more of a reactive mode, responding to crises and opportunities as they arose, rather than planning what functions represented a defensible core, were interdependent, and more important or more basic than other functions the agency performed.

BUREAU OF LABOR STATISTICS

How was BLS able to do drop product lines, and why were so many other agencies unable to match this approach? In part, the agency had an accounting system in place before the cuts that would allow decision making by product line. The decision-making system and the accounting that underlay it were not invented during the period of cutback itself, they were in place before hand.

In addition, BLS was a highly professional statistical agency, the value of whose product lay in its precision and integrity. If the agency allowed budget and personnel cuts to erode all product lines across the board, none would have sufficient quality to be useful. Not only could the agency staff perceive quality changes, so could the agency's clientele. In many other agencies, quality is more difficult to perceive, a slight erosion of quality may be acceptable, and even a considerable erosion of quality and timeliness usually leaves a product that is useful.

During the early years of the Reagan administration, when the agency was faced with budget reductions, the BLS commissioner guided the process of determining the core functions:

«We wouldn't cut across the board… We defined the basic core of data, and then the periphery. That was difficult, everyone thought that theirs was core. We had to have the CPI [Consumer Price Index], unemployment, business survey, wage data, productivity, they defined the core. Some things outside core were useful, but they were not core.» (interview with Janet Norwood, October 5, 1996).

Despite the agency's determination to define and continue to fund core activities, it was difficult to get targeted cuts through the White House and Congress. The clienteles of threatened programs often argued vociferously for continuation. Norwood described:

«The users can be vocal, they can get to the White House and Congress. We got calls from both of them. Even though the White House was instituting the cuts. People who lost their data were upset.»

The Associate Commissioner for Administration indicated that the agency was not always successful in getting its proposals for cuts approved:

«Every program has a broad and influential constituency, states or businesses or academicians. A group of influential and satisfied clients. Eliminating those [programs] is a problem… We are sometimes told that we cannot give up a particular item. Congress has restored funding that we would have eliminated… We proposed some eliminations they did not want and some others they accepted.» (interview with Dan Lacey, 7/25/96).

While the BLS was not able to pare back exactly as agency officials planned, they were able to get approval for many of the core proposals. But as time passed, the ability to plan cuts programmatically declined. Moreover, the excellence of programs had little to do with the funds they were allocated. Attention shifted to doing more with less, stretching dollars, and budget implementation, and away from budget justifications.

Though the agency sought to maintain quality in the remaining core programs, managers encountered difficulty in those areas where they contracted out. The Bureau of Labor Statistics used to share some programs with the Census. When it came time for cutbacks, BLS did not have the freedom to cut these programs in the same way it did its own. As Commissioner Norwood described:

«We used to contract with the Census Bureau. Census would collect household data and Bureau of Labor Statistics would collect data on establishments. We did contract work. Basic labor force data, the Census Bureau did that. As manager, that was difficult when we were cutting back. It was harder to manage quality because it was in the Census Bureau. They would cut out all training; I would never do that. If my staff came in with something like that, I could say, we can't do that, look at x or y instead. But when you contract with another agency, it is harder to do, there is a different perspective. As we move more into to public private partnerships, we need to keep that in mind, we need to keep people in house to ferret out these differences. You cut your own programs more than something you have contracted out.»

Since contracting has become such an important adjunct to downsizing, this interdependence and its effects on defining and maintaining the core are likely to be much broader than the BLS and the Census Bureau.

THE CENSUS BUREAU

In general, low priority was placed by a number of congresspersons on data needs. Some pressed for elimination of the long forms that were sent to a sample of the population and for simplification of the short form. The goal was not only to increase the mail-in response rate, and thereby lower costs, but also to reduce the level of intrusiveness of government into private lives.

At a session with census advisory groups, Dr. Riche, the Census Bureau Director, reported that congressman Rogers, (who handles oversight of the Bureau as well as Appropriations) opposed providing funds for the long-form questionnaire regardless of previous legislative requirements and was very critical of the redesigned, user-friendly, short-form questionnaire. Another Census Bureau staff member added that the fiscal year 1996 budget hearings before the Congress had a chilling effect on several aspects of the year 2000 census design process, particularly the overall questionnaire design and the prospect for

collecting comprehensive data using a long-form questionnaire administered to a sample of the population (From notes taken at an advisory commission meeting by a Bureau staff member [not dated, probably 1995], posted on the Bureau's home page).
The second major problem was that the Bureau was often unable to fully fund its surveys other than the main episodic ones. Many of these other Census products are based on sample surveys, rather than complete enumeration. When funding got tight for these other programs, the Census Bureau was often not able to eliminate programs or product lines in the way that BLS did when money got tight. For one thing, until 1996 the Census did not have an accounting system that would allow them to make the kinds of adjustments that the BLS routinely made. Second, the Census Bureau found that it often was not permitted to cut out product lines. The result was a continuing erosion of the existing programs.
Despite the occasional successes, the Census Bureau often lacked the discretion to cut:

«One of the things that is usually unspoken, I hope Janet [Norwood] told you this, it is not always a unilateral decision about what to cut. Sometimes there is some gamesmanship. Sometimes it is not politically acceptable to cut those. Congress may tell you "no" or the parent agency may tell you "no." That takes away options, you have to use the fall back, cutting the sample to save money.» (interview with Bryant Benton).

The most frequently used option was cutting the sample size. When the sample size grew smaller, the margin of error grew larger, and the cost per unit increased. In addition to reducing the sample size, sometimes the Census Bureau delayed products to accommodate to lack of resources: «As a result, less timely information was made available.»
So far, the only programs to have been dropped are lower priority ones. But there is no fixed limit on cutbacks that suggests that the agency can stop eliminating surveys after it finishes with the lower priority ones. Nor is it clear how long this process can go on without affecting interdependent indices:

«In fiscal year 1996, we eliminated several surveys to fund our work on the New North American Industrial Classification System. In fiscal year 1997 we will continue to eliminate or postpone lower priority surveys and reports so we can focus our efforts on our priorities, namely, implementing Census 2000 and the related Continuous Measurement Program, modernizing our measures of the nation's economy, and increasing the reimbursable work that helps support the Census infrastructure.» (Director Riche, in the 1996 Appropriations hearings in the House of Representatives, p. 878.)

Periodic programs proposed by the Census Bureau for elimination in 1997 included census of Puerto Rico, survey of minority-owned busi-

ness enterprises, the survey of women-owned business enterprises, and the census of mineral industries.
The process of cutting some products to fund others has not been smooth at the Census, but equally important, perhaps, it doesn't seem to have a logical end.

OFFICE OF PERSONNEL MANAGEMENT

The Office of Personnel Management (OPM) was cut in the early 1980s, and also to some extent demoralized by a director who attacked the bureaucracy. Some have argued that OPM never regained its footing. But the coup de grace, as it were, came from the National Performance Review (NPR). Given the composition of the NPR, consisting largely of staff seconded from the agencies on a temporary basis, the NPR was given to a lot of complaining about what these civil servants liked least about the way their agencies operated. They complained bitterly about all the rules they had to adhere to, and about the agencies that enforced them, including the General Services Administration, the Office of Personnel Management, and the Office of Management and Budget. The NPR recommendations for the OPM were to decentralize most of its functions to the departments and other agencies, basically supervising the shift and overseeing other agencies' rulemaking, and making policy suggestions to the federal government on personnel matters. To the extent the agency reinvented itself along these lines, its functions would be radically shrunken.
While informants inside OPM described the process of downsizing and reinvention as logical and orderly, it appeared to outsiders and to some rank and file members as chaotic and ad hoc, with multiple reductions in force, sometimes affecting the same people more than once. The director of OPM announced repeatedly that he wanted the agency to be a model agency, with the implication that he would comply or more than comply with the administration's requests. The clear implication was that Gore did not approve of the agency and would have terminated it if it did not go along with the spirit of REGO (reinventing government). Thus, what was generally intended to be an average personnel reduction of 12 percent across the board became in OPM a staffing reduction of over 50 percent.
According to agency officials, as OPM downsized, it considered its core functions and shed the non-core functions. But it is unclear which OPM functions were not core to a central personnel agency. One could argue that with decentralization of the personnel system, there should be a need for fewer staff at OPM, but OPM had been administering a relatively uniform classification system and personnel evaluation system, and now the agencies could make up their own. That put vast new burdens on the agencies, but didn't really reduce the responsibilities of OPM in oversight, if anything, those responsibilities were increased as there was a great deal more activity to watch. OPM could and in fact did reduce staffing in areas of recruitment and testing, as the number of new recruits to government dropped. The agency dropped training

and investigations, two functions that have to continue. In the case of investigations, one could argue that privatization opens up the possibility of privacy leaks and that the function should remain part of the federal government, handled by public officials.

According to data collected by the General Accounting Office, OPM nearly eliminated the Investigations service (the reported figure of 60.6 percent reduction was before the end of the year), eliminated training (Human Resources Development) completely, and also eliminated all personnel in Personnel Systems and Oversight. Administrative services was gutted, with a 76.3 percent decline in staffing between 1993 and 1996. While employment services was cut back, it was only reduced by a moderate 40.7 percent. Only "other components" survived, with more moderate cuts of 17.8 percent from the 1993 base. Training for senior executives was retained at OPM, while the rest of training was contracted for (see **Table 2**).

Table 2. Full-Time Employees Reductions at the Office of Personnel Management Components between Fiscal Years 1993 and 1996

Component	Full time employees reduction between fiscal years1993 and 1996	Percent of fiscal year 1993 full time employees reduced	Percent of Office of Personnel Management full time employees reduction
Investigations	898	60.6	36.1
Human Resources Development	520	100	20.9
Administrative Services	518	76.3	20.8
Employment Services	469	40.7	18.8
Personnel Systems and Oversight	380	100	15.3
Other components[†]	+296	+17.8	+11.9
Total	2,489	42.3	100.0

[†] Includes three components that lost full time employees (FTE) and three components that gained FTEs, resulting in a combined FTE increase. Source: GAO calculations based on agency-provided data (General Accounting Office, 1998).

These personnel cuts continued after 1996. In 1997, the FTE (Full Time Equivalent) was reported at 2,302, and for 1998, 2,214. The 1999 OPM budget request boasted that between 1993 and 1998, the agency had shrunk by 52 percent, more than any other agency. Judging by the allocation of staffing, the main functions of OPM in 1998 were employment and oversight and evaluation of merit systems, but even these were not very heavily staffed at 231 and 198 FTEs, respectively. The major dollars remained in the pension funds.

OPM's goal seemed less to redefine itself than to cut its personnel ceiling more than any other agency. It seems likely that training and investigations were dropped not because they were less important than other functions, but because they could be more easily privatized and because they were funded by reimbursements rather than the appropriated budget. Dropping these functions appeared to drastically reduce staffing levels, though in the case of investigations, staff who had been federal employees became contractors. The costs didn't change that much, the staffing was nearly identical, but the number of public sector employees was reduced. Since these two revolving fund programs had been running deficits before they were spun off, the agency eliminated a potential managerial and financial headache. So there were many reasons to divest these two functions, but prioritization and centrality of functions were not among them.

Rather than defining and reemphasizing the core activities in an agency that had grown too far afield, OPM responded to a series of pressures, to decentralize, to downsize, to privatize, to deregulate. When programs that were supposed to not only cover their own costs but subsidize other activities began to run deficits, they were privatized. The reconceptualization of the agency, such as occurred, was done by the NPR, by listening to the complaints of federal officials who resented the inflexibility of OPM rules.

Between NPR pushing hard on decentralization and agency administration working hard to make cuts that would not hurt the staff and hence picking on the revolving fund account funded programs to privatize (they were the most businesslike), it is not clear that what is left at OPM is viable or energetic. What it appears to be mostly is smaller. OPM responded to a consensus from its clientele that it back off, become less regulatory and more flexible, and become more of an advisory group coming up with new policies to recommend and services to sell. Not all of that procedure was deliberate or necessarily rational. OPM for example threw out its code of regulations, presumably with the idea of later coming back with a slimmed down version with only the minimal necessary rules. The thinking necessary to figure out what the minimum rules might be was not done at that time. The event had the feel of a surge of satisfaction that an oppressor had been overthrown, without much thought as to the kind of government or governance that would replace it. The hard work lay ahead, both for OPM and the agencies. And for both, the way would be made more difficult by the NPR dictate of reducing the number of "overseers" including those in personnel offices.

For some other agencies, the problem was not an ill-considered consensus, but complete lack of consensus on the goals of the agency. An agency cannot redefine its core functions if there is major disagreement among its powerful constituents as to what those core functions are. Thus the Forest Service in the USDA was blocked from any kind of reorganization because of deep policy splits over the function of the agency, as a facilitator to provide help and subsidy to the forestry industry or as a protector of species and environment for mixed use public lands.

LIMITS

The model of cutback and adaptation suggests that there are limits, that the cutback will be one time, a permanent downsizing, which can be adapted to through dropping product lines and reorganizing and redeploying staff and increasing their training. In reality, as opposed to the model, the downsizing was not of short duration. OPM was cutting back from 1993 to 1998; DHUD was cutting back over a period of years that was extended past 2002. The determination to use attrition rather than RIFs spread out the process in time, freezing new hiring for years and luring people to leave the organization through bonuses.

The long duration of the downsizing had a number of consequences. One was that staffing imbalances and skills shortages gradually emerged. In some agencies, the long-term cessation of recruitment resulted in an aging work force, with no new blood, fewer new ideas, and little in the way of recruitment for current statistical or technical skills. In some agencies, organizational memory became a problem because there were so few senior people left who had been in the agency more than a few years. Loss of skills was difficult to remedy without new hiring. Additional training, which should have been at a premium because of the downsizing, cost money the agencies did not have and often resulted in cutting even more staff to create the funds to retrain.

A second problem was that many strategies were played to their logical end and used up. Once agencies had pared down to their core activities they could not readily pare back a second or third time. Some agencies did the paring slowly, dropping one function at a time, but eventually, they reached a point at which that tactic could not be used again without cutting into the core. Once an agency is pared down to its essentials or to interrelated functions, ripping out one more not only prevents the agency from carrying out its mission, but also hurts the remaining functions. Unfortunately, no bells went off to signal that enough cutting had been done. Some agencies were able to negotiate limits to cuts, with varying success (the first time GAO tried to negotiate limits, the limits didn't hold; the second time, the limits seemed to be holding). But other agencies were unable to negotiate any consensus on how long cuts should go on or how deep they should be.

While there was no firm end to the process of cutting out more marginal activities, some of the tactics adopted by agencies had a limit built in. DHUD's budget strategies to reduce the duration of the section 8 housing contracts had such a built-in limit. The contracts could not be renewed for less than a year. By 1998, all of the long-term contracts had become short term, and no further savings could be scored by further shortening. All the flex was out of the system. Not only could this strategy not be used any more, but the costs of doing so began to be felt. Each year, the costs of renewal would go up dramatically as the shorter term contracts come due.

The gap that opened in some agencies between staffing levels and programmatic complexity became increasingly serious over time as staffing levels continued to fall. It is unclear what the consequences will be as agencies race the clock to reinvent processes that will save some personnel time as staffing decreases and Congress is reluctant to abandon or simplify some programs. For some the mismatch will be temporary; for others, service gaps may widen from cracks to gulfs. Part of the problem is that downsizing without program simplification or reduction in obligations often results in contracting. Contracting can be less efficient than in-house production. In some cases agencies are not retaining enough skilled staff to oversee contractor performance, to make performance expectations clear, to ensure compliance with contract requirements, and to learn from contractor failures.

The model of downsizing and adaptation assumes there is an agreed on level of cutback that makes administrative and policy sense, and when that point is reached, the cuts will stop. But there is no guarantee that that will happen, because for many agencies, there is no logical point to stop at. The quality of their services is easily eroded, slowly, and it seems, acceptably.

Agencies experiencing continuing erosion of resources run the risk also eroding service levels. But it is very difficult to fight back, because most agency administrators feel they have to demonstrate that they are continuing to do a good job, no matter how much their budgets were cut. If they appear to be failing, they risk further cuts. They must argue that they are coping, they are reinventing, their programs are working, their customers happy, happier than before. They can argue that further cuts will hurt them, but not that prior cuts have hurt them. It is a difficult case to make convincingly, because if a further cut is forthcoming, the promised negative consequences have to be hidden and denied.

WHAT CAN BE DONE?

The first and most obvious approach is to separate out management improvement from downsizing the staff. Downsizing is simply not an appropriate tool for management improvement. That is not to say that some downsizing may not be appropriate in some agencies as they reengineer work processes or as they adapt to changes in the environment, only that starting with downsizing as if it would produce management improvements is naive. If anything, downsizing while trying to improve management is harder than either downsizing or management improvement by itself.

If the downsizing campaign is halted as a separate movement, then some of the longer-term consequences of quality erosion can also be stopped. Some limited new hiring can replace lost skills and bring in fresh energy. Agencies can spend some time and concentrated energy on reinvention tasks, such as improved computer usage and work reengineering. Such work may result in fewer employees needed in some functions. But putting the thoughtful work up front should be helpful. Figure out what functions the OPM should have in oversight, what the minimum rules should be, what the guidance should be to agencies suddenly forced to come up with their own recruitment processes. Then pare down functions and staffing to fit the new functions. We have unfortunately gotten the order wrong.

Third, the new emphasis on performance budgeting offers an opportunity for government officials to make contracts for performance–not for their own salary, but so many dollars for so much service of such a quality. This agreement is a two way street: both sides have to adhere to it. Thus a budget cut is translated into a service quantity or quality cut; elected officials want it or they don't. If they can agree they want the service, they have to pay for it; if they want a lower level of service, that is what they pay for. Without such a bargain, the incentives are to obscure the effect of cuts and continue erosion of quality, despite the fact that the avowed purpose of the downsizing was to get a better product for less money.

Cutting budgets deeply and cutting staff deeply may result in worse government, poorer service, and less for the dollar rather than more, not because the agencies are badly managed or the cutback is badly managed, but because rational actors trying to accomplish different goals produce seemingly irrational outcomes. The process in the public sector is not simple; it is not helped by simplistic analogies to the business world. Managing cutback well requires acceptance of the complexity of the governmental world and its difference from business.

To the extent that budget balancing takes priority over other policy issues, then the dollar allocations and work complexity should be the determinants of staffing levels. The NPR reports showed cognizance of this priority, and the need to remove staffing ceilings, but the political goal of reducing federal employment took priority over managerial sense and the overall decentralization thrust in NPR reports. If budgets, program complexity, and service demands are allowed to determine staffing, agencies need not grow out of control. Agencies should be encouraged to develop workstaff planning models and to use them; OMB should review and approve these plans. Then, if Congress or the president want to reduce staffing, they have to propose reductions in program budgets and program simplifications. The realignment of staffing and program complexity and programmatic budgets will help remove a major obstacle to improved management at the federal level.

All parties should work hard to set realistic targets for downsizing that can be met within a period of say two years, allowing the agency to adapt and recover without continuing chaos. Within those two years, legislation should be proposed and adopted for program simplification.

Finally, explicit care should be taken to assure adequate funding of training and computerization/reinvention activities. Otherwise, adaptation is slowed down, or the agency is forced to take additional staffing cuts to generate sufficient flexibility in the S and E budget to adapt to downsizing.

CONCLUSION

Elected officials and public administrators should be more skeptical of the claims for downsizing, and should separate out the political goal of reducing the size of the bureaucracy from the technical goal of improving public management. The former is not an efficient means to get to the latter. Downsizing can be made a more rational activity and one less damaging to good management, but it can never achieve in the public sector the magic it is supposed to achieve. It never did so in the private sector, despite the mythmaking, but even if had, there would be little reason to expect the same techniques to work in the public sector.

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