Office of Management and Budget: New Accent on the "M" in OMB

Every recent American president has sought to remold the machinery of the Executive branch to make it more responsive to his policies, and Richard Nixon, more than his predecessors, has put his faith in the efficacy of modern management techniques. In the process, he has used the Office of Management and Budget (OMB), not only as a model of management, but as a source of managers for other federal agencies.

George P. Shultz, now Secretary of the Treasury and Nixon's chief adviser on economic matters, proved himself as the first director of OMB, which was established under a 1970 reorganization plan. Caspar W. Weinberger was Shultz's deputy at OMB and succeeded him as director before going to his present post as Secretary of Health, Education, and Welfare (HEW). James R. Schlesinger, now serving as Secretary of Defense after relatively short stints as chairman of the Atomic Energy Commission and director of the Central Intelligence Agency, got his start in the Nixon Administration as an assistant director of the budget agency. OMB staff members colonized the new energy office, and OMB's associate director for natural resources, energy, and science, John C. Sawhill, was picked as deputy director of the new agency. Members of the OMB alumni are spotted in many other jobs throughout the federal hierarchy, rather like new branch managers sent out from the home office.

It is true that OMB has become a wellspring of men and ideas comparable to the Department of Defense under Robert S. McNamara during the Kennedy and Johnson administrations. But, despite the emphasis on the "M" in OMB, the management role of the agency has not blossomed quite as rapidly as was expected.

This is attributable in part to resistances within the system, to which presidents Truman, Eisenhower, Kennedy, and Johnson all ruefully testified. Reforms of the federal system, even those firmly backed by presidential power, tend to get lost in the wastes of bureaucratic time. And the Nixon Administration may have had unreasonably high hopes of managerial miracles. One sarcastic semiepigram repeated by a former insider now on the sidelines makes the point. "The Kennedy Administration operated on the fallacy that, if you appoint a good man, the organization doesn't matter. The Nixon Administration operates on the fallacy that, if you get the organization right, you can appoint a third-rate tractor salesman and it doesn't matter."

More concretely, OMB has run into stronger resistance from Congress. There is a consensus on Capitol Hill that OMB has greater power than its predecessor agency, the Bureau of the Budget (BOB), and OMB has been cast in the role of direct antagonist to Congress on the issue of Administration impoundment of appropriated funds. Congressional attitudes were expressed in the action to require Senate confirmation of the director and deputy director of OMB. The Administration view was that this infringed the President's untrammeled right to appoint his own personal advisers, while the feeling in Congress was that the director of OMB and his deputy had acquired new policy powers and should be subject to the same congressional scrutiny as other top political appointees.

It would be wrong, however, to suggest that there is little momentum behind the push for better management, particularly since the arrival a year ago of Roy L. Ash as director of OMB and Frederic V. Malek as his deputy. Ash and Malek are the Administration's two leading apostles of management, and both are updated versions of Horatio Alger heroes. Ash came to the Administration from the presidency of Litton Industries, a pioneering if now somewhat uneasy conglomerate, and Malek, a graduate of West Point and of the Harvard business school, is a self-made millionaire. Before he joined the Nixon Administration, Ash served as head of the President's Advisory Council on Executive Organization, dubbed the "Ash commission," which provided a comprehensive blueprint for federal management. Now, as director of OMB, he is in an excellent position to put into practice what he preached.

The reorganization plan under which OMB replaced BOB grew directly out of Ash commission recommendations and was part of a grander design. As the President's message on the reorganization plan said, "Improving the management processes of the President's own office, therefore, is a key element in improving the management of the entire Executive Branch."

The Executive Office of the President includes both the personal staff of the President, comprised mostly of political appointees, and the institutionalized agencies such as OMB and the Council of Economic Advisers, which have a larger proportion of career civil servants on their staffs. The 1970 reorganization plan called for an expanded Domestic Council in the White House, under presidential assistant John Ehrlichman, which would take a stronger hand in policy matters, and for a restructured budget agency (OMB), which would put increased emphasis on management.

A New Symmetry

As the presidential message phrased it, "The Domestic Council will be primarily concerned with *what* we do; the Office of Management and Budget will be primarily concerned with *how* we do it, and *how well* we do it."

The expanded Domestic Council, with an increase in staff to perhaps 100 professionals, was envisioned as a counterpart in domestic matters of the National Security Council, which deals with military and foreign affairs. The intention was to largely eliminate the need for the task forces that were increasingly relied on to formulate policy and develop legislative proposals during the Kennedy and Johnson administrations (*Science*, 18 January).

To many observers at the time, the proposed changes seemed to further undercut the authority of Cabinet officials in setting policy and proposing legislation. The opposition to increasing the concentration of power in the White House also affected other proposals for change on a grander scale. A 1972 plan to consolidate the 11 existing Cabinet-level departments into 8, for example, was simply ignored by Congress. After the 1972 election, a supercabinet composed of three powerful counselors to the President was created by presidential directive, but it never really worked out, in part perhaps because Watergate went critical.

In any case, the 1970 plan to up-

Roy L. Ash

grade the Domestic Council never went through, despite the fact that this was a period when the star of Nixon domestic affairs adviser John Ehrlichman was rising, and the idea of a phalanx of councils reporting to the President through top White House aides was congenial to Nixon.

There are differing stories about what prevented implementation of the plan, but the episode was widely interpreted as a showdown between Ehrlichman and Shultz that the latter won.

Shultz had been named as first director of the newly constituted OMB, and one close observer who was in OMB at the time says Shultz sized up the move to give the Domestic Council power over policy and to let OMB simply handle the financial end of things and stopped it. According to another source, "Ehrlichman was riding high at the time, but he learned a few things about government and backed off."

At any rate the Domestic Council never metamorphosed, and OMB survived its identity crisis. Within OMB, the development was interpreted as Administration recognition that OMB possessed a unique capability. A handy symbolism was found in a sequence of actions which occurred after OMB was established. Pictures of former BOB directors were taken down but some time later were replaced, a nod to continuity which agency regulars noted with quiet satisfaction.

This is not to say that the budget agency has not changed. In fact there has been a steady increase in concern for the management aspects of the agency's task. This has been an evolutionary process which antedates the Nixon Administration and which has been aided by progressive changes in the training and interests of OMB staff.

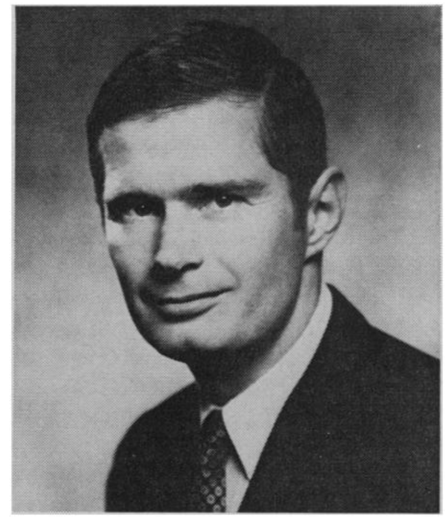
In the 1950's, BOB directors had banking or accounting backgrounds while the career staff had a heavy representation of public administration graduates, the dominant strain in the previous decade. The next phase, the advent of the economists, was clearly defined in the early 1960's. As William D. Carey, a longtime BOB official and now an Arthur D. Little, Inc., vice president, put it, these economists "wanted to measure, quantify, look at output. They changed the old habits and style of budgeting." The process became more sophisticated, says Carey, and BOB "never gave up the hope that the budget would become a financial and policy program related to some more or less coherent set of objectives, instead of a sort of vacuuming process which sucked up the junk with the jewels."

With the coming of the Nixon Administration, the recruiters turned to the business schools and management consulting firms for their quarry. One BOB-OMB veteran says, "Under Shultz the mother church was the University of Chicago. Under Ash and Malek it's the Harvard business school."

Not an "Open" Agency

OMB is not an "open" agency in discussions of its actions with Congress, the press, or the public, and it is particularly secretive during the months preceding release of the budget. Junior members of the OMB staff approached for interviews by *Science* during the preparation of these articles, for example, made the stock response that it would be better to talk to "policy-level" officials. The budget agency staff has always been a discreet and elusive group. But, in this reporter's experience, it should be noted that those policy-level officials in OMB today are, if anything, more accessible to the press than their counterparts were in previous administrations.

When Malek is asked to discuss the Administration's stress on management he does talk a little like a management casebook, but hardly like a zealot. The main thrust of the Ash commission, he says, going back to first principles, was "to give the President stronger executive assistance in managing the government." BOB played a key role in developing the federal budget and in giving analytical support to the President. BOB had also done some work in promoting effective management. Malek says that both the Ash commission



Frederic V. Malek

and the President felt the budget agency "should play a more effective role in assisting the President to manage government—to set goals, to chart directions, to do the kind of things that the chief executive of any enterprise is concerned with."

When Ash and he took over last year, Malek says they felt there had been "considerable transition" but that a lot more could be done to improve management. The immediate target was "to change the focus from mechanical things, like data processing, purchasing, and so forth, to an orientation to broader management aspects to assist the President."

This meant meshing the management and budget functions of the agency. Under the 1970 reorganization, OMB had started out with a bifurcated structure with separate management and budget branches. "Our feeling is that management and budget are one and the same tool of management and that it was important to integrate them." OMB's organizational structure was changed by eliminating a dual chain of command and consolidating activities under four associate directors with direct "line" authority. "The change was not traumatic or even dramatic," Malek asserts. Each associate director presided over budget and management divisions in his field. Some routine management responsibilities were transferred to the General Services Administration, the government's housekeeping agency. And a number of new upper-level staff positions for "management associates" were created. Efforts were reportedly made to recruit "hotshot management types" from outside government to fill these new posts.

The management associates do a variety of things, but they are expected to spend about a third of their time working with other agencies on so-called "MBO's." The Ash-Malek formula for achieving better management features the concept of "Management by Objectives (MBO)." Malek calls MBO "a tool for the President [to use in managing government], a way to delegate responsibility to the Cabinet without abdicating responsibility." Each agency submits objectives each year. These are carefully reviewed in OMB, discussed with the agency, and submitted to the President. If he decides they are acceptable, the agency is held accountable for achieving the objectives. Progress is to be monitored at monthly meetings at which Ash and Malek are expected to be present. Most issues that arise, however, are supposed to be settled at the staff level rather than at the meetings.

How is MBO going so far? "Objectives link up with the budget, but not to the degree they should," says Malek. "We're not satisfied yet." Pressure on the agencies in behalf of MBO continues to be applied. Each agency was asked to submit its objectives for fiscal 1975 along with its budget requests. A task force has been commissioned to determine how the linkup between objectives and the budget process can be made more effective. "If [MBO] is going to endure, we think it is necessary to link it to something as old and established as the budget process."

In the case of research and development Malek concedes that it is difficult to set objectives. He thinks that the National Science Foundation (NSF) "has done a very good job in this area" in trying "to get something quantifiable or at least measurable."

It is true, says Malek, that with basic research you can't measure too well, but that, "given [good] information, you can set priorities. The cancer program is a good example," he says. "HEW has an objective related to the effectiveness of implementation of the cancer program and subobjectives related to the direction research on cancer is to take. Cancer has a little higher priority than other types of research.

"NSF is in the process of identifying all areas of research it could enter into —for example, how to contribute to the assessment of ocean resources. Objectives should have real influence— provide a solid foundation on which to base budget decisions." When will this happen? "Remember, this has only

Energy R & D: Weinberg Moves to the White House

Barely a week out of his job as director of the Oak Ridge National Laboratory, Alvin M. Weinberg has been appointed director of R & D policy under federal energy administrator William E. Simon. One of Weinberg's main duties, according to a 7 January news release from the Federal Energy Office, will be to "formulate energy research and development policies and plans to implement them."

Weinberg retired from Oak Ridge on 1 January with the announced intention of setting up a small think tank called the Institute of Energy Analysis. The institute will still be set up, but with its leading light on an indefinite leave of absence.

Alvin M. Weinberg

Two days into his new job, Weinberg was cautiously modest about the scope of his authority and his prospects for success. In an interview, he said he was gathering a small, select staff of about ten persons. Together, he said, they would "try to visualize the entire energy R & D strategy of the country," give it coherence, and fit it into the larger structure of national energy policy. "It's an immensely tall order," Weinberg said, adding that "it's not clear that it's possible."

In recent months R & D strategies and advice have emanated from all over the Executive branch—most notably from the Atomic Energy Commission and its chairman, Dixy Lee Ray; from the National Science Foundation; and from White House energy aides. One responsibility of Weinberg's group, apparently working as a coequal center of influence, will be to coordinate these activities. (During the last 3 months of 1973, Ray led a crash effort to produce a preliminary R & D plan for the President. That job is finished now, and Weinberg intends to carry on with policy analysis where Ray left off, though at a less frenzied pace. Even so, Weinberg said he expected Ray to remain "an extremely important actor" in energy affairs.)

When, or if, the Congress formally sanctions the creation of a new Federal Energy Administration, Weinberg's group would be left behind in the White House executive machinery to form the nucleus of a new advisory staff to President Nixon.

Facing Weinberg is the immediate challenge of persuading the powers that be that stringent energy conservation and other "social fixes" will contribute more than technological gimmicks to solving near-term fuel shortages. Significantly, Ray's $11 billion plan* asserts that petroleum self-sufficiency (defined as freedom from the need for imports) "may be attained by 1985," or 5 years after the Nixon deadline. Even then, it is presumed that suppression of demand through conservation and higher prices will make a major contribution to self-sufficiency.

Such news may not be entirely welcome, and the ghosts of messengers bearing similarly ill tidings hover close by. Last week, Weinberg moved into the same ornate, colonnaded office (complete with fireplace) next door to the White House that once belonged to energy adviser John Love.—R.G.

* *The Nation's Energy Future* (WASH-1281) (Government Printing Office, Washington, D.C., 1973), Stock No. 5210-00363, $1.95.

been going on since spring," is Malek's reply. Reception of MBO in the agencies is now "a mixed picture," according to Malek. "But across the board at the top of the agencies there is enthusiasm and good cooperation. The real test is when you look down the line in an agency. Then it varies."

MBO is inevitably compared to the late, unlamented PPBS (Planning-Programming-Budgeting System) in the Johnson Administration. PPBS was based on the use of cost-benefit analyses to compare alternative ways to achieve policy goals. It was evolved in the Department of Defense, and its application in other agencies was made mandatory by presidential order. PPBS is remembered for being awkward to adapt to civilian programs and for inflicting masses of paperwork of dubious value.

"What we're trying to avoid that was present in PPBS are the rigid requirements and a lot of paperwork," says Malek. "We're not trying to establish a system. We're trying to get across that this is a way of life, a way of thinking, how you do business. In an agency like NASA, this is extremely well established. It's nothing new to them. In other agencies it's slower in developing."

Budget Examiners

Inside OMB, the reorganization has effected a not so subtle change in the way the budget agency functions. The archetypal figure in the agency is the budget examiner, who has been responsible for a group of programs or a small agency. A budget examiner might be a relatively junior civil servant, but still wield decisive influence in the budgetary process. One budget agency veteran says, "Here, a Grade 12 (there are 18 grades in the civil service scale) deals with assistant secretaries, elsewhere they're nobodies."

This is still true, but the examiners have a diminished role. In the old days, the budget examiner, his division chief, and perhaps the director of BOB or his deputy might negotiate with an agency head and his budget officers on final budget items. According to those who have watched the process, the examiners now have less contact with the agencies during the year and less direct impact in the review. The division chiefs have apparently also lost clout; the associate directors are said to have absorbed power formerly exercised by those above and below them in the chain of command.

In terms of relations with the White House, the reorganization has also had a decided effect on OMB. Shultz, the first OMB director, was soon drawn into the White House, where he functioned as an adviser to Nixon on broad matters of economic policy. He spent the balance of his time in an office in the West Wing rather than in the old Executive Office Building where OMB was located. OMB deputy Caspar Weinberger became de facto budget director. The same pattern has been repeated with Ash and Malek. Malek presides over the director's review sessions and Ash functions as a White House adviser and is somewhat removed from the day-to-day process of fashioning the budget.

OMB regulars see a "fragmentation" of the agency occurring. Before the present review began, Malek was regarded as more interested in management problems and executive development than in the budget process, and the verdict on him will have to await completion of the budget cycle. Under the circumstances, however, it is suggested that now, with four highly independent associate directors dealing directly with the White House on their separate fields of responsibility, there are "four little OMB's" operating.

This fragmentation in turn is traced to the 1970 attempt to reorganize OMB in parallel with an augmented Domestic Council that never came off. Another of the "oddball things that have happened," according to one observer, affects the route of decision-making on R & D issues. Shultz and his assistant, Kenneth W. Dam, were tapped to fill the vacuum left by the abolition of the post of President's science adviser early last year. But, as the observer said, "The Shultz science operation is the vestigial remains of the supercabinet which didn't work." The arrangement may have its consolations for scientists, however, since Shultz is thought to be better informed and more open-minded on science than anyone close to the President, including Ash, who is reputed to take an "industry view" of R & D. Dam, by no great coincidence, is a former assistant director of the budget agency.

Does OMB have any other problems? A too rapid turnover in staff, says one staff member. "If you're responsible for an education program, you can't just look at the education budget; you've got to know what's going on in the country, and you have to have some feeling of where the agency is moving." (Although there has been a steady expansion of the White House staff during recent administrations, especially during Nixon's first term, the growth of OMB itself has been relatively restrained. The regular staff now numbers about 630, roughly two-thirds of them professionals, compared with a total of about 450 during the early days of the Kennedy Administration.)

Some critics charge that OMB has been "politicized" and point to the interposition of the associate directors as proof. It is true that a number of top budget officials are Administration appointees who presumably were picked for their sympathy with the President and his policies. But what these critics see as a break with the past is that these appointees are from outside OMB and outside government. Three of the four associate directors came to OMB by way of successful careers in management consulting firms or industry. One of these is Sawhill, whose post as associate director for natural resources, energy, and science has been vacant since he moved to the energy office. The fourth associate director has a government background. He is Paul H. O'Neill, whose domain, human and community affairs, includes biomedical research. In his service in both the Veterans Administration and the budget agency, however, O'Neill distinguished himself as a new model manager.

Longevity No Bar

Long service in the budget agency is not a disqualification for key assignments. Hugh F. Loweth, for example, who was recently named to head the energy and science division under Sawhill, joined BOB in 1950 and has been dealing with science programs since the middle 1950's. His division handles most of the civilian R & D programs outside the health field.

Other critics insist that politization is less of a problem for OMB than is a lack of policy guidance. William A. Niskanen, a recent OMB insider as assistant director for evaluation and now a professor of economics at Berkeley, argued in a recent monograph* that the White House lacks an adequate formal process for communicating policy on major issues to OMB, and he makes suggestions for remedying the deficiency.

Old hands at OMB demur on the existence of a policy gap. "It's an itera-

* W. A. Niskanen, *Structural Reform of the Federal Budget Process* (American Enterprise Institute, Washington, D.C., 1973).

tive process," says one veteran staff member. [Policy] is not handed down on tablets. It's very fuzzy. We're told, for instance, that the President wants to hold down civilian employment. You rarely get signals clearly."

What is implied in these divergent views are differing general conceptions of how OMB should operate. Those inbued with the old "bureau" tradition seem to feel there is nothing wrong with OMB that a return to closer communications downward with client agencies and upward with the President and his chief aides would not remedy. On the other hand, the new breed of managers clearly believes that OMB should continue to move in the direction of improving formal policy structures and increasing the active management of programs.

There is a third view based on the belief that OMB has acquired too much power by default. From this perspective, reform of the whole budget process is needed to restore authority to Congress. OMB is not a popular agency with Congress, and the budget which is about to appear is unlikely to make it more popular. What is different this year, however, is that Congress has taken the first faltering steps toward disciplining its appropriations process to keep spending within budgeted limits. Congress, however, has shown an almost feudal inflexibility toward the kinds of internal transfers of authority that such a major reform would require. So unless and until such radical reform occurs, OMB, under whatever name and organization chart, is likely to persevere, because the budget remains the most effective combination of carrot and stick available to a president.—JOHN WALSH

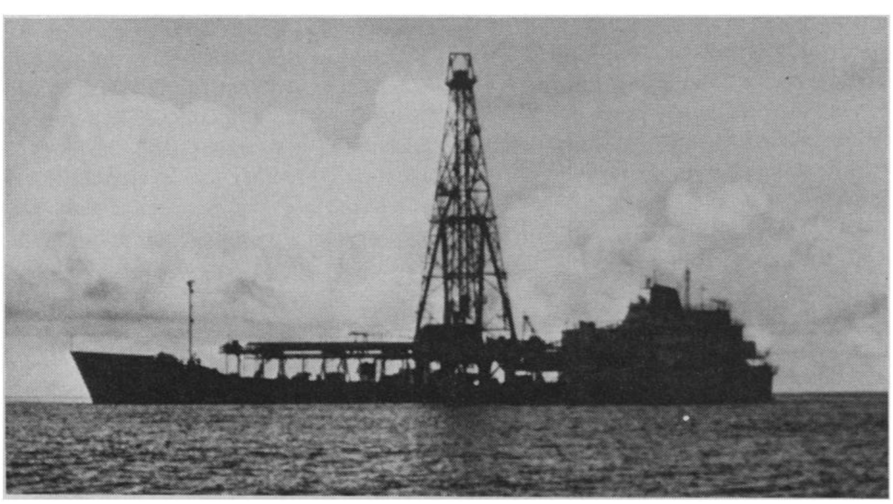
Law of the Sea: Energy, Economy Spur Secret Review of U.S. Stance

At the urging of the Treasury Department, U.S. officials preparing for the United Nations Law of the Sea conference are conducting a drastic reassessment of previously stated United States positions on issues ranging from offshore oil and gas development to international environmental policy.

The classified studies, begun last April, can best be described as an eleventh-hour reexamination of what this country stands to gain or lose economically in the conference. Officials close to the review acknowledge that it has been spurred in part by concern over the energy situation and the economic instability that has accompanied it.

This June, substantive negotiations toward an international treaty will get under way in Caracas; in fact, the Law of the Sea conference officially opened with an organizing session in New York last December. The reviews are looking at the stances put forth by the United States in preliminary negotiating sessions in New York and Geneva during the past 3 years.

The intense new examination of the economic and energy aspects of the Law of the Sea is said by several sources to have been urged principally by Treasury Secretary George Shultz and William E. Simon, Shultz's deputy secretary and the Administration's new energy czar. Officials stress that the reviews are not intended to scrap present U.S. negotiating positions and could merely turn into an exercise in "filling in the blanks" in these positions. But they do not rule out the possibility that, after close analysis, some tenets in the U.S. position could be discarded.



An Exxon drilling rig probes the continental shelf.

The Law of the Sea conference, if successful, will resolve fundamental questions of national and international jurisdiction in the oceans. The conferees are expected to extend the territorial sea, which is that narrow band of ocean along the shoreline over which the adjacent country has complete control, from 3 to 12 miles. Doing this, however, would place under purely national control approximately 100 straits which the United States deems vital to its military and commercial interests.

The U.S. position has favored the 12-mile territorial sea only on the condition that those straits remain open.

In addition, the conference will attempt to reach a balance of national versus international rights in a wider offshore area that would be called the "coastal economic zone." This zone would start at the outer edge of the territorial sea, and extend to some still undefined limit—perhaps 200 miles offshore, perhaps to the edge of the continental shelf. The extent of coastal nation control over oil and gas resource exploitation, fishing, and scientific research is a major issue, since these zones are believed to contain most of the wealth of the world's oceans. Finally, the Law of the Sea conference will have to decide how to regulate