



*December 16, 2003*

# Notes on How the US Federal Government Operates

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# THE GOVERNMENT OF THE UNITED STATES

**THE CONSTITUTION**

**LEGISLATIVE BRANCH**

**THE CONGRESS**

**SENATE HOUSE**

ARCHITECT OF THE CAPITOL  
 UNITED STATES BOTANIC GARDEN  
 GENERAL ACCOUNTING OFFICE  
 GOVERNMENT PRINTING OFFICE  
 LIBRARY OF CONGRESS  
 CONGRESSIONAL BUDGET OFFICE

**EXECUTIVE BRANCH**

**THE PRESIDENT**  
**THE VICE PRESIDENT**

**EXECUTIVE OFFICE OF THE PRESIDENT**

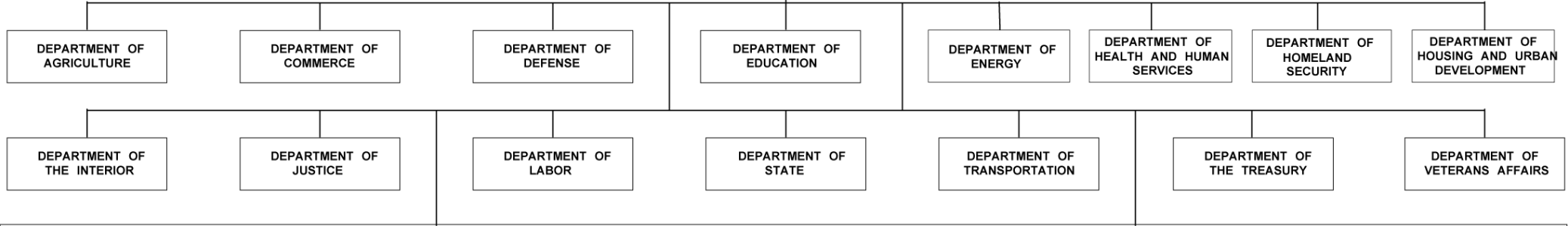
WHITE HOUSE OFFICE  
 OFFICE OF THE VICE PRESIDENT  
 COUNCIL OF ECONOMIC ADVISERS  
 COUNCIL ON ENVIRONMENTAL QUALITY  
 NATIONAL SECURITY COUNCIL  
 OFFICE OF ADMINISTRATION

OFFICE OF MANAGEMENT AND BUDGET  
 OFFICE OF NATIONAL DRUG CONTROL POLICY  
 OFFICE OF POLICY DEVELOPMENT  
 OFFICE OF SCIENCE AND TECHNOLOGY POLICY  
 OFFICE OF THE U.S. TRADE REPRESENTATIVE

**JUDICIAL BRANCH**

**THE SUPREME COURT OF THE UNITED STATES**

UNITED STATES COURTS OF APPEALS  
 UNITED STATES DISTRICT COURTS  
 TERRITORIAL COURTS  
 UNITED STATES COURT OF INTERNATIONAL TRADE  
 UNITED STATES COURT OF FEDERAL CLAIMS  
 UNITED STATES COURT OF APPEALS FOR THE ARMED FORCES  
 UNITED STATES TAX COURT  
 UNITED STATES COURT OF APPEALS FOR VETERANS CLAIMS  
 ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS  
 FEDERAL JUDICIAL CENTER  
 UNITED STATES SENTENCING COMMISSION



**INDEPENDENT ESTABLISHMENTS AND GOVERNMENT CORPORATIONS**

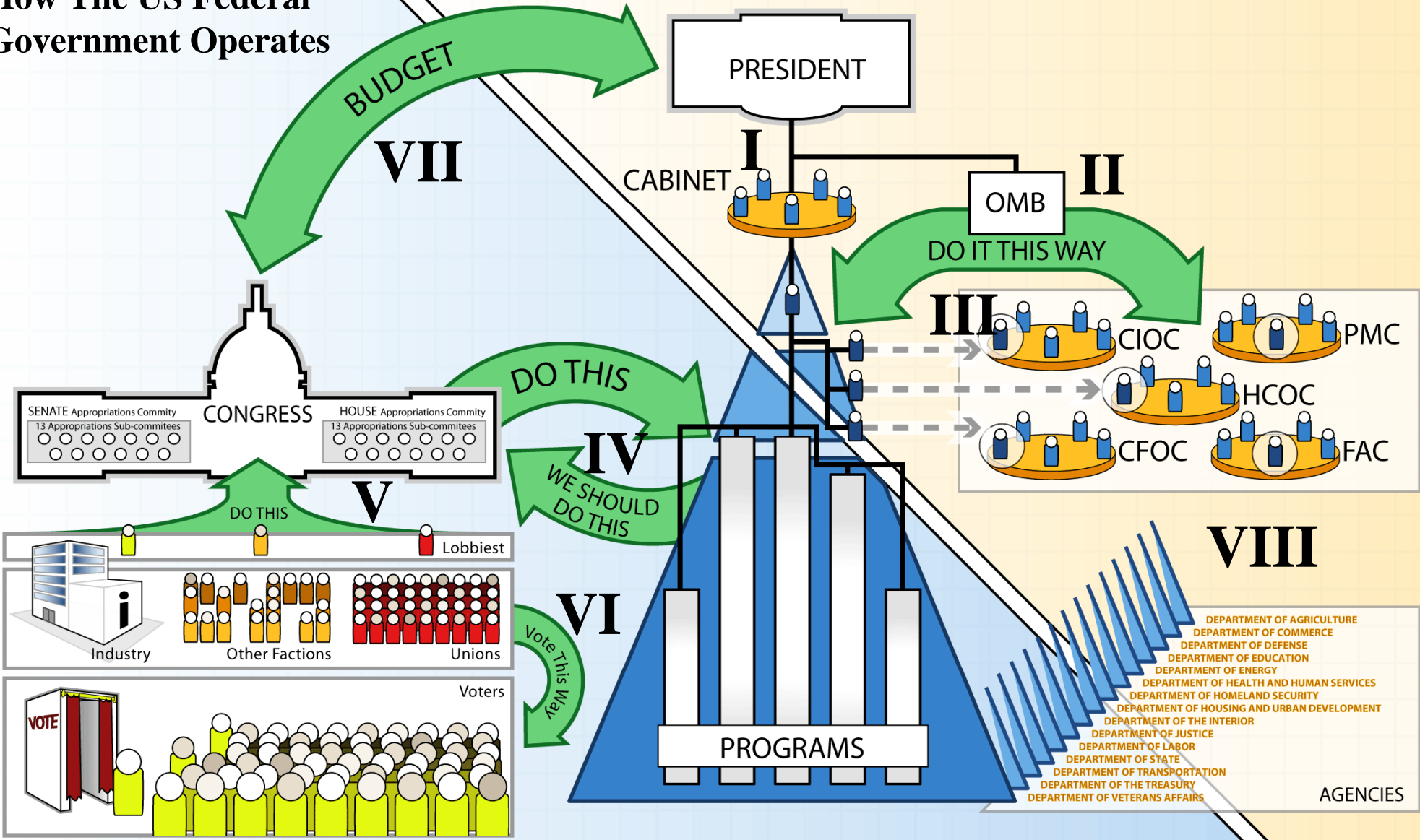
AFRICAN DEVELOPMENT FOUNDATION  
 CENTRAL INTELLIGENCE AGENCY  
 COMMODITY FUTURES TRADING COMMISSION  
 CONSUMER PRODUCT SAFETY COMMISSION  
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 ENVIRONMENTAL PROTECTION AGENCY  
 EQUAL EMPLOYMENT OPPORTUNITY COMMISSION  
 EXPORT-IMPORT BANK OF THE U.S.  
 FARM CREDIT ADMINISTRATION  
 FEDERAL COMMUNICATIONS COMMISSION  
 FEDERAL DEPOSIT INSURANCE CORPORATION  
 FEDERAL ELECTION COMMISSION  
 FEDERAL HOUSING FINANCE BOARD

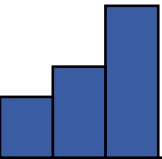
FEDERAL LABOR RELATIONS AUTHORITY  
 FEDERAL MARITIME COMMISSION  
 FEDERAL MEDIATION AND CONCILIATION SERVICE  
 FEDERAL MINE SAFETY AND HEALTH REVIEW COMMISSION  
 FEDERAL RESERVE SYSTEM  
 FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
 FEDERAL TRADE COMMISSION  
 GENERAL SERVICES ADMINISTRATION  
 INTER-AMERICAN FOUNDATION  
 MERIT SYSTEMS PROTECTION BOARD  
 NATIONAL AERONAUTICS AND SPACE ADMINISTRATION  
 NATIONAL ARCHIVES AND RECORDS ADMINISTRATION  
 NATIONAL CAPITAL PLANNING COMMISSION  
 NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES  
 NATIONAL LABOR RELATIONS BOARD  
 NATIONAL MEDIATION BOARD  
 NATIONAL RAILROAD PASSENGER CORPORATION (AMTRAK)  
 NATIONAL SCIENCE FOUNDATION  
 NATIONAL TRANSPORTATION SAFETY BOARD  
 NUCLEAR REGULATORY COMMISSION  
 OCCUPATIONAL SAFETY AND HEALTH REVIEW COMMISSION  
 OFFICE OF GOVERNMENT ETHICS  
 OFFICE OF PERSONNEL MANAGEMENT  
 OFFICE OF SPECIAL COUNSEL  
 OVERSEAS PRIVATE INVESTMENT CORPORATION  
 PEACE CORPS  
 PENSION BENEFIT GUARANTY CORPORATION

POSTAL RATE COMMISSION  
 RAILROAD RETIREMENT BOARD  
 SECURITIES AND EXCHANGE COMMISSION  
 SELECTIVE SERVICE SYSTEM  
 SMALL BUSINESS ADMINISTRATION  
 SOCIAL SECURITY ADMINISTRATION  
 TENNESSEE VALLEY AUTHORITY  
 TRADE AND DEVELOPMENT AGENCY  
 U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
 U.S. COMMISSION ON CIVIL RIGHTS  
 U.S. INTERNATIONAL TRADE COMMISSION  
 U.S. POSTAL SERVICE

# How The US Federal Government Operates



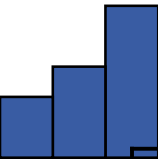


## Operating Differences Between Government Agencies and Private Companies

	Private	Government
<b>Governance</b>	CEO makes sure that systems and processes are in place to ensure that targeted results are achieved and that roles are clear and that organizational units work together to ensure overall success against an annual plan and towards achieving long term goals.	<p>Top Appointee set direction but do not even try to manage operations.</p> <p>Other appointees may take other forms:</p> <ol style="list-style-type: none"> <li>1. So totally consumed by the press of the day to day that they are never able to set and drive their own agenda</li> <li>2. Desire to drive operations in a specific way but meet resistance from career service employees who wait them out</li> <li>3. Find and develop a coalition of career service executives who they can help guide to accomplish their targeted results and who continue to do so even after the appointee's term is over</li> </ol>
	External board of outside executives who provide a consistent point of accountability for the CEO and who give guidance in terms of individual and collective focus and who provide access to resources including time, money, people, and information	No Board of Directors exists for government agencies or for the organizational units that make them up
	Line operations organized into responsibility units that, individually and collectively, produce target results at minimum cost on schedule. Lower organization units are accountable to higher levels in the chain of command.	<p>Organized into units that administer programs that stand more or less fully autonomous from all other units. Lower level units are not accountable to higher levels in the chain of command.</p> <p>This may lead to misalignment among leaders.</p>

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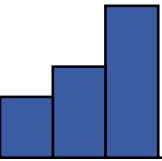
## Operating Differences Between Government Agencies and Private Companies

	Private	Government
<b>Finance</b>	Operating income and investors provide financial resources required to operate the business and to do new things. Investment decisions are made by the business headed by the CEO and if investments do not go well, the CEO and their top team are likely to be let go.	Money to fund operations and to fund new things is appropriated by congress on an annual basis. Annual appropriations are justified based on the previous year's spending, so agencies are incented to spend everything they were allocated.
	Capital investments are differentiated, in terms of how they are accounted for, from operating expenses in order to encourage short term investments that lead to downstream improvement	Capital investments are not differentiated from operating expenses
	Driven by quarterly financials	Outputs are not easily measured. OMB, GAO, and CBO are in place to help measure, but it is still a struggle to measure outputs. The PART process is designed to help this.
<b>Business Model</b>	Managed to a business model that shows how money comes in and how that money is to be used netting out to net income as a percent of revenue.	The government budget units (e.g., Agencies) do not take in revenue and their budgets are focused on justification of mission and existence rather than on contribution and value delivered.
	Customers, competition, and calamity provide focus to set and achieve specific targeted results	Vision and direction is rarely provided by presidential or congressional mandate (such as: "get to the moon by the end of the decade" or "get TSA up and running by the end of the year"). So most agency operations proceed on in "business as usual" fashion until something "blows up" and a mandate is given. The customers are the citizens, there is no competition, and they exist to manage calamity and stay out of the press.
	Competition forces continual examination of what could be better in order to stay ahead	Lack of competition facilitates a malaise
	Growth driven; i.e., stockholders and professionals win when the business achieves its target business model and then scales it.	Existence driven; i.e., the name of the game is to keep your job, to get all the funding you got before and then some. Sometimes mission and/or legacy driven.

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## Operating Differences Between Government Agencies and Private Companies

	Private	Government
<b>Resource Allocation</b>	Initiatives and programs that have played out in that they have achieved their goals or they are no longer worth doing are closed down in favor of allocating resources in more productive ways.	Once a program is launched it is difficult, if not impossible, to ever close it down even if it is no longer needed or if it is not achieving targeted results or if resources allocated to it would be better deployed elsewhere.
	Stockholders hold the CEO accountable for results consistent with expectations and targeted results. If expectations are consistently not met or if targeted returns are not achieved, the CEO is ousted (by the board)	Nothing equivalent exists. As long as agencies can stay out of the papers and the courts, they can often operate below anyone's radar.
<b>Human Capital</b>	Hiring at all stages of career life cycle	Easy to hire only at the entry level. Experienced professionals who want to enter government service at advanced career stages have a hard time doing so.
	Flexibility in hiring and firing	Slow, inflexible hiring and firing processes
	Continuity of senior staff, where expertise is groomed through years of experience.	Political appointees at the top. Their tenure is short, expertise is low, and they must be trained by civil servants. Civil servants in the agencies are groomed through years of experience.
	Promotion based on efficiency (ROE.)	Promotion based on size of staff, budget, politics, or tenure.
	Compensation is defined by scope and scale of accountability, market conditions, past and expected future performance.	Back-loaded compensation not tied to performance and centered around generous pension.

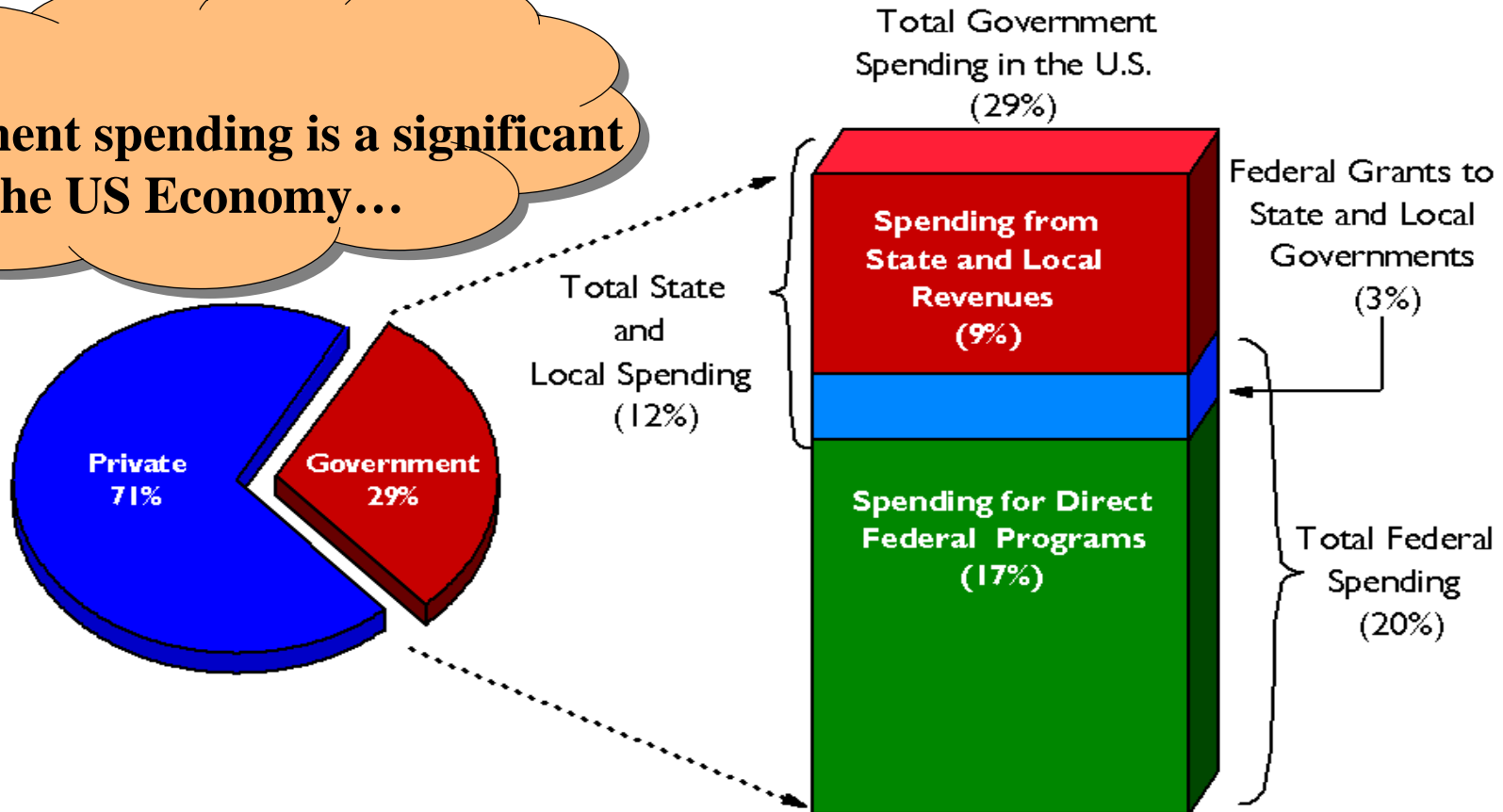
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- After Jim Collins released his best-selling business book *Good to Great: Why Some Companies Make the Leap . . . and Others Don't* (HarperCollins, 2001), he was surprised to discover that at least a third of the people who bought his how-to manual on business improvement were not corporate people, but managers and executives working in government and nonprofit organizations.
- Over the past four years, Collins has turned his attention to government and nonprofits, intrigued by the far more complex challenges that leaders of agencies face when they are not driven by the profit motive. This winter, he issued a monograph titled "Good to Great and the Social Sectors" (available at online bookstores), which explores the differences between leadership in the for-profit and not-for-profit worlds.
- "We must reject the idea -- well-intentioned, but dead wrong -- that the primary path to greatness in the social sectors is to become 'more like a business,'" Collins writes in his 35-page report - a somewhat stunning revelation coming from someone with a history of analyzing private businesses. In interviews and discussions with about 100 government and not-for-profit leaders, Collins discovered that being a leader in government is harder than being a business executive. He is not surprised that so many business executives fail when they enter the public sector.
- "Whether they answer to a nonprofit board composed of prominent citizens, an elected school board, a governmental oversight mechanism, a set of trustees, a democratic religious congregation, an elected membership association or any number of other species of governance, social sector leaders face a complex and diffuse power map," Collins writes. "Most non-business leaders simply do not have the concentrated decision power of a business CEO."
- He points to Frances Hesselbein, former CEO of Girl Scouts of the USA, as a leader who understood the different power structure facing a not-for-profit leader. Whereas a business executive would describe himself as at the top of a power structure, Hesselbein arrayed plates, cups and saucers on a table, connecting them by forks, knives and spoons. She saw herself as one cup in a network of dishware, not as the person on top of an organizational chart. She couldn't just order people to do things, she had to persuade them.
- Collins has thus come up with the idea that there are two types of leadership skill: executive and legislative. While most business leaders can rely primarily on executive skill (ordering people to act), government and not-for-profit leaders must rely more on legislative skill to achieve greatness for their organizations. "Legislative leadership relies more upon persuasion, political currency and shared interests to create the conditions for the right decisions to happen," Collins writes. He theorizes that both types are important for all leaders, but executive leadership alone won't work in the social sectors.
- In fact, Collins further speculates that in an increasingly complex world -- with a highly mobile workforce, more and more environmental and consumer group interest in corporate operations, and other changes -- it might be that business leaders can learn a lot from their not-for-profit counterparts, rather than the other way around.
- Collins is impressed by the caliber of leaders in the government and not-for-profit worlds. "There's this idea that somehow there are better leaders in the business sector and they need to come in and show folks in government or education how to lead or how to run an organization," he says. "I am now very skeptical of that idea."
- In fact, given the choice between a successful Fortune 500 corporate CEO and the successful budget director for a large state, Collins says he would probably choose the budget director to lead a project. "We ought to be open-minded to the idea that maybe our best business leaders may have been trained in non-business environments," he says.

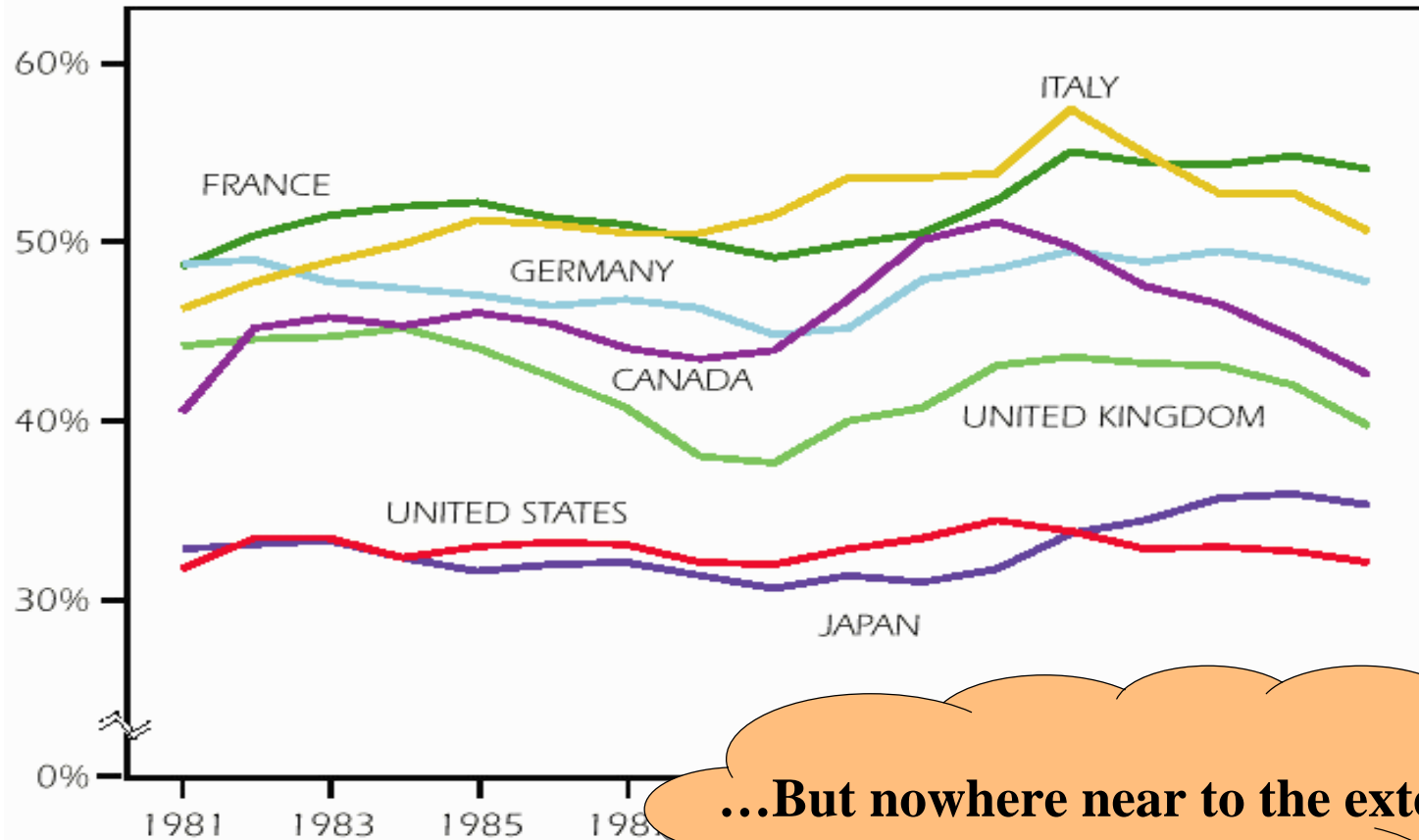
**Chart I-1. Government Spending as a Share of GDP, 1998**

**Government spending is a significant piece of the US Economy...**



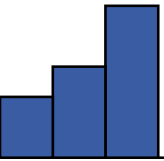
Note: Numbers do not add due to rounding.

**Chart 1-2. Total Government Outlays as a Percent of GDP**



Source: OECD, calendar year data.

**...But nowhere near to the extent as in other industrialized nations**



## US Federal Taxes are comparatively low

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September 14, 2003, Sunday MAGAZINE DESK The Tax-Cut Con

By Paul Krugman (NYT)

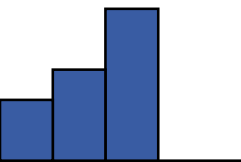
To assess trends in the overall level of taxes and to compare taxation across countries, economists usually look first at the ratio of taxes to gross domestic product, the total value of output produced in the country.

- In the United States, all taxes -- federal, state and local -- reached a peak of 29.6 percent of G.D.P. in 2000. That number was, however, swollen by taxes on capital gains during the stock-market bubble.
- By 2002, the tax take was down to 26.3 percent of G.D.P., and all indications are that it will be lower still this year and next.
- This is a low number compared with almost every other advanced country. In 1999, Canada collected 38.2 percent of G.D.P. in taxes, France collected 45.8 percent and Sweden, 52.2 percent.

**Yet our tax bite is among  
the lowest in the world!**

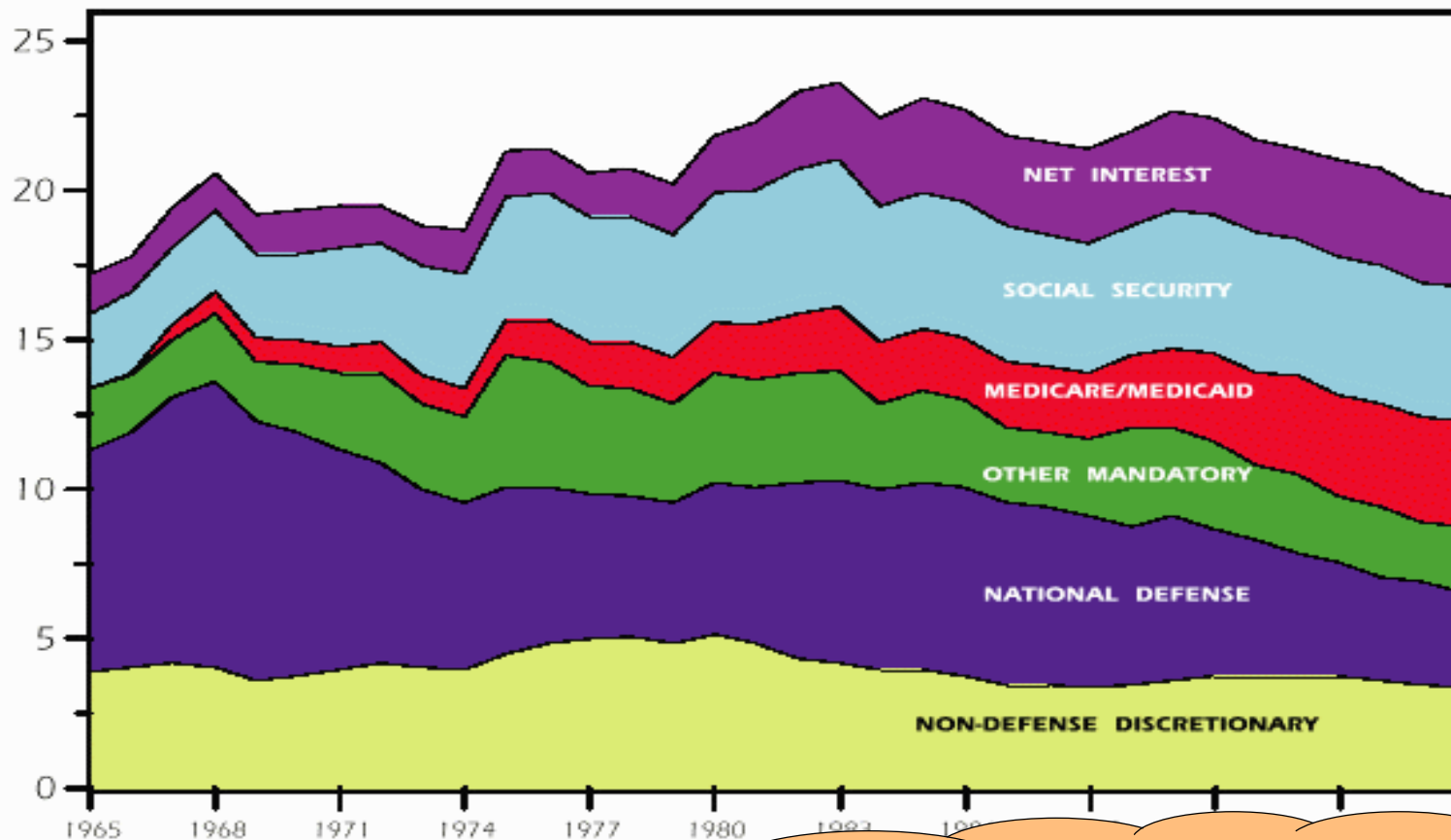
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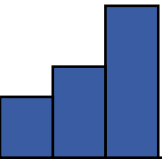


### Chart 4-2. Outlays as a Percent of GDP

PERCENT



**Discretionary spending is shrinking...**



## Other Notes

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- We get an awful lot of great services from our federal government and at a comparatively low price.
- We could get these services at an even lower price because there is untold inefficiency and waste in government spending
- We are operating again in a deficit mode which is digging a deeper hole than we have ever had before
- Tax increases should be preceded by efficiency improvements; if the wasteful spending isn't cleaned up first, higher taxes will just propagate the waste

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