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Commerce

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U.S. DEPARTMENT OF COMMERCE
AGENCY TEAM REPORT

NATIONAL PERFORMANCE REVIEW
TOLLGATE 4

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SECTION I

INTRODUCTION AND EXECUTIVE SUMMARY

DEPARTMENT OF COMMERCE

INTRODUCTION

The Commerce Department celebrates its 80th birthday as a cabinet level department this year. It was separated from the Department of Labor for the purpose of enhancing trade between the United States and other nations. During its 80-year history, the department has grown to more than 36,000 people in 13 major operating units with a fiscal year 1993 budget of approximately \$3 billion dollars. Despite this growth, Commerce still remains the smallest cabinet level department in terms of staff.

Commerce is in some respects a holding company composed of vastly different agencies, each pursuing disparate but vital missions. The department's 13 operating units have five primary missions. They are: increasing business and trade promotion, improving the nation's technological competitiveness, fostering environmental stewardship, improving economic development, and compiling, analyzing and disseminating vital national statistical information. To more fully understand this unique department and its diverse roles, the following is a listing of the major components, a brief characterization of their roles, and the size of their fiscal year 1993 budget:

International Trade Administration supports the trade policy and negotiation efforts of the U.S. Trade Representative and operates the trade development, import administration, industry analysis and monitoring, and trade policy programs of the department. Its 1993 budget is \$214 million.

Bureau of Export Administration regulates and enforces U.S. export trade laws and regulations for national security, foreign policy, and short supply reasons. It also develops, promotes, and implements policies which ensure a strong and technologically superior defense industrial base, and promotes overall national security preparedness. Its 1993 budget is \$41 million.

Economic Development Administration provides financial and technical assistance to economically distressed areas of the nation to stimulate economic growth and create jobs. Its 1993 budget is about \$238 million.

Minority Business Development Administration is responsible for developing, coordinating, and implementing a national program for establishing and strengthening minority business enterprises. Its 1993 budget is \$38 million.

National Institute of Standards and Technology supports industry, commerce, scientific institutions, and all branches of government through the advancement of measurement science and development of standards. Its 1993 budget is \$383 million. **Patent and Trademark Office** administers the laws relating to patents and trademarks to promote industrial and technological progress in the United States. Its 1993 budget is \$87 million.

National Telecommunications and Information Administration provides advice on domestic and international communications, manages the use of the federal radio spectrum and analyzes telecommunications and information issues. Its 1993 budget is just \$40 million.

National Oceanic and Atmospheric Administration explores, maps, and charts the global ocean and its living resources. They are also responsible for managing, using and conserving those resources and for describing, monitoring, and predicting conditions in the atmosphere, ocean, sun and space environment. Its 1993 budget totals \$1.7 billion.

Bureau of the Census conducts the decennial census and other censuses and surveys that measure changing individual and household demographics and the economic condition of the nation. Its 1993 budget is \$300 million.

Other units include the Economics and Statistics Administration, the National Technical Information Service, the Bureau of Economic Analysis, and the Technology Administration.

During the six-month review of Commerce by the National Performance Review (NPR), we focused our attention on the four overarching reinvention themes, which are summarized in the following sections. Taken together, these recommendations would reduce current federal spending requirements, improve the effectiveness of agency programs and reduce the federal burden on American businesses.

Shifting From Red Tape to Results

This broad theme includes recommendations about stripping away the barriers that prevent effective, efficient governance, create organizations driven to achieve their mission, and hold them accountable for their performance.

During the course of our review of the department's Economic Development Administration and economic development programs from other agencies, it was discovered that these community and regional development efforts are characterized by fragmentation, poor quality, and bureaucratization. Instead of a coordinated system that integrates assistance, states and communities must turn to an assortment of federal agencies and programs. This lack of focus not only makes it difficult for communities to obtain assistance, but also limits the development of a critical mass of knowledge, organization, and funding of national priorities.

To overcome these shortcomings, NPR recommends that the Congress create a quasi-public economic development corporation, entitled the National Economic Development Corporation, or NEDC. The newly created NEDC, with consolidated governmentwide federal funding, should have two core functions. First, it would make competitive challenge grants to states to operate regional development programs. Secondly, the NEDC would become a national "think tank" on economic development to study best practices, support demonstration efforts, examine trends, and effectively disseminate knowledge to the states. It will not be just another layer in the bureaucracy. It will be outcome oriented.

The exporting of U.S. goods and services overseas helps to create jobs at home and ensures that American businesses remain competitive in the global marketplace. To help U.S. businesses compete, the federal government currently funds more than 150 export promotion programs, ranging from business counseling to export financing. The net result of these programs is a government engaged in duplicative effort, inefficient delivery of services, and a confusing array of assistance. Effective leadership of the federal bureaucracy to enhance American business competitiveness must be one of the department's primary objectives.

To overcome these problems, NPR recommends that the Commerce Department be authorized to develop an effective national export strategy and be given broader authority to oversee federal programs directed at helping exporters. We also discovered that unlike most of our trading partners, the U.S. does not have an effective exporting infrastructure capable of assisting businesses in pursuing global opportunities. Therefore, it is recommended that the Commerce Department coordinate a series of co-located federal trade promotion and trade finance entities, to create a "one-stop" shop for currently available trade finance and

counseling services.

We also found that U.S businesses continue to lose potential export opportunities due to a cumbersome and outdated export licensing policy. NPR recommends that the President direct that the licensing of dual-use goods be centered in the Commerce Department and that an effective dispute resolution process be established to decrease jurisdictional disputes between the agencies involved in this policy area. These changes would have the potential to help annually generate billions in new exports, generate thousands of new jobs and help ensure U.S. competitiveness.

Introducing Market Dynamics

This theme is about changing the incentives build into the federal system through the use of market dynamics such as competition, investment, and enterprise funding.

Commerce is faced with a wide range of management challenges. It must break the decade-long deadlock on the role and responsibility of the National Oceanic and Atmospheric Administration's (NOAA) fleet and how best to meet its mission in the future. In an effort to break this deadlock, NPR recommends an experiment with a program of public/private sector competition to help fulfill NOAA's mission.

NPR also suggests that the department work with the Congress and the fishing industry to establish a marine fisheries user fee program to offset the cost of managing our nation's publicly owned and privately used continental shelf fishery resources.

Creating a Quality Management Culture

This theme focuses on changing the management philosophy and culture of the federal government.

Timely and effective dissemination of critical environmental, trade, economic, and statistical information to other government agencies or to the private sector is another area where Commerce must take a governmentwide lead. NPR believes that Commerce, through NOAA and the Economic and Statistics Administration, can increase the flow of these types of data to those who can best benefit from it. We strongly recommend that the Secretary support expanding the content of the National Trade Data Bank (NTDB) and develop an active marketing campaign to explain the value of the NTDB to American exporters. NPR

also recommends that Commerce establish a Manufacturing Technology Data Bank to disseminate critical, precompetitive government funded technology data to American businesses.

We also noted that opportunities exist to dramatically reduce the reporting burden placed on American businesses by federal statistical agencies such as the Census Bureau, the Bureau of Economic Analysis, and the Bureau of Labor Statistics. Commerce, in consultation with these other federal agencies, should institute widespread electronic data gathering from U.S. businesses, eliminate duplicative requests, and begin shifting reporting schedules to be more in line with business practices. Implementing these recommendations can save business owners tens of millions of dollars in reporting costs. Current estimates show that significant savings to federal statistical agencies will also occur.

Now is the Time

This theme includes recommendations that involve cutting costs and eliminating unnecessary functions and so on.

NPR also recommends that NOAA, the National Aeronautics and Space Administration, and the Department of Defense move toward a single coordinated polar satellite program (as opposed to the current plan for two systems). This convergence offers the American public significant savings.

Finally, the NPR strongly recommends that the department work with the Office of Management and Budget and the Justice Department to remove the current prohibition on the use of sampling in the decennial censuses to determine the apportionment of the Congress. Current estimates show that over \$650 million would have been saved in the 1990 decennial if the Census Bureau had been permitted to use a 25 percent sample and a corresponding reduction in the number of needed district offices. Similar savings will be achieved in the 2000 decennial if this restriction is removed.

Commerce has an active internal reinventing process underway. This effort is strongly supported by Secretary Brown and his top staff. The internal Commerce effort consists of four main pieces. First, is the idea generation process. So far, nearly 8,000 reinvention ideas have been received from Commerce employees.

Shortly after the idea generation process, five cross-cutting programmatic teams were

formed to develop recommendations in: trade, economic stimulus, environmental services and research, information, and technology. The third way of getting new ideas is through a series of focus group meetings. Nearly 300 managers and employees have participated. Commerce's fourth avenue for reinventing is through the establishment of five reinvention laboratories.

This summary by no means encompasses all the issues and concerns identified during our effort to reinvent Commerce. Many issues and opportunities to reinvent this agency are being actively reviewed by the department in their own review.

In summary, the recommendations outlined in the following issues will generate significant savings to the American taxpayers and bring about more effective and efficient service to the customers of the Commerce Department.

SECTION II

ISSUE PAPERS AND RECOMMENDATIONS

SHIFTING FROM RED TAPE RESULTS

Reinventing Federal Economic and Regional Development Efforts

Background

At least seven federal programs assist states and localities with economic and regional development.¹ The major programs are the Department of Housing and Urban Development's Community Development Block Grant Program, the Department of Agriculture's Rural Development Administration and Rural Electrification Administration, and the Department of Commerce's Economic Development Agency. Smaller development programs are operated by the Department of Defense, the Tennessee Valley Authority, and the Appalachian Regional Commission. These economic and regional development efforts are characterized by fragmentation, poor quality, and bureaucratization. In place of a coordinated system that integrates assistance, states and communities must turn to an assortment of different agencies and programs. Such dispersion of efforts not only makes it difficult for communities to obtain assistance, it also limits the development of a critical mass of knowledge, hinders organization and limits funding for national efforts. Moreover, many of the programs are poorly run, with communities facing significant delays in receiving assistance. Finally, there is no coherent federal policy with regard to regional development and community dislocation. Piecemeal after-the-fact responses are the norm.

Department of Commerce

The Economic Development Agency was established in 1965 to aid economically distressed regions and soon became the flagship federal agency for regional economic development. EDA principally funds local public works projects (e.g., industrial parks, access roads, sewer lines), in large part to enable communities to attract industry from other areas. The agency also provides grants to communities facing sudden economic distress and funds technical assistance and economic research. Funding grew until the early 1980s, when the Reagan and Bush administrations tried to eliminate the program. The current budget of \$254 million in fiscal 1994 is down from \$830 million in 1980 (1992 dollars).

Significant changes in the economic development environment during the 1980s suggest that EDA's economic development role (as well as that of other federal programs) needs to be fundamentally rethought. First, states and localities now have significantly greater economic development capabilities than they did when EDA was established. As a result, EDA's "retail" approach to economic development, with its 49 field offices, six regional offices, and 150-person national office now duplicates state and local efforts. Moreover, the creation or expansion of state and other federal programs means that EDA is no longer the "flagship" agency for regional economic development in the U.S.

Second, EDA's traditional approach to economic development (which focuses on public works/infrastructure development) has insufficiently shifted to focus on newer efforts such as technology centers, entrepreneurial development, and manufacturing modernization.² This is in part because EDA funds are divided into several Titles, the largest being Title 1 for public works and infrastructure.

Third, EDA's uncertain political support has contributed to a variety of problems, such as reduced morale, lower staff quality, poor operation and administration of programs, lengthy and complicated grant approval procedures, and the pursuit of low-risk policies. Grant applications must go through four levels of review: informally at the EDR field level, formally at the regional level, and then finally two reviews at the national office.³ As a result, "distressed communities often wait a long time for EDA funds." For example, one community waited almost eight years between initial layoffs and finally being turned down by EDA for a grant.

Department of Agriculture

DOA's Rural Development Agency (RDA), a recently reconfigured agency formed by the consolidation of several existing DOA programs, was created to aid in the development of rural communities. RDA's programs can be divided into three categories: Water and Waste Disposal, Business and Industry, and Community Facilities. RDA provides technical assistance and funding through grants and loans. Water and Waste Disposal funds are available to public entities such as municipalities, counties, special purpose districts, Indian tribes, and non-profit corporations. Funding includes support for technical assistance and training grants and for grants to the colonias along the U.S.-Mexico

border. RDA provides business and industry assistance through loan guarantees and loans distributed through intermediaries, such as state and local government and nonprofits. Loan guarantees are designed to bolster the local private credit market. Indirect RDA loans are supposed to go to business facilities and community development. Community Facilities funds are for the purpose of improving essential services in rural areas. Eligibility is the same as for Waste Disposal.

As stated, RDA makes grants, direct loans, indirect loans (through cities, states, and nonprofits), and it guarantees loans. In fiscal year 94, out of a total budget appropriation of \$913 million, it was given a budget authority of \$264 million for loan levels of \$1.85 billion. The money for direct loans, which are usually 30 year long-term loans, is borrowed from the Treasury Department. Indirect loans, provided through state and local government, are paid back to RDA by the state and local governments themselves. Guarantees are also provided to commercial banks and work similarly to guaranteed student loans. For further information see Attachment I.

Many of RDA's programs provide emergency assistance, including cases of tropical storms, earthquakes, or flooding. The Federal Emergency Management Agency is best equipped to handle these functions.

The Rural Electrification Administration (REA), was created under the New Deal as part of a general program of unemployment relief, with the goal of providing electricity service to the countryside. REA has continued to provide financing for the provision of electric service and in 1950 it started to provide financing for telephone service as well. In addition, in 1989, REA started the Rural Economic Development Program, which provides loans for the creation of jobs in rural areas.

The Clinton Administration has already proposed virtually eliminating REA's low interest loan program for electric cooperatives and telephone companies, which would save an estimated \$374 million over four years.

If it is decided that it is not appropriate to transfer all of RDA's funding to the proposed National Economic Development Corporation (NEDC), a quasi-public economic development corporation, then an alternative is to only consolidate funding from the Rural

Electric Development Program (\$23 million) under the NEDC. (See recommendations below for further information on the National Economic Development Corporation.)

There are several political drawbacks to consolidating REA funds: 1) its current functions would only be partially fulfilled through the NEDC; 2) there is strong political resistance to dismantling it.

In addition, finally a small group at DOA's Economic Research Service conducts research on rural economic development. This function could be transferred to the Corporation.

Department of Defense

The DoD's Office of Economic Adjustment assists communities plan for defense conversion. However, because federal support for implementation of these plans comes from different agencies, particularly EDA, it is difficult to develop coordinated defense conversion strategies. OEA's mission is an important one, but it would be more effectively fulfilled if the NEDC were given the mandate. This could be written into its charter.

One potential drawback of moving OEA would be that its ties to DoD could be lessened.

Department of Housing and Urban Development

The Department of Housing and Urban Development (HUD) administers the Community Development Block Grant Program (CDBG). CDBG is broken up into entitlement and nonentitlement sections. Both programs have the primary objective of developing viable communities by providing decent housing, and by expanding economic opportunities, principally for low and moderate income persons. Seventy percent of CDBG appropriations go directly as entitlements to large metropolitan cities and urban counties. Nonentitlement spending, otherwise known as the Small Cities Program, is slightly less than 30 percent of CDBG appropriations and goes to states who then provide grants to small local governments to carry out development activities. Because this brief focuses on regional and economic development and not urban revitalization, it does not intend that urban programs, such as enterprise zones, urban (as apposed to small cities) CDBG funds, and Community Development Banks should be transferred to the Corporation. NPR only

proposes to transfer funds to the NEDC from the Small Cities Program, and only those funds used for economic development. The remaining 70 percent are used for housing and should be left in HUD.

HUD's Urban Development Action Grant (UDAG) has a repayment pool (from projects that did not go forward), with accumulated funds of \$300 million. HUD intends to distribute these funds to states and cities according to the current CDBG formula. As a result, 30 percent (\$90 million) would go to small cities. NPR proposes that this \$90 million be transferred to the Corporation. One disadvantage of transferring HUD economic development funds to the NEDC is that the current focus on low and moderate income persons could be diluted.

Other federal programs

The Tennessee Valley Authority (TVA) is responsible for the maintenance and management of a broad array of public lands, physical facilities and natural resources. In addition, it directly supports economic development, through business assistance, economic planning, education, environmental planning, agriculture assistance, tourism promotion, and minority business development.

The Appalachian Regional Commission (ARC) is a federal-state government agency concerned with the economic, physical, and social development of the 13-state Appalachian region. The comprehensive goals of ARC are to provide the people of Appalachia with the health and skills they need. More specifically, ARC concentrates on community development and housing, education, the environment, health and child development, industrial development and management, tourism, and transportation. The Corporation would be able to continue providing funds to support similar services when necessary.

Both the TVA and the ARC were created in time when state capacities were limited. State capacities are much greater now. We no longer need area specific development commissions; a centralized development authority would perform the development work more efficiently. This is not to say that there are not distressed areas of the country that need special attention, there certainly are, only that a single government entity would perform the job better.

Summary

EDA and the federal government in general no longer serve to effectively guide and support regional development in the U.S. For example, the proliferation of federal programs supporting economic development makes it difficult for states and localities to obtain assistance easily. Knowing where to look and how to apply can be challenging for even the most savvy state or local government employee. When governments need assistance in more than one area (e.g., defense conversion, rural development, business assistance) the maze becomes even more complex. Federal economic and regional development programs do not operate as one-stop shops. This makes it more difficult for the Federal government to focus resources on pressing problems, such as defense conversion. As evidenced by the fact that a number of agencies provide help to communities dealing with defense conversion.

In addition, the lack of federal innovation and consistency in economic development policy has partially contributed to states and localities still practicing antiquated and ineffective economic development. For example, much of the money states now spend on economic and regional development is for "zero-sum" industrial recruitment activities. Individual states may benefit from industrial recruitment activities, but when one state wins another loses. There is no net benefit to the nation because business investment is not increasing; rather, it is just being moved around. Moreover, much of this money goes to subsidize foreign firms that have already decided to locate branch plants in the United States. For example, states and cities gave more than \$1 billion to foreign automobile firms between 1978 and 1992.⁴ These subsidies did little, other than to provide a windfall to foreign competitors at the expense of U.S. firms and to erode the tax base of many localities.

EDA as an agency has not changed to meet the economic realities of today and the federal government has persisted with a fragmented, programmatic approach to development. These actions have hindered, rather than fostered a consistent and integrated federal, state and local effort toward regional development. Consolidating the federal economic development programs previously mentioned, under the National Economic Development Corporation, could allow for savings of up to \$800 million in federal expenditures. Gains from increases in efficiency alone could total in the range of \$210 to

\$420 million. The elimination of unnecessary federal employees, duplication of programs, and the creation of streamlined federal assistance should enable large savings to occur. (For further information see below under Implications.)

Regional economic distress must be a federal priority if the United States is to effectively manage economic structural change. At least two reasons underlie this need. First, an uneven national pattern of regional growth and decline is inefficient and costly. In some places resources sit idle and under-used, while in others there is congestion, high costs, and growth. This less-than full use of public and private resources reduces the efficiency not only of the declining community itself but also of the U.S. economy as a whole. Second, community economic decline imposes social, psychological, and physical distress on area residents. Caught in a downward spiral, it may be impossible for a community to regain former levels of prosperity and quality of life unless it receives economic development assistance. Federal support can help these communities and regions stem further decline and build a solid base for recovery.

Although state and local government efforts have made significant strides in addressing local economic concerns, they are not an adequate replacement for a strong federal presence, particularly given today's economic realities of increased international competition and rapid changes in technology. The U.S. government needs to assume a revitalized lead responsibility for regional economic development and do so in a manner that guides and supports state and local efforts to achieve best possible practice and results.

Recommendations

1. Re-empower the federal government to be a catalyst for effective regional development by creating a quasi-public economic development corporation (the National Economic Development Corporation, or NEDC), combining the funding from several federal programs: the Economic Development Administration; Agriculture's Rural Development Administration and Rural Electric Administration; HUD's Small Cities Program; TVA Economic Development Program; Department of Defense's Office of Economic Adjustment; and the Appalachian Regional Commission. The NEDC, would be a wholesaler of economic assistance, with states assuming the retail role.

Programs that were under different agencies would now be replaced with a simplified challenge grant program to states to support their own regional development efforts.

The resources of the federal programs shown in Table 1 would be redeployed to the NEDC. (For a more detailed explanation of the funding for these programs see Attachment I.)

Table 1

Economic Development Programs

under the National Economic Development Corporation

	FY94 funding (\$ millions)

Department of Commerce, Economic Development Agency	254
Department of Defense, Office of Economic Adjustment	30
Department of Agriculture, Rural Development Administration (RDA)	913
Department of Agriculture, Rural Electrification Administration (REA)	261
Department of Housing and Urban Development, CDBG Small Cities Funds For Economic Development	245
Department of Housing and Urban Development, Urban Development Action Grant unexpended project funds	90
Appalachian Regional Commission	189
Tennessee Valley Authority, Rural Development Program	20
Total	2,127 million

2. The first function of the NEDC should be to provide competitive challenge grants and loan funds to states for operation of state regional development programs. Each state program is to help distressed regions and local areas overcome their economic handicaps and to make full use of their human resources and private sector potential. States would be expected to develop an economic vision and strategy for the future, as well as a detailed action plan to realize that vision. Strategies should be based on a comprehensive

analysis of the economy that identifies needs, barriers to economic development, opportunities for economic growth and local community interests.

Existing federal regional development programs disburse both grants and loans. To make direct loans, agencies currently borrow funds from the Treasury and either make loans directly to communities or to intermediary organizations, who in turn make loans to communities. In order not to reduce resources available to communities, the Corporation would also disburse grants and loans. The Corporation would provide challenge grants to states, but also loan funds (in accordance with the Federal Credit Reform Act of 1990) to support state regional and economic development loan pools, which would make loans directly to communities. Loans and loan guarantees have the advantage of allowing the NEDC to further leverage its resources. The Corporation would use a share of its funds as loan loss reserve funds and borrow the remaining share from the Federal Treasury at Treasury Rates. As the corporation is paid back by the states, it would reimburse the Treasury. Under the Federal Credit Reform Act of 1990, Congress must appropriate the funds for the estimated subsidy cost (or, rather, the net present value of the estimated future losses) of the loans or guarantees, not for the total amount of the loan.

NEDC resources would be available to implement state plans and may be used for a variety of project activities including local capacity building, technical assistance, project development and construction, private business assistance and local program operations. Corporate resources would be organized to flexibly respond and address local development needs rather than be partitioned into separate program categories or legislative titles with prescribed budgets. A primary objective of the Corporation would be to catalyze and assist state and local communities to include new innovations and best practices in their expanded development efforts. Additionally, states would be encouraged to develop multi-state regional development plans. This should help to discourage "bidding wars" between neighboring states over businesses.

Criteria for Allocation of Funds

Funds would be allocated to the states based in part on population, but also in part on three standards.

Standard 1 would be need based. Funding levels would be determined according to a formula measuring state and sub-state levels of economic distress.

Standard 2 would be performance based, holding recipients accountable for the quality of the strategy, and subsequently, project results. Strategies would be judged based on their focus on distressed areas, willingness to leverage state, local and private funds, support for innovative economic development approaches, and emphasis on producing high wage jobs and high performance work organizations. Results would be tied to efficiency of project implementation, jobs created and other similar outcome and impact measurements. This approach is a major principle of reinventing government.

Standard 3 would be inversely related to the amount of funding each state gives to industrial recruitment incentives. Incentives covered include those that do not add non-intrinsic value to the firm's operations (e.g., tax abatements, cash giveaways, free land, and other giveaways). In other words, standard 3 should serve as a disincentive for states to spend scarce economic development funds on business recruitment incentives. For example, if states give incentives to companies leaving or entering their state, they will have their aid reduced by one dollar for every dollar of aid (net present value) they give as inducements to business up to their potential allotment (under standard 3) in a given year. If states give large subsidies that exceed their allotment in a given year the remainder will be carried over for a period of up to five years.

Funds for special purposes (e.g., defense conversion) could be allocated through a separate process based also on performance and need.

Further, the NEDC would be authorized to provide 80 percent of its funds to the states through challenge grants and loans that would be matched by state and local funds. Grants and loan authority would be awarded to states based on an economic strategy that addresses key economic concerns within the state. Expert staff of the Corporation would be assigned to work with the states and assist in the development of the strategy and, if necessary, provide extra help to states with little initial capacity to develop an appropriate strategy. Each state would be required to negotiate an acceptable strategy with the Corporation which would then make awards to implement proposed plans. States would be encouraged to develop strategies that integrate existing development efforts, such as job training and manufacturing modernization, to further promote regional economic development. In addition, states would be encouraged to support innovative economic development efforts and those designed to create high wage jobs and high performance work organizations.

To prevent grant money from going to nondistressed areas, the NEDC should use a quantitative measurement formula to rank the affluence of targeted areas. Funds should be restricted from going to localities whose average income is more than 20 percent above the mean income for the state. States that better target distressed areas should receive larger challenge grants.

3. The NEDC should become a national "think tank" on economic development.

As a "think tank," it would require only a small cadre of the leading economic development experts to fulfill its function of studying best practices in economic development, supporting rigorous demonstration and evaluation of economic development efforts, examining trends and changes in economic conditions that effect regional development; and finally to effectively disseminate this knowledge to states and localities. Moreover, the Corporation would employ a small number of experts who could provide direct technical assistance to communities on specific issues, such as dealing with military base closures and contractor cutbacks.

4. The NEDC would be governed as follows: NEDC should be performance regulated, reporting to Congress annually. NEDC should have a corporate board of

directors, consisting of 12 members, six appointed by the President and six by Congress. The President would appoint the chairperson. Members would be appointed for three years and would be drawn from state and local government, the banking industry, the private sector (which includes not for profit corporations), organized labor, and from academia. The board will appoint a director who will be responsible for running the day-to-day operations of the corporation. The board of directors would establish policy. This format is similar to how the recently proposed Community Development Banking and Financial Institutions Fund will be governed, except that the fund's board of directors would have members of the Cabinet on it.

Governance of the NEDC goes hand in hand with its purpose. If it is to be a national think tank on development issues it must have experts representing the various groups involved with economic development, to create a broad, forward looking dialogue. The political independence and objectivity should be bolstered, with the board appointed by both the President and Congress.

5. Congress could reduce funding for economic development by approximately 40 percent (\$800 million) and apply it towards deficit reduction. Because of increased coordination, reduced number of FTEs (full-time equivalents), and with its ability to leverage its funding, and expected reallocation of state money from incentives to more productive economic development activities, the NEDC should be able to provide equivalent services at a lower funding level. Further, it is important to note that federal economic development assistance has declined precipitously through the 1980s, suggesting that steeper cuts, beyond the expected gains in efficiency, could be unwarranted.

The programs recommended for consolidation are not all necessary to create an effective NEDC. The NEDC could function well on less funding, but fewer funds could be cut for deficit reduction.

A decline in 1,340 FTEs would mean a cost savings of \$70 million (at \$50,000 per FTE). Unfortunately, this cannot be realized immediately. The government cannot capriciously lay people off. Reductions in force (RIFs) run by seniority. Federal employees have separation rights that must be taken into account, raising the cost of their dismissal. Wholesale closure of agencies would make employee reduction by attrition more

difficult, though they could still be placed within other parts of their department. In sum, civil service regulations, would mean cost saving from FTE reduction may not be realized for a full year or two.

Costs savings that are attributable to the consolidation of programs and more efficient use of resources could be in the range of 10 to 20 percent of total spending (\$2,127 million), or \$210 to \$420 million. The 10 to 20 percent gains are made up of the \$70 million from FTEs, the associated savings from closing of buildings and reduction in overhead expenses, plus savings from the reduction of duplication, streamlining of operations, and from being closer to the customer. Companies that have been reengineered can experience savings from 30 to 50 percent. This is therefore a conservative estimate.

Further reductions in federal spending are possible because states will be expected to at least match all federal grants (\$1.667 billion), creating a total development fund of \$3.804 billion, from its previous level of \$2.217 billion. Of course states may shift existing funds already spent on development to the challenge grant program and there may be no net increase in money spent on development. In this case a reduction in federal spending would be inappropriate. (See Attachments I & III.)

Because states already have a well developed infrastructure for economic development, they will only have to increase staff levels by an estimated 200 employees to compensate for the reduction of 1,340 FTEs.

Implications

The recommendations would save money while at the same time the federal government's ability to leverage its resources should increase. The grant system would empower states to be more proactive, and would give states and cities greater flexibility and incentive to work together, while reducing unnecessary subsidies to business. The effectiveness of state and local efforts should increase. The NEDC as a one-stop for state and communities should reempower the federal government, allowing it to take a lead role and responsibility for regional economic development. Moreover, the Corporation could be the lead agency for responding to economic development concerns of moment to federal policy makers, such as community impacts from defenses spending cutbacks, timber harvesting restrictions, or other areas.

There is the potential, however, that there will be reduced targeting of distressed areas, that states would contribute to the mismanagement of projects, and there will likely be strong political resistance to combining programs.

Fiscal and Federal Employment Impact

The NEDC would mean a net decrease of approximately 1,340 FTEs (see Attachment II) and a decline in budget authority of 800 million dollars annually by the time it is fully phased in (see Attachment I).

FISCAL IMPACT TABLE:

	In millions of Dollars				
	1994	1995	1996	1997	1988
Budget Authority	600	600	800	800	800
Outlay	600	600	800	800	800
Change in FTEs	0	(1340)	0	0	0

Current Programs (FY 94)			National Economic Development Corporation			Loan Authority			Totals		
Department of Agriculture			Loan Authority	Loans & Grants	Totals	Administration (100 FTEs)					
Rural Development Administration				41,000,000		Grants			10,000,000		
Administration				808,788,000		Loans			1,866,865,900		
Grants				263,622,000		(Loan Authority)			460,322,000		
Loans			1,851,332,000			Total Funding			2,137,187,900		
(Loan Authority)					913,408,000						
Rural Electrification Administration (FY93)				38,000,000		Expected State Government Contribution					
Administration				24,000,000		Matching Grants			1,666,865,900		
Grants				199,000,000							
Loans			1,987,430,000			Total Resources Available for Economic Development			3,804,053,800		
(Loan Authority)					261,000,000	Federal and State Contributions					
Economic Research Service				2,000,000							
					2,000,000						
Department of Housing & Urban Development											
State Comm. Elev. Block Grant Prog.				1,224,873,000							
Small Cities Development				367,461,900							
Allocation to Econ. Dev.					367,461,900						
Urban Dev. Action Grant Repayment Pool				300,000,000							
Allocation to Econ. Dev.				90,000,000							
					90,000,000						
Department of Commerce											
Economic Development Agency				254,000,000							
					254,000,000						
Department of Defense											
Office of Economic Adjustment				30,000,000							
					30,000,000						
Appalachian Regional Commission				189,000,000							
					189,000,000						
Tennessee Valley Authority											
Rural Development				4,917,000							
Waste Management Technology				3,712,000							
Education/Workforce Training				8,511,000							
Com. and Bus. Competitiveness				1,906,000							
River Heritage				1,272,000							
Minority Economic Development					20,318,000						
TOTAL					\$2,127,187,900						

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*NEDC funding levels for grants and loans are based on previous funding levels of the programs to be consolidated, and, thus, are only a guide as to how the NEDC could fund its projects.

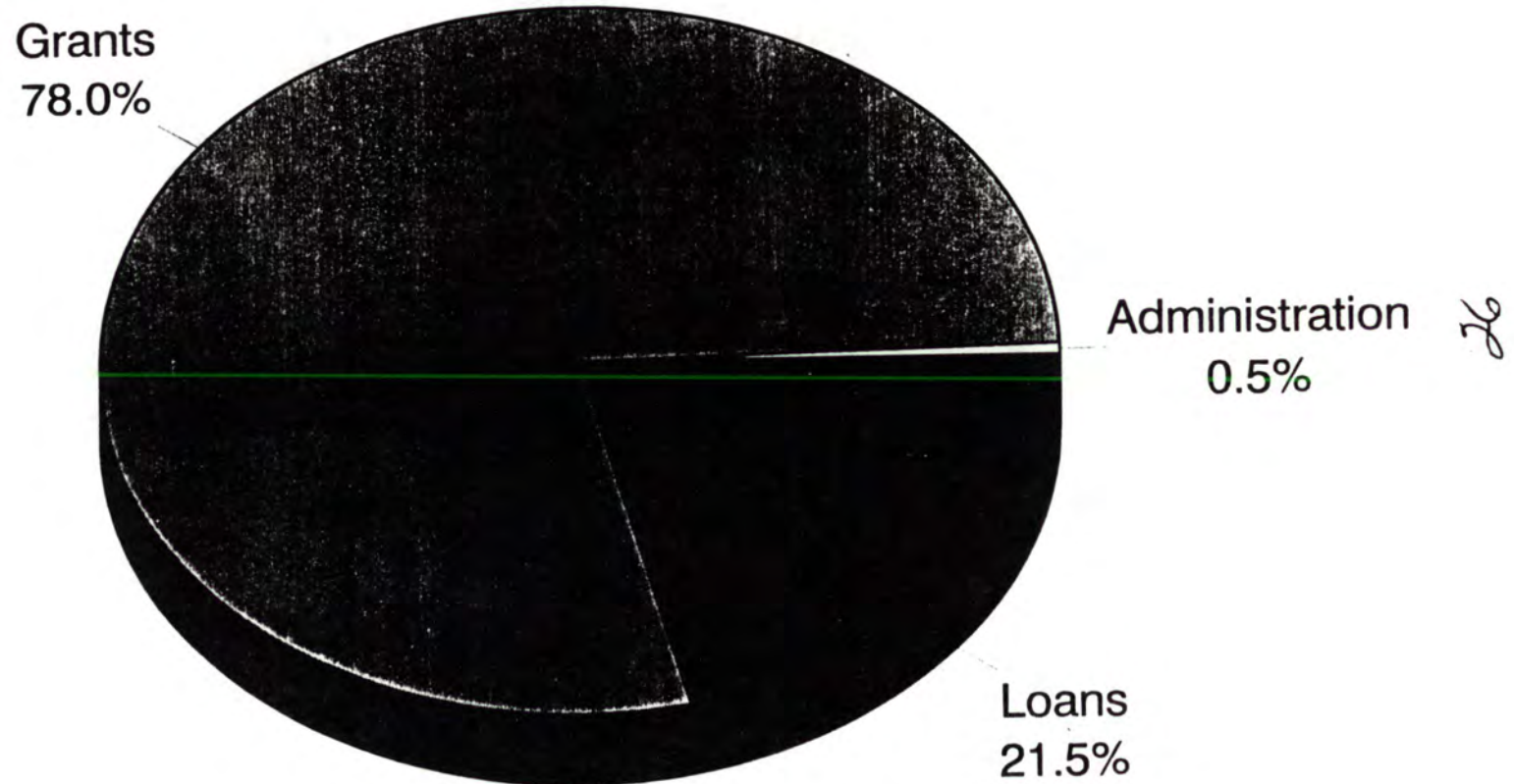
Attachment II

Department	Change in FTEs	Savings in Administrative Costs
Rural Development Administration	407	\$20,350,000
Rural Electrification Administration	523	\$26,150,000
Housing and Urban Development		
Small Cities (Economic Dev.)	8	\$400,000
Economic Development Agency	338	\$16,900,000
Office of Economic Adjustment	30	\$1,500,000
Appalachian Regional Commission	8	\$400,000
Tennessee Valley Authority		
Rural Development	130	\$6,500,000
SUM	1,444	\$72,200,000

Savings and Administrative Costs was estimated by multiplying the number of FTEs by 50,000.

ATTACHMENT III

National Economic Development Corporation



NEDC funding levels are based on previous expenditures and are, therefore, illustrative and should not be limited to these levels.

ENDNOTES

1. These are distinct from other programs to help states and localities with issues such as law enforcement, education, and social services. This brief also distinguishes between programs focused on economic and regional development and those focused on urban revitalization. The former focused on distressed regions and areas suffering from long term economic decline or economic dislocations. The latter policy are focused on redevelopment of blighted or distressed urbanized areas and neighborhoods, that may be even located in reasonably healthy metropolitan regions.

2. U.S. Congress, Office of Technology Assessment, After the Cold War: Living With Lower Defense Spending, OTA-ITE-524 (Washington, DC: February 1992), p. 175.

3. In 1989 EDA's 360 staff members managed 820 projects for an average of 2.2 projects per person.

4. After the Cold War, op. cit.

THE COMMERCE DEPARTMENT SHOULD LEAD THE FEDERAL EFFORT TO REFOCUS AND LEVERAGE EXPORT PROMOTION EFFORTS

Background

Unlike most of our economic competitors, the United States does not possess either an export strategy, or an export infrastructure capable of assisting U.S. businesses interested in pursuing global opportunities. Export programs are fragmented among 19 federal agencies, 10 of which possess substantial export promotion budgets. The Departments of Agriculture, Commerce, State, Energy, and Interior, the Agency for International Development, the Export-Import Bank, NASA, the Overseas Private Investment Corporation, the Small Business Administration, and the U.S. Trade and Development Agency all play major roles. Partially as a result of this fragmentation, the U.S. continues to lag far behind other industrialized nations in exports as a percent of Gross Domestic Product.¹

Exporting is important because manufactured goods sold abroad help American industry remain competitive in the global marketplace and create jobs at home. The Department of Commerce estimates that for every new billion dollars of U.S. exports, 20,000 new jobs are created. In fact, most of the growth of the U.S. economy over the past few years is directly attributable to exports and almost all of the growth in America's high-wage manufacturing sectors has been due to exports.² Today, 14 million Americans jobs are supported through exports.³ Unfortunately, of the vast number of manufacturing companies that could be competing in the global marketplace, only 2 percent of U.S. businesses account for 80 percent of U.S. exports.⁴ These companies are primarily large U.S. multinational corporations which have the resources to compete internationally. Census Bureau figures show that the top 10,000 exporters are responsible for 96 percent of U.S. exports, while the other 94,000 corporations accounted for the rest.⁵ Even among the top exporters, only 5,000 U.S. companies have annual export sales of more than \$5 million dollars.⁶ Most shipments, 72 percent, are worth less than \$20,000.⁷ Clearly, thousands of small and medium-sized manufacturing firms have recognized that their products are internationally competitive, but due to high transactions costs and sometimes a lack of information, they are unable to tap into new markets. In this context the U.S. has been

referred to as the "world's biggest export underachiever."⁸ In an effort to rectify this problem, the government operates more than 150 programs designed to assist American businesses sell their manufactured goods overseas. So far, this effort has not been successful for a number of reasons.

Historically the U.S. has focused federal export program dollars on the promotion of agricultural products. In 1982, the U.S. exported more than \$36 billion dollars worth of agricultural goods, which represented 17 percent of all U.S. exports.⁹ In terms of jobs, the Commerce Department reported that of the 7.2 million jobs supported by exports in 1990, 46 percent were in the manufacturing sector and 8 percent were in the agricultural sector.¹⁰ By 1992, ten years after the Federal Government had continued to pour billions of tax dollars into agricultural export programs, U.S. agricultural exports had actually decreased to 10 percent of total U.S. exports while the share of machinery and other manufactured goods showed a steady increase.¹¹ In 1991, the General Accounting Office (GAO) reported that although agricultural products accounted for only a small percentage of overall U.S. exports, the Department of Agriculture continued to receive approximately 70 percent of \$2.7 billion dollar federal export promotion budget.¹²

This disparity has had a detrimental effect on other federal export promotion programs. Compared to the Japanese and our major trading partners in Europe, the U.S. spends the least on helping its businesses compete internationally. For every billion dollars of manufactured goods exported overseas, the U.S. spent 59 cents while the United Kingdom spent \$1.62 and Italy spent \$1.71 per billion.¹³ In terms of human resources devoted to assisting U.S. business with trade lead information, advocacy, and other assistance overseas, the U.S. record is poor.

The U.S. and Foreign Commercial Service (US&FCS), part of the Department of Commerce's International Trade Administration, is the leading government agency devoted to helping U.S. businesses promote themselves internationally. Located in 69 nations and with 47 domestic offices in the U.S., the US&FCS has been continually criticized for not doing enough to promote U.S. business interests. Critics of the US&FCS argue that it should be abolished because federal employees do not adequately understand the needs of business people and that the private sector could do a better job. Others maintain that with only 200 US&FCS officers spread throughout the world, averaging less than two people per

post, the US&FCS has never had a chance to be effective. While the U.S. continues to argue with the Japanese that the current trade imbalance of more than \$50 billion between our nations is due to unfair Japanese trade practices, one need only look at the difference between the numbers of trade officials that each nation fields in the other's home market to get a good picture of the level of the U.S. commitment to export promotion. The Japanese, through their Japan Export Trading Organization (JETRO) field over 150 trade experts in the U.S. The U.S. currently has 15 US&FCS officers and 44 Foreign Service Nationals stationed in Japan; almost a 2:1 ratio.

The Federal Government's lack of commitment to a strong overseas presence has created a leadership vacuum that state governments are attempting to fill. State trade offices overseas have proliferated. The National Association of State Development Agencies (NASDA) reports in their 1992 State Export Program Data Base, state governments spent over \$20 million to support 303 people in 137 foreign office locations. Even more disconcerting than the total number is the fact that only nine of these state offices were located in cities that did not have a US&FCS office and that seven out of the 137 offices were partially funded by private donations. Although these state government offices were initially created to attract foreign investment, today they devote on average only 30 percent of their time to that task. In an attempt to fill a void created by inadequate federal support and leadership, the states have continued to try and bolster their domestic industries by creating programs to duplicate what the US&FCS was mandated to do.

Duplication of effort is not endemic only to the relationship between the states and the US&FCS, but also characterizes other domestic federal export promotion programs. Currently, three agencies share primary responsibility for delivering export counseling and finance services. The Export-Import Bank is responsible for helping businesses finance their exports; the Small Business Administration (SBA) is responsible for helping small businesses assess their exporting capabilities and provide financing assistance, while the Department of Commerce, through the domestic offices of the US&FCS, provides small and medium-size U.S. businesses with counseling, trade mission, and trade lead information through the use of International Trade Specialists and through the Department of Commerce's National Trade Data Bank (NTDB) electronic network. Trade finance, especially financial advice and information, is not disseminated efficiently because the

Export-Import Bank has a small staff and is not able to market its services, while the SBA, with its huge domestic network of field offices, has not made the Export Revolving Line of Credit a priority.¹⁴ Export counseling, primarily the responsibility of the regional and district offices of the US&FCS, is in some cases duplicated by the Small Business Administration's field structure and local state economic development agencies.¹⁵ Essentially each of these agencies is attempting to individually service overlapping segments of the same universe of customers instead of presenting a coordinated effort.

Although there is duplication throughout the entire federal export bureaucracy due to the fragmentation of funding, the Commerce Department itself should do more to ensure that its own International Trade Administration is doing as much as possible to promote the sale of manufactured goods. Even if a business contacts the Department of Commerce directly, it may become lost in the matrix structure of the International Trade Administration (ITA). Composed of the US&FCS, International Economic Policy, Trade Development, and Import Administration bureaus, ITA's mission is to promote U.S. industrial exports. According to a recent Commerce Department Inspector General's report, ITA's organizational structure encourages overlap.¹⁶ It allows each bureau to help promote exports, diffusing responsibility for this task and leading to mission confusion among ITA employees, "turf" battles between the divisions, and confusion among customers. Anecdotal evidence also suggests that the country desk officers are out of necessity becoming industry experts because of the lack of communication between the divisions.

In an attempt to solve the problems of federal export promotion program duplication and resource allocation, the Trade Promotion Coordinating Committee (TPCC) was created by Executive Order in 1990. Its mandate was to define areas of overlap, and to streamline federal export promotion activities. The Bush Administration did very little with the TPCC. By 1992, it became clear that the TPCC needed more power to fulfill its mandate, and was given statutory authority under the *Export Enhancement Act of 1992* (P.L. 102-429). Its responsibilities were expanded, and the TPCC will present a report to Congress on September 30, 1993, outlining a national strategy for export promotion, including ideas for eliminating program duplication, and proposing a unified budget for export promotion activities. Proponents of the TPCC believe that it will be effective vehicle to enhance and coordinate the fragmented federal export promotion effort. Detractors claim

that because it does not possess the authority to reallocate promotional budgets across agencies, its recommendations will fail because it will not be able to overcome traditional interagency "turf" disputes.

Clearly, the federal government is not currently using its resources in an efficient manner to meet the needs of small and medium-sized businesses interested in exporting their products overseas. The lack of federal coordination and leadership has led to duplication of efforts between federal agencies and state governments, and has caused confusion among customers. Although export promotion programs cannot by themselves alter the U.S. trade imbalance, which is influenced by macroeconomic and financial policies, the federal government can provide businesses with technical and representational assistance as well as export financing. If small and medium-sized U.S. businesses are to compete in the global marketplace, the federal government must begin to reallocate its resources to those sectors that have clearly shown growth potential while it works to make its services more accessible to its clients.

Recommendations

***1. The President should issue an Executive Order to create a new, more powerful interagency coordinating body to streamline and rationalize federal export promotion programs and funding.** This new entity should be chaired by the National Economic Council (NEC) to ensure White House coordination of the federal trade promotion effort. This new entity should be based on the existing FCCSET (Federal Coordinating Council for Science, Engineering, and Technology) process, and should be given the statutory authority to create agency performance measures and goals. The new entity should also have the authority to allocate export promotion budgets based on a comprehensive and coordinated strategic plan.

(* this recommendation is based on the July 6 meeting that we had with the Vice President and reflects his idea on modeling a new entity on FCCSET. We are currently discussing this within NPR in light of Commerce Department objections due to TPCC process).

2. The Commerce Department should lead the effort to make the Federal Government a "wholesaler" of export assistance instead of "retailer" by establishing a

pilot program to physically integrate the domestic field offices of federal agencies that provide export counseling and finance services. In twelve U.S. cities, Department of Commerce US&FCS district officials are located in the same building with Small Business Administration loan officers. Integrating these international trade counselors with financial experts would mitigate the need for U.S. businesses interested in exporting from having to go to different government offices to get information they need. This pilot program could last for one year, at the end of which time a report could be prepared for the Secretary of Commerce, outlining the program's effectiveness. This proposal, to create "one-stop shops," is consistent with the strategic vision currently being developed by the TPCC. That vision provides for a new, more focused domestic Commerce Department program as part of a consistent national approach where, over time, the federal government will move from away from the role of providing export services directly to the client, to providing the means and support to state and local governments as well as the private sector to do the same.

3. The President should direct that the resources of the Federal Government be leveraged to increase the Foreign Commercial Service officer corps, making it more competitive with other industrialized nations. Compared to our major trading partners, the U.S. spends less and does less to assist new or potential exporters. To rectify this problem, Foreign Service Officers from other federal agencies whose missions have now changed due to the end of the Cold War, should be transferred or placed on long-term rotations to the overseas field posts of the US&FCS without increasing costs to the government. A recruiting program could be created to transfer or rotate competent Foreign Service Officers from the State Department, the Agency for International Development or the U.S. Information Agency who are interested in business promotion.

4. "Regional Task Forces" within the Department of Commerce's International Trade Administration (ITA) should be created to facilitate a more synergistic relationship between its divisions. Currently composed of the U.S. & Foreign Commercial Service, the International Economic Policy (IEP) and the Trade Development (TD) divisions, ITA operates under a matrix structure that attempts to leverage country, industry, and export promotion expertise. TD focuses on industry analysis, IEP on providing country-specific information to businesses, while US&FCS's mission is to lead the promotion of U.S. industry overseas. However, each division plays a part in ITA's

overall trade promotion strategy. This kind of programmatic overlap has caused some mission confusion within ITA. According to a recent IG report and interviews conducted by the NPR, the divisions are not working well together, and IEP country desk officers are becoming industry experts because of a lack of coordination between IEP and TD. ITA should create regionally-focused task forces that would bring country and industry analysts together to create a more synergistic and team-oriented environment within ITA.

Implications

The recommendations above imply that the Federal Government currently possesses a broad menu of export program promotion and financing programs but is not organized or coordinated to meet the needs of U.S. businesses. These recommendations would help to ensure that the needs of U.S. businesses are met, potentially increasing both the volume of U.S. exports and the number of U.S. exporters. This in turn will help to create new jobs in the United States. Also, by changing the way the government delivers these services to the private sector, a more effective public/private partnership could be established.

Fiscal Impact

These reforms are mostly budget neutral but the creation of "one-stop shops," the decentralization of the delivery of export promotion services, and the delineation of agency roles should produce significant savings in terms of spending and personnel. Although recommendation three is budget neutral it should result in a net increase in federal resources directed to export promotion. Assuming 100 new Foreign Commercial Service officers costing \$100 thousand dollars each annually, new resources applied to export promotion would equal \$10 million. A recent return-on-investment analysis showed that a US&FCS dollar spent on export promotion returns \$2.88 to the Treasury in increased revenues from personal and corporate income taxes. This would contribute \$29 million annually towards deficit reduction. Further, enhanced U.S. exports which will result from these actions will have an enormous positive effect on U.S. trade balances

Fiscal Impact Table

	In Millions of Dollars				
	1994	1995	1996	1997	1998
Budget Authority	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Outlays	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Savings	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Change in FTE's	0.0	0.0	0.0	0.0	0.0

Endnotes

1. U.S. General Accounting Office, "Export Promotion: A Comparison of Programs in Five Industrialized Nations," GAO Report GGD-92-97, June 1992.
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4. Leslie Stroh, *The Exporter Magazine*, Vol. 13, issue 12 (March 1993) p. 2.
5. According to *The Exporter Magazine*, "52 Percent of All U.S. Export Shipments are Valued at Less than \$10,000 Contrary to Popular Belief that All Exports are Big Ticket," October Issue, Copyright 1992, Trade Data Reports, Inc.
6. Ibid.
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8. William Nothdurft, Going Global: How Europe Helps Small Firms Export, The German Marshall Fund of the United States, 11 Dupont Circle, N.W., Washington D.C. 20036
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10. Lester A. Davis, U.S. Jobs Supported by Merchandise Exports, U.S. Department of Commerce, Economics and Statistical Administration, Office of the Chief Economist, April 1992.

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12. U.S. General Accounting Office, "Export Promotion: U.S. Programs Lack Coherence," Statement of Allan I. Mendelowitz, Washington D.C., March 4, 1992, p. 2.
13. U.S. General Accounting Office, "Export Promotion: A Comparison of Programs in Five Industrialized Nations," Report to Congressional Requesters, GAO/GGD-92-97, June 1992.
14. U.S. General Accounting Office, "Export Promotion: Improving Small Businesses' Access to Federal Programs," Statement by Allan I. Mendelowitz, Washington D.C., April 28, 1993, pp. 10-11.
15. U.S. Congress, House Subcommittee on Economic Policy, Trade and Environment, Committee on Foreign Affairs, "Export Promotion: Governmentwide Strategy Needed for Federal Programs," Testimony by Allan I. Mendelowitz, March 15, 1993.
16. U.S. Department of Commerce, Office of the Inspector General, "Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s," report prepared by Frank DeGeorge, Inspector General, March 1993.

THE FEDERAL EXPORT CONTROL SYSTEM SHOULD BE REFORMED TO ENSURE THAT ACCOUNTABILITY FOR COMMERCIAL LICENSING IS CENTERED IN THE DEPARTMENT OF COMMERCE

Background

The current dual-use export control system used by the United States was created to protect U.S. national security by preventing technologically sensitive commercial goods from being used for military purposes by potential Soviet-bloc adversaries. In this regard, it is a relic of the Cold War and should be changed to reflect today's serious and new nonproliferation security challenges and to recognize the realities of competing in the global marketplace. Once an effective tool, the current system is now hampering U.S. economic competitiveness and lacks the focus to ensure an effective program to counter the proliferation of weapons of mass destruction.

Established in 1949 as the Cold War began, the Export Control Act sought to maintain the technological superiority of the United States and NATO Allies over the Soviet Union and East Bloc by denying them access to sophisticated commercial goods whose value-added technology could be used for military purposes.¹ To coordinate and ensure that this strategy of denial would be successful in stopping the flow of dual-use goods to Communist nations, the U.S. and NATO allies formed a multilateral control regime called COCOM (Coordinating Committee on Multilateral Export Controls) that sought to harmonize the international procedures and standards by which commercial and military items would be restricted.

By 1969, it had become apparent that U. S. commercial competitiveness was being hampered by the export control process. The Act was revised so that commercial items readily available on the world market would be decontrolled. This revision marked the first time that the U.S. government recognized the necessity of balancing commercial and national security interests. A further revision of the Act occurred in 1979, when most experts agreed that the Soviet Union had reached strategic parity with the U.S. and that export controls were best used to maintain marginal strategic and economic advantages over

the Soviet Union.

The early part of the 1980s saw little change in the international political system, and thus little change in U.S. export control policies, but by the mid-1980s more multilateral regimes were created to control the proliferation of chemical, biological and nuclear weapons as well as missile technology. The creation of these new regimes kept military concerns at the forefront of the U.S. export control policy and helped to institutionalize jurisdictional conflicts between the State Department, responsible under the Arms Export Control Act for restricting the flow of munitions abroad, and the Commerce Department, responsible under the Export Administration Act for restricting dual-use commercial goods. The State Department, under the International Traffic in Arms Regulations (ITAR), also regulates approximately \$6 billion dollars in commercial arms sales annually. Industry has recently complained to the State Department that because it has not revised the ITAR since 1985, too many commercial items are being controlled by the Munitions List. In fact, there have been instances when an exporter has received an export license from the Commerce Department only to be told at the border that the product also falls under the jurisdiction of State's Munitions List and requires a State Department license. Currently, there is no formal system to resolve these jurisdictional disputes.

The dissolution of the Soviet Union and the Warsaw Pact in the early 1990s and the rise of the new and serious threat of the proliferation of weapons of mass destruction has yet to lead the government to create a new set of export control policies that accurately reflect current international political and economic realities including the recognition that our future national security interests are becoming more dependent on global economic competitiveness. As an extension of U.S. foreign policy, experts in both the private and public sectors believe that the export control system continues to favor military and security interests over growing competing economic concerns.

It has been estimated that up to 10 percent of goods manufactured in the U.S. require a license before they can be exported. The computer industry reports that 70 percent of all export licenses are for computer-related products.² Today, although 17 million Americans owe their jobs to exports, the export control system has not been able to keep pace, causing lost sales, jobs, and tax revenue.³

Calculating the economic impact of these controls is very difficult because most

studies do not take into account potential savings to the defense budget by maintaining the technological advantages of the U.S., nor do they include the costs of maintaining the export control bureaucracy. Some industry groups maintain that the U.S. is losing anywhere between \$9-\$20 billion dollars in sales annually because of these overly restrictive controls. Potentially, this figure translates into 200,000-400,000 new jobs over four years.⁴

While export controls are still recognized as an essential element of U.S. national security policy, today's licensing process for commercial goods is widely criticized as overly cumbersome, bureaucratic, and confusing. Citing these issues, 28 members of Congress sent President Clinton a letter on July 22 urging that the Administration change the current export control process. On average, most licenses are processed by the Commerce Department within 30 days. Licenses handled by the Department of Commerce are routinely decided in seven to nine days, but those referred out to other agencies normally take five times longer, and it is not at times unusual for licenses to be held-up for up to three months to a year. Delays of that kind can adversely affect a company's marketing strategy and create the impression that U.S. companies are unreliable suppliers.

The current process has been described by industry as "a maze." (see appendix A) Once a company applies for an export license, the interagency decision-making and referral process can allow the license to languish. At least five Cabinet departments, five interagency working groups, the intelligence community, a number of interagency escalation groups, the National Security and National Economic Councils, and ultimately even the president, may take part in the process. While the system provides for a time-limit for agency review (as outlined in National Security Directive 53) that generally has been working efficiently, delays still occur, especially with precedent-setting license applications or when there is a jurisdictional conflict between Commerce's dual-use Control List and State's Munitions List. There is anecdotal evidence that time delays for some industries have become so acute that a number of U.S. multinational corporations have been lawfully circumventing the U.S. control process by shipping products through other COCOM countries like Canada, saving themselves two to three months in shipping time.

Another problem for business has been that of timely control-list review. The Department of Commerce's control list is reviewed every year, which may not be fast

enough for the computer industry whose product life-cycles are very short. Although it is regarded as an exceptional case, the current definition of "super-computer" restricts U.S. sales of widely used and available work-station computers. Restricting sales of these computers by U.S. firms, when they are available by foreign suppliers, only harms U.S. industrial competitiveness.

Although the U.S. coordinates most controls with its allies within existing multilateral regimes, sometimes it imposes unilateral controls for either national security or foreign policy reasons. While there are times when unilateral controls are necessary, such controls place U.S. firms at a significant disadvantage without advancing the intended foreign policy or security objectives. Currently, the government does not perform any type of cost/benefit analysis to determine the effect that the unilateral control will have on the domestic economy in general or on industry in particular.

The export control system for commercial goods has not been keeping pace with changes in the international political system. The end of the Cold War has seen the closure of military bases and the end of many longstanding security policies and programs that were aimed at protecting the West from possible Soviet aggression. Clearly the export control system must reflect today's national security priorities. Specifically it should continue to focus on non-proliferation issues, but it should also balance those concerns with U.S. economic priorities by not hindering the competitiveness of the industries which contribute to U.S. national security. A new export control system should have clear lines of accountability as well as a single, effective and timely interagency dispute resolution process. It must also clearly define agency roles and jurisdictions over control lists, and ensure timely control list review. Lastly, although unilateral controls will always remain a foreign policy option, they should be imposed only under narrowly proscribed conditions.

Recommendations

1. The President should direct that the interagency export control review, decision, and dispute resolution system be reformed. The current system is still based on high volume, East-West, national security export controls. Previously, under this structure less than 20 percent of applications were referred to other agencies for review. These referrals were primarily due to the concern that these dual-use goods might be

diverted to the Soviet Union for use in military activities. Today, with the break-up of the Soviet Union, concerns about worldwide proliferation of weapons of mass destruction have increased. Currently, more than fifty percent of all commercial applications that the Commerce Department receives are referred to other agencies for reasons of end-user concerns and nuclear, chemical, and biological weapons, and ballistic missiles. Export licensing processing times as a result have doubled in the past two years with referred cases requiring on average six times long to process. The current decentralized system, with its multiplicity of licensing working groups and unclear lines of authority is a mystery to exporters. The timeframes established by National Security Directive 53 (NSD 53) should be reviewed, and the interagency review system for dual-use goods should be overhauled to provide for timely, efficient and centralized decision making and clear lines of responsibility. A review of NSD 53 should also include proposals to expedite processing times by decreasing the number of interagency working groups, minimizing review steps and referrals, co-locating federal licensing personnel from various agencies such as the Departments of State, Defense and Energy in a central location and consolidating administrative licensing functions in the Commerce Department's Bureau of Export Administration (BXA).

2. The President should direct that the National Security and National Economic Councils create an effective jurisdictional dispute resolution process to reduce the confusion for the exporting community that is caused by the overlap between the State Department's Munitions List and the Commerce Department's Control List. For a number of items, the licensing jurisdictions of State and Commerce overlap. While progress has been made to limit the areas of overlap, exporters are still confused as to when each agency has licensing jurisdiction. From time-to-time shipments are halted by the U.S. Customs Service due to the uncertainty of the correct agency licensing requirement. A study should be undertaken by the NSC/NEC to review the concerns of industry and to recommend rationalization of the two systems. This review should examine industry suggestions for "one-stop shopping" and an effective more impartial dispute resolution mechanism.

3. Control lists should be examined to ensure that only the most sensitive items remain under restriction and those that are controlled are done so multilaterally to the

greatest extent possible. With the end of the Cold War, the existing export control list should be carefully examined to ensure that it reflects present day nonproliferation concerns. Because export controls can only be effective when they are imposed multilaterally by all supplier nations, unilateral controls should be avoided except in the most pressing circumstances. Whenever unilateral controls are to be imposed, the NEC should be directed to conduct an economic assessment of their consequences, so that the true cost of such controls can be properly weighed.

4. The President should direct that an integrated data base for dual-use and munitions exports be developed. An integrated data base will improve the interoperability and compatibility of the dual-use and munitions licensing systems thereby improving interagency communication during the licensing process.

5. The Bureau of Export Administration (BXA) within the Department of Commerce should restructure its operations to take into account the changed nature of export controls. The Bureau should realign its programs to consolidate its technical resources so that it can ensure that all available technical expertise is brought to bear on critical nonproliferation export control issues. BXA should also use its resources to train other nations, especially those of the Newly Independent States, in the complexities of dual-use export controls. Better use of its resources in this area will help to preclude the proliferation of weapons of mass destruction through the supply of sensitive items from the former Soviet Union.

Implications

Implementation of these recommendations would help to balance competing economic and military considerations. These recommendations would create clearer lines of responsibility and authority by decreasing jurisdictional disputes between the agencies. In the long-term, these changes would also help to create a better public/private partnership between government and industry and would help to ensure that U.S. industries remain competitive in the global marketplace.

Fiscal Impact

The full fiscal impact of these recommendations are difficult to estimate. The

purpose of these improvements is to lessen the inefficiencies within the federal export control system for commercial products by rationalizing and streamlining the process and by bringing disparate computer systems together. This changes should help U.S. companies become more competitive so that they can create new jobs at home.

Co-location of export licensing personnel in the Commerce Department will change FTE numbers, but we are assuming that the necessary 70 (approximately) experts from other agencies will be "detailed" employees and will not increase the number of BXA FTE's. Co-location will produce some normal operating expenses as well as one time costs associated with systems development and telecommunications.

The creation of an integrated data base for export controls will require administrative support to maintain the new system, as well as expenditures on new hardware and software. First year costs will include a lapse of 25 percent for new positions, normal operating costs, and a one-time cost for systems development and telecommunications.

Overall, instead of updating and maintaining the four or five export control systems now in existence, significant savings can be achieved in the outyears by merging these data bases with the one used by Commerce's Bureau of Export Administration. These savings are difficult to estimate but should offset the costs associated with maintaining a number of different systems.

Fiscal Impact Table

	In Millions of Dollars				
	1994	1995	1996	1997	1998
Budget Authority	\$-17.4	\$-12.8	\$-12.8	\$-12.8	\$-12.8
Outlay	\$-14.8	\$-12.7	\$-13.1	\$-12.8	\$-12.8
Change in FTE's	89	95	95	95	95

Endnotes

- 1 . U.S. Congress, House Sub-Committee on Economic Policy, Trade and Environment, Committee on Foreign Affairs, "Statement by Dr. John Steinbruner regarding the reauthorization of the *Export Administration Act*," June 23, 1993.
- 2 . Keeping Pace with Change, The Computer Systems Policy Project, Washington D.C.; June 4, 1993.
- 3 . "These Restrictions Do Not Compute," *The Wall Street Journal*, Scott McNealy (June 16, 1993), p. A7.
- 4 . U.S. Department of Commerce figures.

INTRODUCING MARKET DYNAMICS

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CREATE PUBLIC/PRIVATE COMPETITION FOR THE NOAA FLEET

Background

The National Oceanic and Atmospheric Administration (NOAA) maintains a fleet of ships to support its mission of oceanographic and atmospheric research, assessment of living marine resources, and nautical charting and mapping. With an average age of about 28 years, the fleet is reaching the end of its projected life expectancy. The life expectancy of a vessel which has benefitted from a major midlife rehabilitation is 30 years. Only 6 of 20 NOAA vessels have had even partial midlife rehabilitation. NOAA's ability to accomplish its legislatively mandated responsibilities is in jeopardy unless immediate action is taken.

A recent internal NOAA study proposes that a minimum of 5,000 days-at-sea (DAS) per year would be required to accomplish its mission.¹ Currently, the NOAA fleet provides less than 3,600 DAS per year. This is only 84 percent of the average annual number of DAS provided over the past 15 years. The study also proposes a fleet replacement and modernization plan which would cost in excess of \$1.6 billion over the next 15 years, in addition to its current funding level.

There have been many evaluations since 1986, including reports by the General Accounting Office (GAO), the Department of Commerce Inspector General (IG), and the Oceanic and Atmospheric Management Advisory Committee (OAMAC).² The OAMAC evaluation seriously questioned the study's proposed ship type requirements and the proper fleet size and mix of government owned/operated, contractor owned/government operated, and contractor owned/operated. The evaluation went on to suggest that an independent review would be useful in determining ship requirements and also suggested that NOAA's proposed contracting effort be increased to a minimum of one year. This would be necessary to generate significant private interest. Currently, contractors provide a very small amount of their charting and research functions. By creating a larger demand for these ship services, the private sector may be encouraged to develop new or enlarged competitively priced capabilities and technological advances.

The Army Corp of Engineers contracts 30 to 40 percent of its charting which

indicates that there is ability and interest in the private sector to do some of this kind of work. Historically, substantial savings result when competition is introduced into the acquisition process.

To address these issues, NOAA has recently prepared a model to do an economic analysis of public/private acquisition and operation for each proposed acquisition. An experiment with public/private competition in conjunction with this new model could help to determine the appropriate size and mix of the fleet and take advantage of potential savings.

Recommendation

1. The National Oceanic and Atmospheric Administration (NOAA) should experiment with a program of public/private competition to help fulfill its minimum number of days-at-sea (DAS). The competition program should be a minimum of one year in each of the three areas of mission responsibility. This experiment should be conducted in parallel with the fleet replacement and modernization and should not delay proceeding with the basic program. New funding would be required for the additional 720 DAS of ship time to conduct the competition. The results of this competition in conjunction with the new economic model analysis would provide additional support for the modernization decisions being made. The Request for Proposal (RFP) should be based on products required rather than on the type of equipment to be used. The RFP should also specify data kind, quantity and quality to ensure international quality standards. This would allow NOAA to determine what areas private industry has with regard to the capability, interest and efficiency to provide services.

2. NOAA should consider participating in the bidding process against private contractors in the areas in which the agency would be competitive. NOAA's capacity to do so will be limited in the near-term, however, because of the age and deteriorated condition of much of its existing fleet. Competing would give NOAA an incentive to perform its mission by the most cost effective method, either in-house or by contract. Since NOAA would be both buyer and seller, the procurement process must be designed to prevent any conflict of interest or appearance thereof. The process should include an impartial or independent review to ensure that government costs and projected results are

properly prepared and all bids properly evaluated.

3. NOAA should proceed with the OAMAC suggestion that an independent review be obtained to consider specific topics relating to the modernization program, including the use of generic hulls and appropriate ship staffing for NOAA's missions. The results of this review should be factored into the modeling process. By combining the results of the modeling, the competition, and the independent review with NOAA's own internal studies, a more informed decision can be made and justified concerning the long range plans.

Implications

It is recognized that a core capability of NOAA-owned ships will be desirable. However, the size and composition of this fleet would ideally and ultimately be determined by the results of competition, the model, and the internal analysis. Because of the poor condition of the fleet and the long lead time necessary to acquire or repair ships, however, NOAA may need to reevaluate the order in which ship repair and replacement is to take place to insure that the appropriate core capability is established as the modernization plan progresses.

Using public/private competition in conjunction with the economic analysis will allow the agency to make valid decisions about the size and mix of the fleet without endangering the mission accomplishment or committing to a specific approach for the modernization program without an adequate basis for that commitment. For NOAA to acquire and operate the ships, its costs of providing the same results must be kept to an absolute minimum.

Using the approach laid out in these recommendations, a comparison could be made between the results provided by the government, the private sector and the economic model. The agency would be able to determine whether industry or NOAA is better able to provide services based on cost and other factors. This analysis would be a valuable tool for NOAA to use in determining its long range plans.

Fiscal Impact

Increased costs will be required to implement this experiment and to monitor the

contracting process.

		Savings/Revenue In Millions of Dollars			
	1994	1995	1996	1997	1998
Budget Authority	n/a	-8.3	0	0	0
Outlay	n/a	-4.8	- 1.9	- 1.4	-0.2
Change in FTEs	n/a				

Endnotes

1. U.S. Department of Commerce , National Oceanic and Atmospheric Administration, *NOAA Fleet Replacement and Modernization Plan*, (Washington, D.C., March 1, 1991, Revised September 1, 1991).
2. U.S. Comptroller General, *Deactivating Research Vessels, National Oceanic and Atmospheric Administration's Use of Private Ships*, Report to Congressional Requesters, RCED-86-133 (Washington, D.C., General Accounting Office, June 1986); U.S. Comptroller General, *Ocean Research Fleet, NOAA Needs to Plan for Long-Term Fleet Requirements*, Report to the Chairman, Subcommittee on Oceanography and the Great Lakes, Committee on Merchant Marine and Fisheries, House of Representatives, RCED-90-42 (Washington, D.C., General Accounting Office, November 1989); U.S. Department of Commerce, Office of Inspector General, *Earlier Fleet Studies were Inadequate for Determining NOAA Mission and Fleet Needs*, Report No. STD-0200-0-0003 (Washington, D.C., August 1990); and National Oceanic and Atmospheric Management Advisory Committee, *Second Report on the Replacement and Modernization Plan by the Fleet Modernization Subcommittee for the Department of Commerce* (Washington, D.C., October 6, 1992).

IMPROVE MARINE FISHERIES MANAGEMENT

Background

The marine fishery resources of the United States' 200-mile Exclusive Economic Zone (EEZ) are publicly owned and privately used. The U.S. has exclusive fishery management authority over all fish and all Continental Shelf fishery resources within the EEZ.

The economics of traditional open access fisheries lead to increased competition and over capitalization, which, in turn, lead to accelerated depletion of fish. Harvesters in developing fisheries initially enjoy substantial returns. As initial benefits attract more participants into the open access fishery and total harvests reach sustainable biological limits, harvesting effort increases to prevent declines in individual shares. To maximize net income in the face of rising costs and reduced effectiveness of fishing effort, individuals often invest in more efficient technology, including larger, more powerful vessels. The resulting competition leads to increased demands on stocks at a time when available stocks are static or declining.

Fishery managers typically have responded to such situations by setting quotas, regulating gear, limiting fish size, and closing areas or seasons. These practices often result in even more overfishing, harvesting inefficiency and waste, and provide incentives for increased investment in vessels and technology, resulting in fleet over capitalization.¹

Proper management techniques should produce a sustained yield of the fishery resources over time. A 1991 National Marine Fisheries Service's (NMFS) report indicated that of the 153 edible species or species groups that could be classified, 65 (42 percent) are found to be over utilized (more resources than necessary are used to obtain most desirable production), and 57 (37 percent) are fully utilized (appropriate number of resources result in desirable production), and 31 (21 percent) are under utilized (more resources are necessary to obtain desirable production).²

The Magnuson Fishery and Conservation Management Act established a management process for the conservation and management of the marine fisheries for the benefit of the nation.³ Regional Fishery Management Councils have developed 33 fishery

management plans that have been implemented by the Secretary of Commerce. Under the Act, a fisheries management program may require that a permit be obtained and fees paid for an individual, a fishing vessel, or a fish processor to operate. The Act, however, limits permit fees to the administrative costs incurred in issuing the permits. Furthermore, fees collected from permits are deposited into the General Fund of the Treasury and are not available either to reimburse the Department of Commerce for the costs of issuing the permits or to fund fishery management programs and activities. A new section of the Magnuson Act provides for the establishment of a trust fund and assessment of fees in support of fisheries management programs in the North Pacific.⁴ This amendment had the general support of the fishing industry in the area when it was considered by the Congress.

New Zealand has implemented a management system which allocates fish among competing users.⁵ In the U.S., a system of individual transferable quotas (ITQs) similar to the New Zealand plan, is combining the traditional regulations to conserve fish with free market methods of allocation among competing users in five fisheries. This method assigns negotiable shares of the total allowable catch to individuals, which are transferable in free and competitive markets. After the initial distribution of ITQs, the market forces help determine shares of the total allowable harvest quota among individuals.

The importance of improved resource assessment and management systems cannot be over emphasized since jobs depend on it. Improved management and allocation systems would help to rebuild fisheries but would require additional resources. For example, the estimate to implement a new individual fishing quota system (a version of the ITQ) for the North Pacific sablefish and halibut fisheries is \$3.1 million per year at full implementation. In light of continuing budget limitations, one option would be to underwrite critical management, resource information collection and enforcement costs by lifting the restriction on fees. Ideally, users of public resources should pay the cost of managing them for the public good. User fees are an accepted practice for recovering the cost of management for land-based resources such as timber and grazing lands, but, in general, this has not been the case for fisheries management.

Recommendation

1. National Oceanic and Atmospheric Administration (NOAA) should continue

to collaborate with Fishery Management Councils (FMC), and commercial and recreational fishing interests to develop and implement controlled access Fishery Management Plans (FMP), including individual harvesting rights, such as ITQs, in accordance with provisions of the Magnuson Act. This is necessary to promote rebuilding of depleted fisheries and the economic health of the fishing industry.

2. NOAA should work with the Congress, FMCs, and commercial and recreational fishing interests, to evaluate options for user fees to help offset the cost of implementation of FMPs.

3. Depending on the outcome of these recommendations, NOAA should prepare, in collaboration with Congress, appropriate amendments to the Magnuson Act.

Implications

The need for innovative assessment and management programs and the funds to support those programs is widely accepted. Support has been received from the Marine Fisheries Advisory Committee, representatives of the Regional Fishery Management Councils, members of industry testifying before Congress and in various meetings and workshops on the subject. A key condition of their acceptance is that the funds derived from the fees are used in the fisheries from which they are collected.

Some members of the industry continue to object both to limited access programs and to fees. In the past, this socioeconomic issue has prompted a wide range of protests from the fishing industry. However, resource depletion and over capitalization are realities of the present management system. Industry is beginning to understand and accept the need for a basic restructuring of management techniques. Further discussions with Congress, FMCs and the fishing industry may accelerate industry acceptance.

Programs, such as ITQs, would address over capitalization by allowing participants to match the level of capital investment with the level of shares. As ITQs are transferred, more harvesters could move to areas of under utilization. In addition, smaller, more manageable size fleets would allow fisheries managers to better control harvests and rebuild depleted stocks. Harvesters also would have greater incentives to conserve the resource and encourage others to comply with management programs, knowing that their percentage

share would result in greater amounts to be harvested as fisheries are rebuilt.

Fiscal Impact

If fully implemented, controlled access management programs can bring economic growth and stability to the fishing industry. NOAA estimates the potential net value derived from adjustments in the fishing fleet size and the recovery of over-fished stocks to be \$2.9 billion (\$1.8 billion potential increase in gross harvesting revenues from all fishery units, and \$1.1 billion reduction in harvesting costs from increases in efficiency), a substantial contribution to the economy and deficit reduction.⁶ This would yield a large annual increase in income tax revenues to state and federal treasuries.

Through the use of a combination of licenses, permits and landing fees, estimated revenue could be as much as \$75 million annually.*

	Savings/Revenue In Millions of Dollars				
	1994	1995	1996	1997	1998
Budget Authority	n/a	0	0	0	0
Outlay	n/a	0	0	0	0
Revenue	n/a	75	75	75	75
Change in FTEs	n/a				

*This number reflects preliminary estimate and may change as a result of the FY 1995 budget appeal process.

Endnotes

1. U.S. Department of Commerce, National Marine Fisheries Service, *Our Living Oceans* (Washington, D.C., December 1992).
2. U.S. Department of Commerce, National Marine Fisheries Service, *Our Living Oceans. The First Annual Report on the Status of U.S. Living Marine Resources* (Washington, D.C., 1991).
3. P.L. 94-265, as amended through November 1990 (Washington, D.C., 1976).
4. Ibid., Section 313.
5. U. S. Department of Commerce, NMFS, *Analysis of the Potential Economic Benefits for Rebuilding U.S. Fisheries* (Silver Spring, Md., April 1992).
6. *Our Living Oceans. The First Annual Report* (Washington, D.C., 1991).

PROVIDE ECONOMIC DEVELOPMENT ADMINISTRATION PUBLIC WORKS LOAN GUARANTEES FOR INFRASTRUCTURE

Background

Since 1965, the Economic Development Administration (EDA) in the Department of Commerce (DOC) has assisted local communities in the development of infrastructure to save and create private sector jobs. While appropriation and staff levels have dropped, EDA's main business has remained the same. EDA's largest program, in dollars, is the "Title I" public works categorical grant program. The agency now funds about 200 such projects, for example, industrial park improvements and incubator buildings each year, mostly for local government grantees, at about \$800,000 in grant funds per project.

Depending on the level of distress (low income, persistent unemployment) in the community, EDA pays up to 50 to 80 percent of the project costs (up to 100 percent for Indian tribes). Yet the poorest communities cannot finance the local share, even at 20 percent of the project cost. EDA's field staff report that the usual sources of local matching funds for essential development facilities of long-term benefit are not available to very poor communities. They have exhausted their taxing authority, they have very little or no general bonding authority and their discretionary resources, such as Community Development Block Grant (CBDG) funds, are committed to competing immediately pressing needs.

There are more eligible projects than EDA can support. As a practical matter, EDA often delays funding, either in the course of processing or at the outset by postponing invitations for applications. Occasionally, EDA will fund a smaller percentage of the project costs than the percentage for which the applicant may be eligible, or EDA will define only a portion of a desired project as the EDA-funded project because of the limited funding available.

Communities and projects which do not need grant assistance could benefit from some lower level of financial support, particularly for innovative projects. At a minimal cost to the federal government, a loan guarantee program would serve as catalyst in promoting creative and innovative projects, including the commercialization of new technologies.

EDA's current legislation authorizes public works loans and guarantees of loans to private borrowers but does not permit loan guarantees for public borrowers. EDA's economic revolving fund was formed to support EDA's loan and loan guarantee activity; and currently has a balance of approximately \$135 million. Repayment of old public works loans adds approximately \$10 million per year to the fund.

EDA has not received any appropriations for public works loans since 1978. Between 1966 and 1978, EDA's Public Works Direct Loan Program, approved 421 loans for \$154 million, with a more than 95 percent repayment rate. The program was discontinued by EDA because of a determination that sufficient funding was available in the private capital markets.

With the current cautious lending practices and the imposition of restrictions on the issuance of exempt securities a loan guarantee program would provide the necessary funding to local communities.

Recommendation

Congress should authorize and appropriate a portion (twenty percent) of EDA's economic development revolving fund for use as a reserve for loan guarantees for financial institutions to make loans to public entities. The guaranteed loans could be secured by general obligation or revenue bonds (not tax-exempt), and/or the property acquired or improved with the assistance.

Implications

Conservatively, assuming a 20 percent subsidy rate, this recommendation would enable EDA to double the amount of public works projects with a minimum amount of increase in its budget. Based on the current level of funds in the revolving fund account, approximately \$27 million (20 percent of \$135 million) would be available to support loan guarantees of approximately \$148 million compared to its fiscal 1993 public works program appropriation of \$147 million and its proposed 1994 appropriation of \$135 million. Administration of the program, even at moderately increased levels of project activity, should be within EDA's current capacity.

Fiscal Impact

The cost of implementing this program is estimated at eight full-time equivalents and \$1.0 million in budget authority over and above the amount appropriated to cover defaults. The amount appropriated to cover the contingent liability of loan guarantees for fiscal year 1996 is estimated at \$10 million. This program, while not producing any savings, would provide EDA with the flexibility to provide greater assistance to economically distressed communities.

Fiscal Impact Table
(Dollars in Millions)

	1994	1995	1996	1997	1998
Budget Authority	n/a	- 1	- 11	- 16	- 26
Outlay	n/a	-.9	- 2	- 2	- 3
Change in FTEs	n/a	+ 6	+8	+8	+8

TRANSFER HARBOR MAINTENANCE TRUST FUNDS TO NOAA TO IMPROVE MARINE NAVIGATION SAFETY

Background

A basic function of National Oceanic and Atmospheric Administration (NOAA), deeply rooted in its history, is to provide charts and related information for the safe navigation of marine and air commerce and to provide basic data for engineering and scientific purposes and for other commercial and industrial needs. Today, NOAA faces the prospect of not being able to discharge these responsibilities effectively. More than half of the nation's nautical charts are based on survey data collected more than 50 years ago, including 25 percent of harbors and harbor approaches. Fleet support available to obtain new survey data has declined by 60 percent over the past 15 years. Tidal current predictions for several ports have been withdrawn because they had become sufficiently inaccurate to be potentially dangerous. A new water level measurement network remains only half completed due to lack of funds. NOAA cannot provide the digital chart data for use with rapidly emerging electronic chart systems which can reduce vessel workload. Real-time water level and current information, not presently provided by NOAA, is needed for safe navigation and to permit increased exports by maximizing use of limited channel depths.

NOAA must update its nautical surveys, develop and distribute digital nautical information, and modernize marine forecasting capability. Congress has been debating the mandated use of electronic charts, yet NOAA cannot presently support such systems, nor could they be supported without more than several years of preparation.

The Harbor Maintenance Trust Fund (HMTF) was authorized under the Water Resource Development Act of 1986 (P.L. 99-662), and amended by the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508). The purpose of the 1986 Act was to collect taxes on commercial cargo transiting U.S. ports to be used by the Army Corp of Engineers for maintaining harbors and harbor approaches. The amendment increased the tax, a portion of which (approximately \$45.5 million annually) was to be for its activities pertaining to commercial navigation safety. However, the authority to withdraw the funds

was never given to NOAA. With these funds, NOAA could take the necessary actions of updating its nautical surveys, developing and distributing digital nautical information, and modernizing marine forecasting capabilities. This could reduce the risk of maritime accidents at sea which result in loss of life and property, and damage to the environment.

Recommendation

Congress should give authority to NOAA to withdraw funds from the Harbor Maintenance Trust Fund for use in modernization and expansion of services which would enable NOAA to take many of the steps described as necessary to support the maritime industry. The "Marine Navigation Safety Improvement Act of 1993" pending in the House and the Senate would give NOAA access to these funds; therefore, the department should actively support the passage of this Legislation¹. The bills specify that the funds based on 1991 and 1992 receipts cannot be used to offset NOAA's Operations, Research, and Facilities (ORF) account. In addition, not more than 50 percent of the annual funds generated in 1993 and beyond may be used as an offset.

Implications

Access to the HMTF funds, in accordance with the legislation, would enable NOAA, within the next four or five years, to acquire state-of-the-art technology capable of full-bottom sea floor coverage, increase vessel time devoted to surveying by expanded agency effort and contracting with qualified private sector firms, convert production to an automated nautical charting system, complete the installation of the National Water Level Observation Network providing real-time tide and water levels, and produce digital tidal prediction products for at least five major estuaries.

Beneficiaries of the application of the new technologies, products, and services made possible by NOAA's access to the HMTF include the marine transportation industry (with commercial, fishing, and recreational components); managers, planners, engineers, and scientists working in the coastal zone; and the general public. International maritime commerce moving through U.S. harbors is a \$500 billion industry. Increased productivity and efficiency for this sector would be significant. For example, real-time information on

currents and water levels can avoid shipping delays that cost the industry as much as \$3000 per hour.

Enhanced safety of navigation, such as electronic charts, has the potential for preventing serious accidents, and real-time water level information could increase cargo capacities. Both would more than offset the cost of the tax. Also, the unused monies accumulating in the HMTF have raised the possibility of a complaint being filed by the European Community members of the General Agreements on Tariffs and Trade (GATT).

Fiscal Impact

There is approximately \$113 million in the fund which accumulated during 1991 and 1992. This would enable NOAA to take much of the necessary action of updating its nautical surveys, developing and distributing digital nautical information, and modernizing marine forecasting. The pending bills specify that funds from 1991 and 1992 receipts cannot be used to offset NOAA's Operations, Research, and Facilities account for these purposes. The amount of money potentially available to NOAA annually through the HMTF would be approximately \$45 million. Up to one-half of the funds generated in 1993 and beyond would be used to offset current budget; however, the other \$22.5 million would be an increase in government spending. These funds would be available through a permanent, indefinite appropriation. NOAA and the Department understand that these funds would be appropriated through the Corps of Engineers (Appropriation Subcommittee on Energy and Water Development) to NOAA via the Marine Navigation Safety Account, a separate account in the HMTF, and scored against the Army Corps of Engineers.

		Savings/Revenue In Millions of Dollars			
	1994	1995	1996	1997	1998
Budget Authority	n/a	-22.5	-22.5	-22.5	-22.5
Outlay	n/a	-13.0	-19.3	-20.9	-22.5
Change in FTEs	n/a				

Endnotes

1. U.S. Congress, House, *A bill to provide for the transfer of funds from the Harbor Maintenance Trust Fund to support nautical charting and marine navigational safety programs, and other activities of the National Oceanic and Atmospheric Administration related to commercial navigation, and for other purposes*, 103D Cong., 1st sess., 1993, H.R. 2094; and U.S. Congress, Senate, *A bill to provide for the transfer of funds from the Harbor Maintenance Trust Fund to support nautical charting and marine navigational safety programs, and other activities of the National Oceanic and Atmospheric Administration related to commercial navigation, and for other purposes*, 103D Cong., 1st sess., 1993, S. 655.

Develop a Manufacturing Technology Data Bank in the Department of Commerce

Background

The Department of Commerce and other federal agencies produce an enormous amount of scientific and technical information (STI) that is directly applicable to manufacturers. As with many federal programs of the federal government, manufacturing technology research is conducted by a wide and often confusing array of government organizations. The National Institutes of Standards and Technology, the Department of Defense, federal research labs, government-funded university scientists and many other organizations conduct basic research with a combined Research and development budget of more than \$65 billion per year.

Thousands of published and unpublished documents and data files are produced by this combined research effort. Many of these items have direct applicability to businesses. In fact, the ability of U.S. businesses to effectively compete in world markets or create new, high paying jobs is directly related to how effectively new technologies are identified and converted to or embodied in useful products and services.

Technology information moves freely within the research community but many businesses have a difficult time learning what information is available, how it can be applied to their line of business and how to obtain it. This is particularly true of small businesses where research resources are very limited. Yet, maintaining a competitive edge is key to the long term success of small businesses. Many scientific and technical agencies have developed stovepipe services to deliver their technology information products to their constituents. However, there is no ongoing and comprehensive cross-agency program to make technology information available and deliver it in electronic form to manufacturers on a continuing basis. This is echoed by the findings of the Competitiveness Policy Council which notes: "Investment in the transfer of existing manufacturing technology and know-how to small and medium-sized firms is much lower in the United States than in competitor nations, and such transfer and technical assistance efforts are small and fragmented."¹

The American Technology Preeminence Act of 1991 goes a long way towards centralizing the government's collection of scientific and technical information (STI) by

requiring each federal executive branch agency to transfer to the National Technical Information Service (NTIS) automatically one copy of the results of all federally funded research and development. However, there is no good mechanism in place or currently planned for businesses to sift through this mammoth collection of data to obtain information that is directly relevant to the firm. Providing too much data is as ineffective as not providing any information.

Improving manufacturers' ability to identify and obtain relevant technical information can enable them to compete more effectively in their current markets and to enter new markets. The success of these efforts translates directly into enhanced opportunities for U.S. workers. There are well established models that can be used as blueprints for the development of a Manufacturing Technology Data Bank. The Commerce Department's successful National Trade Data Bank (NTDB) has changed the way the federal government delivers export promotion and international trade information to the public and to its own offices. Moreover, an information delivery system is already well established for these services. Creating a Manufacturing Technology Data Bank using the NTDB model can take advantage of the existing software, processing facilities, and distribution system. Finally, the NTDB experience shows that the quality of reporting improves dramatically when rapid dissemination and feedback become institutionalized.

A Manufacturing Technology Data Bank containing a core set of data that highlights new production techniques, examples of best business practices, quality assurance and management information and contacts for additional technical information can also be used as a teaching tool for engineers, business leaders, managers, product development specialists, basic researchers and production line workers. The NTDB again serves as a useful model; it is used daily as a teaching tool for students in international business and market courses. Exposing students to tools used by businesses while attending colleges and universities gives them skills that can be put to immediate use upon graduation and entry into the work force. Moreover, students will bring these tools to organizations that have not taken advantage of these information products.

The Manufacturing Technology Data Bank could be designed to take a cross-cut view of technology information by compiling, organizing and disseminating information

from a wide range of STI agencies and covering a wide range of topics or technologies. This stands in marked contrast with existing dissemination services that organize information along agency or topic lines that require extensive, often confusing, searches to thoroughly research a topic or process. A properly prepared data bank will not be a substitute for existing stovepipe dissemination services operating by government technical agencies. Rather, it will serve as a complimentary service which exposes individuals to basic technical concepts.

Once a technical area is identified as promising, more extensive research will usually be required to access more detailed and narrowly defined data bases and services which are best suited to existing stovepipe dissemination services. A cross-cutting manufacturing technology information product will introduce a wide variety of technology concepts to manufacturers and can serve as an "idea generator" that allows technical issues to be quickly examined for applicability to the business.

No single agency can accomplish this task without cooperation and guidance from other scientific and technical agencies. One reason for the success of the NTDB is the existence of the Interagency Trade Data Advisory Committee (ITDAC) that is charged with advising the Secretary of Commerce on the content and operations of the NTDB. A similar organization that focuses on STI can be established to provide effective guidance on the most important items to be included in the data bank, procedures for organizing and searching for information and recommending distribution channels. The Office of Technology Assessment has examined this issue in depth. "Executive branch leadership is imperative because STI is generated by many Federal R&D agencies that must be coordinated if the government's STI efforts are to be successful." ²

Recommendations

- 1. The Department of Commerce should establish a Manufacturing Technology Data Bank using the department's National Trade Data Bank as an operating model.** The data bank should bring together in one location highlights of new research applicable to U.S. manufacturers, abstracts of additional technical information from the federal government and the names of federal government contacts in technical areas that can be of assistance in implementing these technologies.

2. The Secretary of Commerce (or his designee) should chair an interagency coordinating group to establish the content, organization and operation of the data bank. This committee may be an extension of an existing technical coordinating committee such as the interagency group comprised of the Department of Commerce, the Department of Energy, NASA, the National Library of Medicine, and Defense Information (CENDI) or the Federal Coordinating Committee on Science, Engineering, and Technology (FCCSET) or a new body whose specific duty focuses on the Manufacturing Technology Data Bank.

3. The the Department of Commerce should ensure that the Manufacturing Technology Data Bank becomes a fundamental tool that is available for use and is understood by all federal government agencies with programs that assist manufacturers in applying new technology to improve the competitiveness of U.S. businesses in existing markets or allow them to enter new, emerging markets. The data bank should be used by federal agencies, state and local governments, and in university and industry-based programs designed to advise firms on how to incorporate new technology into their business.

4. The Department of Commerce should direct development of a comprehensive technology program that employs multiple types of electronic information media such as CD-ROM, on-line access and networked distribution. The dissemination program should take advantage of existing information networks, federal depository libraries, and offer the data bank for sale on a wholesale and retail basis. Reasonable fees should be charged for using these products.

5. The Department of Commerce should encourage development of partnership relationships with educators to ensure that technology applications using the Manufacturing Technology Data Bank are developed for use in elementary and secondary schools, colleges, universities, and trade schools and in adult continuing and remedial education programs. Courses, textbooks, and multi-media applications can be developed to meet defined teaching requirements.

Implications

Improved access to federal government STI will provide U.S. businesses with

enhanced opportunities to bring these technologies to the marketplace. This translates into improved U.S. business competitiveness in global markets and creation of new, high paying jobs requiring skilled workers.

Coordination of delivery of STI by supplying agencies will ensure increased use of the information by the U.S. public. Moreover, a coordinated process for disseminating information and receiving feedback will fuel creation of more accurate, higher quality information in the future.

Delivery of STI will be viewed positively by private sector interests; all segments of the economy stand to benefit. Manufacturers through direct application of new technology, information service providers through enhanced ability to obtain and repackage government information, and individuals through improved work opportunities and creation of new jobs.

Fiscal Impact

Development of a prototype CD-ROM and on-line distribution service using existing Department of Commerce capacities currently used for production of the National Trade Data Bank will cost approximately \$300,000 per year. This includes charges for data conversion and preparation necessary to place the data on a CD-ROM, amortized costs of computer equipment and software required to prepare the data for dissemination, licensing charges for commercial software to allow identification and retrieval of information in the data bank and staff to prepare data and provide customer support. These costs are based upon quarterly distribution of a single CD-ROM including free distribution to federal depository libraries. Costs will be higher if more frequent issues are required, if the volume of information exceeds the capacity of a single CD-ROM or if other units are assigned responsibility for the development and operation of the data bank.

Costs should partially offset by charges to end users other than depository libraries. Authority currently exists to charge user fees. Revenues are anticipated to grow as the product becomes known to the manufacturing community and the quality and quantity of information improves in successive years. It is likely that the Manufacturing Data Bank could operate on a full cost recovery basis within four years of

initial development.

	Costs In Millions of Dollars				
	1994	1995	1996	1997	1998
Budget Authority	-.3	-.3	-.2	-.1	.0
Outlays	-.3	-.3	-.3	-.3	-.3
Revenues	.0	.0	.1	.2	.3
Change in FTE's	-2	-2	-2	-2	-2

Endnotes

1. Competitiveness Policy Council, *Forging the Future: Policy for American Manufacturing*, Report of the Manufacturing Subcouncil to the Competitiveness Council (Washington, D.C., March 1993).
2. U.S. Congress, Office of Technology Assessment, *Helping America Compete: The Role of Federal Scientific & Technical Information*, OTA-CIT-454 (Washington, D.C., July 10).

CREATING A QUALITY MANAGEMENT CULTURE

CREATE A NATIONAL ENVIRONMENTAL DATA INDEX TO IMPROVE ACCESSIBILITY

Background

The federal government spends billions of dollars collecting and storing environmental data and information, but it is very difficult, if not impossible, for a user to find out what data have been collected and where these data can be acquired. Several federal agencies acquire these data from satellites and other systems on the ground, at sea and in the air. These data are collected, analyzed and interpreted at a very high cost. The data are usually acquired for a particular purpose but frequently have multiple uses, such as the use of weather data to investigate global climate change. Many of these uses are within agencies other than the originating agency and by the general public, the business community, researchers and by government policy makers.

Since there is no central location for the data, the users find it difficult to locate needed data. For example, ocean temperature data are critical to the study of climate, but there is no one place for researchers to go to find out where these data are and how to acquire them. At least four agencies and more than ten centers archive these data. One report concluded: "Scientists face major obstacles in finding out what data are available."¹ In the field of global change research, there are strong indications of the need for a data index. Another global change report states: "With an inherent emphasis on cross-discipline information, global change researchers find it especially difficult to locate and access needed data and information."²

As with climatic research, other multidisciplinary areas require the functions of a data index. Coastal zone managers have requested the National Oceanic and Atmospheric Administration (NOAA) of the Department of Commerce to establish similar functions to provide the ability to find data and information concerning the coastal environment and issues. These cover fisheries, wetlands, engineering, oceanographic, atmospheric, and geophysical disciplines across many agencies.

The creation of a single electronic National Environmental Data Index would enable private industry and academia alike to locate and access data they need. Also, the index would be an important step toward providing government information equitably to all

interested parties as required by the revised Office of Management and Budget Circular A-130.

As the holder of more environmental information than all the other civilian agencies of government combined, NOAA is the logical agency to be in charge of creating the environmental data index.

To implement the index, all agencies would be instructed to contribute to the construction of the national index. Most agencies have underway an inventory of their own holdings so that making this inventory information available to a common index system would not be overly burdensome. Each agency would provide descriptions of their data bases to a National Environmental Data Index. The description would include the type of data held, what coverage in space and time, where the data bases are located, and how to obtain them. For example, the Department of Interior would put in a description of all their data bases resulting from their Biological Survey, the Environmental Protection Agency would submit information on the Environmental Monitoring and Assessment Program (EMAP), NASA would submit descriptions of Earth Observing System, and NOAA would submit data from their vast ocean, atmosphere, and geophysical holdings.

Recommendations

The president should issue an Executive Order directing all agencies of the executive branch to establish a National Environmental Data Index. Such Executive Order should further direct NOAA to provide a focal point for coordination of the National Environmental Data Index. This effort should be closely coordinated so that it does not overlap or conflict with data gathering and analysis conducted in this area by the Environmental Protection Agency.

Through this Index and its extensions, an electronic National Environmental Information System should be created to assure the widest possible dissemination of these valuable data for the benefit of all segments of society. This system would integrate the existing federal environmental data systems to provide a single point for user access.

Implication

The creation of a unified environmental data index, or the environmental data "yellow pages," would result in substantial progress toward making environmental data acquired by the government at substantial expense much more readily available for many uses beyond its primary applications.

This would result in greater benefit to government programs, to industry, and to the public by having knowledge of what data are available and how to get them.

Fiscal Impact

This system is estimated to cost \$1.5 million in fiscal year 1995 and \$0.5 million in subsequent years. Most agencies are already building an agency specific data directory or index. This simply mandates that the implementation of data systems be in a new, cooperative way, and that cross-agency coordination does occur. The creation of a nationwide national index will be a simple first step toward further agency cooperation.

The greatly improved availability of where and what environmental data are available will result in many direct and indirect benefits of value to the public, the private sector, researchers, and educators. For example, the availability of these data will go a long way toward helping to avoid false choices in major environmental policy decisions that affect the entire nation and the world.

		Savings/Revenue In Millions of Dollars			
	1994	1995	1996	1997	1998
Budget Authority	n/a	-1.5	-0.5	-0.5	-0.5
Outlay	n/a	-0.9	-0.7	-0.5	-0.5
Change in FTEs	n/a				

Endnotes

1. Committee on Geophysical Data; Committee on Geosciences, Environment, and Resources; National Research Council. *Solving the Global Change Puzzle: A U.S. Strategy for Managing Data and Information* (Washington, D.C.: National Academy Press, 1991), p. 24.

2. Committee on Earth and Environmental Sciences. *The U.S. Global Change Data and Information Management Program Plan* (Washington, D.C., 1992) p. 4.

EXPAND ELECTRONIC AVAILABILITY OF CENSUS DATA

Background

The Census Bureau in the Department of Commerce collects, processes, analyzes and widely distributes valuable current and historical information on every aspect of our economy and society. Users ranging from educators and students, to entrepreneurs, to urban planners, to other federal agencies depend on the Bureau to deliver timely, accurate and low-cost information relevant to their needs. Most needs still are met through the hard-copy publication of 2,000 to 4,000 releases and reports annually.

Responding to customer needs, the Bureau pioneered dissemination of data in computer-accessible form following the 1970 Census of Population and Housing and was the first federal agency to distribute statistical information on compact disc. Growing steadily from 10,000 computer tape customers in 1973, the Census Bureau directly served 380,000 electronic-media customers in 1992 and an additional 1.1 million obtained information from computer media through its subsidiary distribution partners, largely state data centers. Products and services now offered include diskettes, computer tapes, CD-ROMs, a facsimile system, a download bulletin board, automated Census Bureau exhibits at conferences of public and private organizations, and two very modest prototype on-line direct data acquisition systems.

Despite its early pioneering efforts, the Bureau has fallen behind emerging information distribution standards. Much faster ways to deliver large quantities of census information to more users are needed. For example, to order a product, for example a compact disc, the user must either submit a paper order form or place the order on the Bureau's customer services phone lines that are only open nine hours a day, five days a week.

Public and private data users should be able to locate and order (or directly obtain) needed census information through the medium of their choice at minimum cost 24 hours a day and seven days a week. Having Census Bureau databases "on-line" would allow immediate use of the data to support ongoing research and analyses of the economy both within and external to the federal establishment. While current data from other agencies who measure the economy will not be impacted, Census Bureau data could assist in

understanding the overall context of these indicators.

Recommendations

1. Using existing technology the Census Bureau should, establish a new 24 hour-a-day computerized census information access service and be authorized to charge a fee to recover the costs of the service. Users would dial an 800-number from a touch-tone phone to access a "free" key-word information guide to available products. Easy menu options (much like a bank transaction system) would guide the caller to an appropriate subsystem listing available information and ordering options for particular products or services. While all products and services will involve user fees, these fees should continue to be based on reproduction cost and should be automatically billable to a credit card or to a pre-credited account for frequent users. Dispatch of products or downloaded data set would be fully automated.

2. When hard copy reports are printed and released to the public, they should be simultaneously published electronically on the Internet, a worldwide "network of networks" linking organizations in North and South America, Europe and the Pacific Basin. Internet provides world-wide connectivity to a vast variety of federal, military, educational, research laboratories, contractor and other private sector organizations, researchers and practitioners.

3. The Census Bureau should develop and publish on Internet large data bases of frequently-used statistics from censuses, surveys, estimates programs, and international data sources. For example, the Bureau is preparing an easy-to-use 6,000 variable database for every community, county, metropolitan area, and state in the nation based on the results of the 1990 census (DAPS90). It should be made available on Internet. In time, geographically-correlated, disclosure protected summary data from the Economic, Agricultural and Governments Censuses should be incorporated in this file. With just this effort, relationships between demographic and economic characteristics of communities, metropolitan areas, states and the nation would be readily and inexpensively available to the hundreds of thousands of Internet users around the Nation.

4. For sophisticated users the Census Bureau should establish a dial-up system containing in a virtual memory computer a "disclosure-free" sample of micro-records from frequently used censuses or surveys. Using a user-friendly software system, the

caller could "program" a desired table and download the customized statistics to their desktop computer. The Bureau's working SIPP-ON-CALL system demonstrates their ability to design, mount and operate such systems.

5. The Census Bureau should establish electronic "storefronts" to link these systems (particularly Internet data bases) to each of the Census Bureau's 12 regional offices for access by "walk-in" patrons and regional federal personnel.

6. The Census Bureau should license each of the existing 54 state data centers to share these systems and "cascade" access to the 1,700 local data center affiliates, e.g., university and public libraries, economic development departments, and councils of governments.

Implications

These recommendations would significantly open access and use of census data, and speed up distribution, greatly benefitting the government's customers for this information, both public and private. Printed reports that are costly, cumbersome, and time-consuming to publish and distribute would fall in volume if they were also available electronically, thereby reducing both user and producer costs. Moreover, data that are too voluminous and expensive to tabulate and publish could be made available electronically at low cost. Increased access, the variety of the delivery choices, and the 365-day, around-the-clock service make this a "user-friendly" way to greatly multiply the dissemination of public information. At the same time, these initiatives would provide a foundation for converting to the digital transmission of data via optical fibre as this technology becomes more widely established in government offices, private industry and American homes. The ultimate goal is to make it easy to obtain relevant information from five or six reports without having to identify the reports, order them and wait several weeks to extract the needed information.

On the negative side, private vendors may perceive the Census Bureau's provision of such versatile data access services, at low cost to the end-user, as in "competition" with any similar services they market.

Fiscal Impact

Compared to other initiatives, the costs of modernizing information distribution at the Census Bureau is small and the benefits are widespread and large. In the short run, we roughly estimate that the Bureau would require \$20 to \$25 million and 100 to 150 professional personnel annually to make a full transition to simultaneous electronic publication by late this decade. Expenditures on equipment would be significant at the outset but the main expense would be incurred in developing electronic data bases and redesigning existing data production programs to focus on electronic publications as the primary product with hardcopy as the secondary product. By the end of the century, costs per unit of information delivered would be sharply lower as current labor- and hardcopy intensive programs are phased out. Eventually, of course, the development of these systems would eliminate jobs as labor-intensive functions are replaced with automated systems, and the ultimate savings would be far larger than the investments made during the 1990s.

Fiscal Impact Table
(Dollars in Millions)

	1994	1995	1996	1997	1998
Budget Authority	1.3	3.7	5.3	5.6	6.5
Outlay	1.0	3.1	4.8	5.5	6.3
Total FTEs	10	32	53	58	58

Amend the Omnibus Trade and Competitiveness Act to Increase the Data Quality of the National Trade Data Bank

Background

The Omnibus Trade and Competitiveness Act of 1988 requires the Secretary of Commerce to operate a National Trade Data Bank (NTDB) as a central repository of data compiled or obtained by the federal government relating to trade and international economics. The Secretary delegated responsibility for the development and operation of the data bank to the Economics and Statistics Administration (ESA). ESA's Office of Business Analysis (OBA) has operated the service since its inception.

The legislation requires the department to manage the data bank using the most appropriate electronic information technology to monitor, organize, analyze, and disseminate the data. The Act requires that "access, including electronic access, is to be provided to virtually every citizen, business, educational, or governmental unit in the United States."

The data bank has been successful since it began operating on August 23, 1990. It was implemented on time and under budget. The content and quality of the NTDB has grown continuously. At its inception, the data bank was comprised of 43 information programs contributed by 15 federal agencies. It required one compact disc with-read only memory (CD-ROM) per issue. Today, the data bank is twice its original size, requiring two CD-ROM discs per issue, and containing 100 information programs. This includes information on import and export statistics, foreign country market reports, how-to-export information, and foreign business contacts.

Easy-to-use software allows U.S. businesses and other users to navigate through the 130,000+ documents in the data bank to find information they need. The data bank has revolutionized the method used by the department's U.S. and Foreign Commercial Service to deliver export promotion information to its U.S. field offices and foreign-based sites.

The NTDB is in daily use in more than 800 depository libraries located throughout the United States, and more than 1,400 discs are sold each month either through single month sales or annual subscriptions of 12 monthly discs.

For all of its success, though, there are several deficiencies that limit the effectiveness of the NTDB. Appropriations have been relatively constant during the life of the project and

are not projected to increase.

Section 5412 of the Act allows the department to recover "reasonable fees consistent with section 552 of Title 5, United States Code," which is part of the Freedom of Information Act (FOIA).

Consistent with these limiting pricing guidelines, each issue is priced at \$35 and an annual subscription at \$360. Costs increases have been paid through greatly improved staff productivity. For example, the cost of the NTDB has been held constant even though it now requires two CD-ROM discs per issue rather than one. Innovations or improvements can only be made as funds are found.

Experience during 32 months of continuous operation has shown that the FOIA pricing rules, which were designed for relatively simple search and duplication of paper files, do not fit an electronic dissemination system involving electronic collection, processing and duplication of data. This is particularly true when the costs of manufacturing and distribution of several thousand CD-ROM discs each month requiring significant staff resources to support through training, and other customer support efforts, are factored in.

Despite its large content, significant amounts of information remain outside the data bank. Specifically, Department of Commerce export regulations represent a large omission even though significant efforts have been made to attempt to include these data in the data bank. A more comprehensive and usable system to determine a product's trade classification (Schedule B harmonized code) is also needed to assist users in locating information and preparing export declaration documents necessary to export a product.

The NTDB, moreover, lacks sufficient data to determine true world markets for U.S. exporters. Export and import statistics report only bilateral trade between the U.S. and its partners. Multilateral or world trade patterns may be determined only through use of data compiled by international organizations such as the United Nations. Unfortunately, most of this information is copyrighted. Dissemination through the NTDB would require licensing fees, which can not be recovered due to FOIA pricing guidelines. Appropriated funding is not available to cover these costs.

The NTDB meets the intent of Congress by bringing together important export promotion information which can be of value to thousands of existing and potential new exporters. But, it represents an underutilized and little known resource among the exporting community.

The NTDB information is also poorly advertised. Experts believe thousands of businesses and individuals would find the NTDB useful but do not know about it. Reference to it in speeches and presentations by department officials offers an inexpensive form of advertising that should broaden exposure of this product to the public. Direct contact by department of Commerce officials and staff, can only reach a fraction of the potential audience. A planned and properly funded marketing campaign oriented to business is likely to have a longer, more lasting effect. This will require additional funding in the first year, but should result in significantly more NTDB customers if conducted properly. Moreover, it may be a small investment if the information obtained from the NTDB is instrumental in increasing exports from the United States. Marketing is generally by word of mouth or through infrequent contact with new exporters. Budget limitations rule out major, comprehensive campaigns to publicize this service.

Rapidly falling prices of computer storage and availability of inter-networked computers present new distribution opportunities that should be taken advantage of to broaden access to the NTDB. CD-ROM distribution is still limited to the number of CD-ROM equipped computers. Providing NTDB information through alternative media techniques such as dial-up or network-based access has the potential to deliver this information to much larger numbers of customers.

Recommendations

- 1. Congress should amend section 5412 of the Omnibus Trade and Competitiveness Act of 1988 (P. L. No. 100-418, 15 U.S.C. sec. 4912) by removing reference to "fees consistent with" the Freedom of Information Act.** This change will allow the department to establish a fee schedule that will permit them to purchase needed additional data. The additional information supported by the fee increase would greatly enhance the utility of the data bank for U.S. exporters and international trade policy analysts.
- 2. The National Trade Data Bank should be placed on a firm financial foundation to ensure its continued viability.** This may be accomplished through two actions. A portion of the revenues generated by the NTDB and related OBA electronic information services should be earmarked for reinvestment into improvements in content or delivery of electronic

information services or into direct customer support of these services.

Appropriations should continue or increase as necessary to maintain adequate staff and provide the necessary infrastructure to support these services.

3. ESA should contact international organizations (United Nations, Organization for Economic Cooperation and Development, World Bank, and International Monetary Fund) and develop an action plan for including their data in the NTDB. The plan should include a determination of the funds necessary to include this information in the NTDB and the impact on user fees.

4. The Secretary of Commerce should direct all Commerce agencies to comply with requests from ESA for data. Missing federal government-produced information should be included in the NTDB without delay. Additional data, where necessary, should be tabulated, formatted, or otherwise prepared for inclusion in the data bank.

5. ESA, with the authority of the Secretary and with the assistance of the Department's Office of Public Affairs and the International Trade Administration, should take appropriate steps to develop an effective marketing plan that delivers information about the NTDB as an exporter's resource tool to as large a number of potential customers as practicable. Strategies should include announcements about the product by high government officials including the Secretary and mass marketing employing various media strategies.

6. ESA should employ new strategies for delivering the content of the NTDB using up-to-date computer techniques. Specifically, access to the NTDB via the Internet/National Information Infrastructure should become available as soon as possible with dial-up service to follow.

Implications

Elimination of the fee restrictions by Congress and the development of a increased fee schedule by the Department will greatly increase the content and quality of the data bank without the need to request additional appropriated funds. This new international organization data will literally "open the world" to NTDB customers (mostly U.S. businesses).

U.S. businesses will be able to better research foreign markets to determine if they want

to enter or expand operations in these markets. Improved access to world trade statistics will also improve the analysis of international trade issues by trade policymakers and analysts. The cost of obtaining and making this information available to the public will be largely offset by customer charges.

Adding export regulations and other trade information will improve the content and present a more complete set of information necessary for a business to engage in foreign trade. These data may be accommodated in the present NTDB environment without major fiscal impact assuming it is provided in proper electronic format.

The Internet/National Information Infrastructure provides an opportunity to immediately disseminate export promotion information to a largely untapped audience -- schools and universities. Incorporation of the NTDB in programs to train students in international marketing, business, and economics will provide businesses with a ready supply of already capable workers who are skilled in using tools of the international trade business.

Although lifting the fee restriction will provide funds necessary to purchase additional needed information, the department must be prepared for some users declining to continue their subscription.

Fiscal Impact

ESA should attempt to recover the additional costs needed to implement these recommendations through increased user fees. The department should be developing a fee schedule that will permit them to achieve the above recommendations. Any fees received in excess of what is needed to should made available to the Secretary of Commerce for disposition. The department will establish a revised fee schedule for the NTDB. The actual impact of the fee increase cannot be estimated.

	In Millions of Dollars						
	1993	1994	1995	1996	1997	1998	1999
Budget Authority	\$0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Outlays	0	0.0	0.0	0.0	0.0	0.0	0.0
Change in FTEs	0	0	0	0	0	0	0

Congress Should Eliminate Legislative Barriers to the Exchange of Business Data Among Federal Statistical Agencies

Background

In collaboration with the private sector, the Bureau of the Census, the Bureau of Economic Analysis (BEA), within the Department of Commerce and the Bureau of Labor Statistics (BLS) should develop and implement a program to: reduce the reporting burden on businesses, eliminate or reduce duplicative data requests, facilitate and simplify reporting by businesses, reduce agency costs, and improve the efficiency of federal business statistics. Since June 1993, a Statistics 2000 task force, composed of representatives from the three federal statistical agencies, has been working to develop a detailed implementation plan for this proposal.

The Bureau of the Census, the Bureau of Economic Analysis, and the Bureau of Labor Statistics collect a high proportion of the nation's most essential economic statistics. Much of public sector economic analysis and private sector business planning depends upon these statistics. They are collected through a wide variety of monthly, quarterly, and annual surveys and quinquennial economic censuses. Some of the surveys are mandatory; that is, response is mandated under law. Many are voluntary. Companies of all sizes, partnerships, and proprietorships are asked to respond. Some surveys are sent to only a few dozen firms; some are sent to thousands of firms. Most surveys are based on standard statistical sampling principles, e.g., for any particular industry, the number of small firms sampled reflects the relative importance of small firms within the industry.

Inevitably, the collection of economic data by the federal statistical agencies imposes a cost burden on the private sector. In collaboration with the Office of Management and Budget (OMB), the agencies attempt to minimize this burden via the simplification of surveys, the elimination of outdated surveys, the avoidance of duplication among surveys, the use of alternative administrative records, e.g., Internal Revenue Service records, and the introduction of electronic reporting techniques.

Some costs cannot be avoided because the statistical agencies take elaborate precautions to assure the confidentiality of the data supplied by respondents.

"Burden hours" is the measurement the government uses to measure the costs to the

private sector of the data collection activities of the federal statistical agencies. Each hour of an employee's time to fill out a survey questionnaire counts as one burden hour.

Over fiscal years 1994-98, the burden hours placed on American companies by the business statistics collection programs of the three federal statistical agencies will total about 29 million hours, at an estimated total cost of \$870 million. Another way to illustrate the effort involved in collecting, tabulating, and publishing federal business statistics is to note the costs of the federal programs. In fiscal year 1994, the budgets for these business statistics programs, for the three agencies combined, will total almost \$266 million.

The above figures illustrate the general range of effort entailed in collecting business data from the private sector. Notwithstanding the facts that there are other economic data collection programs, the activity covered by this proposal represents significant costs to American business and significant expenditures by federal agencies.

Large companies receive many statistical surveys. Good statistical coverage of the big companies is essential because they affect overall economic performance in such important and far-reaching ways.

Simplifying data collection from the nations's companies, linking their statistical reporting schedules to the internal data generation schedules of the companies, instituting rolling reporting schedules to replace "one shot" reports, e.g., end of year reports, and putting all reporting on an electronic data interchange basis will prove to be less costly for the companies and the federal statistical system alike.

Recommendations:

- 1. Congress should by the end of calendar year 1994 eliminate legislative barriers to the exchange of business data among federal statistical agencies so that the federal government can significantly reduce the statistical reporting burden on American businesses.** The Statistics 2000 task force is working to develop strategies necessary to accomplish this goal. Implementation of all the detailed proposals prepared by the task force will call for collaboration with the Internal Revenue Service (IRS), including amendment of certain provisions of law regarding the sharing of IRS data.

The program would be developed in consultation with a group selected to represent the interests of American businesses. The end result would be a totally new statistical reporting

system for most American companies. The program would concentrate on three immediate tasks.

1. Elimination of duplication of data requests from the three federal statistical agencies, development of common reporting formats, and simplification of data requests.
2. Development of rolling reporting schedules, timed as best as possible to conform to the routines by which data are generated internal to the firms and to avoid the bunching-up of data requests.
3. Adoption of electronic data interchange standards and procedures leading to a paperless reporting system. Progress in these three task areas would permit exploration of a fourth recommendation.
4. Restructuring data collection activities to match company record keeping practices with agency data requests, for example, in the 1997 Economic Censuses collecting selected data items from division or group levels of companies rather than from individual operating units, and reengineering surveys so that annual surveys do not duplicate data collected during economic census years.

2. The President should direct every federal agency involved in statistical data gathering to begin to reduce the data burden placed on U.S. businesses after the Congress eliminates legislative barriers.

Implementation of the first three parts of the system should be targeted for completion by the end of calendar year 1997. Implementation of part four could begin with the 1997 Economic Census.

Implications

Implementation of the first three parts of the system would produce the following benefits. First, there will be a reduction in burden hours placed on private sector reporters. For companies, burden hours costs an estimated \$30 per hour. Preliminary analysis suggests that the program, once fully implemented, could cut the business reporting costs by around \$10 million in most years and by as much as \$40 million in years when the Economic Censuses occur.

More timely and accurate reporting of data from the nation's largest companies can also be expected. An up-to-date "moving picture" of the business performance of the nation's

largest companies would be an invaluable tool in assessing the general performance of the economy at large.

Finally, an intensified collaboration among the three federal statistical agencies would lead to reductions in the costs of collecting, processing, and disseminating data, better analyses of the data, and improved understanding of the factors that drive performance among the biggest firms in the U.S. economy.

Convincing industry that it will truly benefit from participating in the system will be a challenge, but trends in how large companies handle their internal data are on the side of a favorable response to this proposal. In the not too distant future, the automation of corporate data systems should reach the point where compliance with federal statistical reporting requirements should be viewed as nothing more than a by-product of meeting the corporations' own control needs.

Fiscal Impact

The development and implementation of the Statistics 2000 proposals will require a modest increase in the budgets of Census, BEA, and BLS for fiscal years 1994-1997, but by fiscal year 1998 agency savings will exceed outlays and the program will generate net savings from that year forward. The savings potential of the program has been conservatively estimated. Full implementation of the cross-cutting initiatives such as the enactment of comprehensive data sharing legislation or the establishment of a central register could potentially save the three agencies as much as \$10 million a year above the savings identified.

	In Millions of Dollars				
	1994	1995	1996	1997	1998
Budget Authority	-\$1.0	-\$4.6	-\$3.7	-\$4.0	\$2.3
Outlays	-\$0.8	-\$3.6	-\$3.9	-\$3.9	\$.7
Change in FTEs	-14	-62	-51	-55	31

NOW IS THE TIME

Establish a Single Civilian Operational Environmental Polar Satellite Program

Background

The United States is committed to an operational environmental polar satellite program because of the critical value of the data the satellites collect.¹ Polar satellites collect temperature and moisture measurements (key inputs to computer weather prediction models generating all national three to five day weather forecasts); measurements of the Antarctic ozone levels, long-term environmental measurements to support global climate change studies; sea surface temperature measurements; and global cloud cover images. Polar satellites provide other valuable support missions such as monitoring emergency distress beacons to aid search and rescue missions and worldwide data collection to support a variety of activities such as endangered species monitoring.

While there is no question about the value of polar satellites, there is reason for concern about the fact that today the nation maintains two operational polar-orbiting meteorological satellite systems: (1) the National Oceanic and Atmospheric Administration (NOAA) polar-orbiting Operational Environmental Satellite (POES) for civil forecasting and research purposes; and (2) the Department of Defense (DOD) Defense Meteorological Satellite Program (DMSP) for national security purposes. In addition to these operational programs, NASA has initiated a climate research program called Mission to Planet Earth (MTPE). A key portion of this research effort is the Earth Observing System (EOS), a series of six different satellites measuring various parameters critical to understanding global climate change. One of these six missions is called the EOS-PM (PM indicating that the satellite passes over the equator in the afternoon). The climate monitoring instruments on EOS-PM are to a large extent modern versions of the meteorological instruments currently flying on the NOAA weather satellites. The problem is that the nation is planning to fly three different satellite systems with very similar capabilities.

Over the past 20 years, the POES and DMSP programs have made numerous attempts to converge to the greatest extent possible.² A review of these efforts shows the programs achieved substantial commonality but Department of Defense national security

concerns precluded full convergence in the past.³ DOD has historically stated it would manage a converged system but a single program run by DOD was and still is unacceptable given the international concerns over militarization of space.⁴ The programs have similar spacecraft, use a common launch vehicle, share products derived from the data, provide complementary environmental data to the nation, and work closely together on research and development efforts. Today, however, with the end of the Cold War, the issues which have precluded complete convergence seem to have diminished in importance.⁵ With both programs planning a new satellite design, the time is appropriate to consolidate the programs.

The EOS-PM climate research satellite is being designed with the idea that many of the instruments can be used by NOAA within the POES program. This continues a historical NOAA/NASA relationship where NASA develops new technology, demonstrates prototype hardware, and then NOAA buys identical units for continued operational support.⁶ However, the current plans involve flying EOS-PM for 15 years--during which time the POES will also have operational satellites.⁷ During most of this period, both programs will be flying duplicate instruments. The nation would be more efficiently served if NASA would develop and fly the prototypes once, and then transition the systems to NOAA's operational program for future flights. Overall, the need is to more closely couple the research and development activities of the EOS-PM program to support the operational activities of the NOAA POES program.

Convergence studies began in 1972 and have continued ever since.⁸ There have been a number of recent efforts to look at the consolidation of portions of these three programs. NOAA performed an internal study of the opportunities available through convergence of the programs.⁹ Recently, initial talks have begun between the three agencies with the goal of performing another study of convergence opportunities between the three programs.¹⁰ What is needed is a clear decision to create a single, civilian polar satellite program.

Currently, the NOAA POES program, the DOD DMSP program, and the NASA EOS-PM program are all in various stages of developing new spacecraft and instruments. In the next 10 years, the estimated total cost for these three efforts exceeds \$6 billion in development, production and operations costs. The nation cannot afford to embark upon

developing three new satellite systems with such similar missions. Such sentiments are widespread. For example, Congressman George Brown of California has stated that since significant changes have recently occurred a converged system is more achievable than in the past. He therefore has directed NOAA to work with DOD and NASA to "jointly study and assess the possible benefits and mechanisms for merging all or parts of the three programs."¹¹ Senator James Exon of Nebraska was more direct in his letters to DOD and DOC: "The nation cannot afford to maintain and modernize two satellite weather constellations."¹² Recently, at the National Space Outlook Conference, Air Force General Charles Horner, Commander United States Space Command, stated: "How you do convergence is really the question, not if you do convergence."¹³

A single operational polar satellite program could meet the needs of all users by incorporating key DOD requirements into the NOAA POES program. Furthermore, the synergy achieved through DOD and NOAA cooperation could allow both agencies to meet critical operational requirements (such as oceanographic data and global tropospheric winds) which neither agency has been able to afford to do alone. The converged operational program could save additional costs by using the NASA EOS program's state of the art spacecraft and instruments instead of NOAA designing and building its own. The result would be a single development program (compared to the three planned today) and minimal overlap between NASA's climate research and the NOAA/DOD converged operational meteorological missions.

The difficulty will be to successfully incorporate DOD requirements into the program. Based upon historical studies, key areas requiring consideration are data deniability, orbit selection, international cooperation, and adequate oversight to ensure DOD concerns are adequately met.¹⁴ The following summarizes how each of these can be addressed:

Data Deniability The satellite needs to broadcast data free to everyone but must also have the capability to deny data to specific adversaries. New technology, such as that used to deny non-subscribers to cable TV pay channels, makes this task easier.

Orbit Selection Currently, the DOD desires the ability to change their satellite orbits depending on mission requirements. Past studies have identified a three satellite constellation as feasible to meeting all orbit needs.¹⁵ Allowing DOD to influence orbit

selection should alleviate their concerns.

International Cooperation A NOAA led system could easily maintain and even improve international cooperation in environmental data exchange. However, since NOAA plans to use foreign satellites as part of the converged program, DOD may be reluctant to rely upon foreign satellites for important data. This concern could be alleviated by maintaining a ground spare U.S. satellite(s) at all times which could be launched if the foreign controlled satellite ever became unreliable.

Oversight DOD will require some mechanisms to ensure their requirements continue to be met. Possible implementation details could involve including DOD user and acquisition experts in the NOAA program office/operations facilities, allowing DOD to fund and manage DOD unique parts of the program, and/or perhaps establishing an interagency oversight group to which the program would have to report periodically to ensure all agency's requirements were being adequately met. Such oversight mechanisms should not be difficult to achieve. The driving force behind this convergence effort is clearly the desire to reduce costs. In addition to combining environmental sensing efforts within the United States, further cost reduction can be achieved through greater international participation. According to Dr. Ray A. Williamson of the Office of Technology Assessment: "Greater international coordination and collaboration on sensors and systems . . . will eventually be needed in order to reap the greatest benefit from the world-wide investment in remote sensing."¹⁶ NOAA is already working on such arrangements in its POES program by getting the Europeans to assume a greater role. An agreement in principle has been reached between NOAA and the European Organization for the Exploitation of Meteorological Satellites (EUMETSAT) whereby EUMETSAT will purchase, launch, and operate one of the two current POES missions beginning in the year 2000. This will save the U.S. more than \$100 million for each launch of one of these satellites. Such cooperation with the Europeans is an important component of cost-efficient operations and is the first step to a truly international operational environmental satellite observing system.

Recommendation

Congress should establish a single, operational environmental polar satellite program under NOAA direction. The legislation should also direct NOAA, NASA, and

DOD to undertake activities which can be implemented within existing programs of their agencies which would establish a single operational environmental polar satellite program as soon as possible including the conversion of research sensors to operational sensors.

Implications

The proposed changes will allow a more efficient, less costly global satellite observation program for the United States. A strong, efficient U.S. operational polar environmental monitoring program would be the foundation for a cooperative international system. The Europeans are already planning to increase funding for an element of this system. With a solid, unified U.S. national program in place, other countries may align their programs to complement the basic system. The result will be additional environmental data collected at minimal cost to the nation. The convergence concept provides a feasible and cost effective opportunity to accurately monitor and predict the impact of the environment on the world's societies.

The greatest difficulty in the proposal will be to ensure that a single, national program under civilian leadership, will be responsive to national security needs. As discussed previously, these concerns can be met much easier now than they could have in the past.

Fiscal Impact

Cost savings can be approximately identified over ten years at \$1.3 billion. This is based upon a three satellite operational system (with European participation) relying upon NASA to develop new hardware.

FISCAL IMPACT TABLE:

	In Millions of Dollars				
	1994	1995	1996	1997	1998
Budget Authority	\$75.0	\$75.0	\$75.0	\$75.0	\$75.0
Outlay	\$50.0	\$70.0	\$75.0	\$75.0	\$75.0
Change in FTE's	0	0	0	0	0

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USE SAMPLING TO MINIMIZE THE COST OF THE DECENNIAL CENSUS

Background

The decennial census of the population and housing is one of the federal government's largest and most expensive programs. The full cycle cost of the 1990 census program (fiscal year 1984 through fiscal year 1993) will total nearly \$2.6 billion.

The results of the 1990 decennial census indicate that the current approach appears to have exhausted its potential for counting the population at an acceptable level of accuracy at a reasonable cost. The Census Bureau's Year 2000 research and development staff has estimated that if the current approach to taking the census is retained for Census 2000, the costs could rise to about \$4.8 billion in current (not adjusted for inflation) dollars. Additionally, the average cost per household (measured in 1980 dollars) has steadily increased from \$5.04 in 1950 to \$12.10 in 1980 to \$17.00 in 1990. This figure does not include the costs of additional printing, office space, administrative staffs, communications, shipping, edit failure rates affecting subsequent operations and other related items to support the operations to contact and count the nonrespondents.

In 1990, accuracy fell below that of the 1980 census, even as census costs escalated significantly. Between 1940 and 1980, the broad overall measure of census accuracy--the net undercount (the percentage of the population not counted) had declined each census. However, the official estimate of the net undercount rose to 1.8 percent (4.7 million persons) in 1990, from 1.2 percent in 1980.

The Census Bureau's longstanding policy of trying to gather data on each nonresponding household (over 34 million in 1990) has resulted in a reliance on labor-intensive and time-consuming (literally door-to-door canvassing) field operations. Such efforts are costly, both in terms of the approximately \$1.3 billion spent for the census data collection and the quality of the data collected. The costs of these efforts continues to rise in direct relationship to the declining response rate to the census questionnaires, which declined by 10 percent in 1990 to 65 percent. In addition, it is estimated that the error rate increases significantly for the follow-up efforts on nonresponding households as compared

to the number of persons counted primarily by mail return of questionnaires. The Census Bureau estimates that it could have saved \$450 million if it had sampled 25 percent of the nonresponding households in 1990 rather than attempting to collect data on all of them.

The Census Bureau, however is unable to use sampling to supplement the current enumeration based method due to the current legislative prohibition on the use of sampling in determining the census for the apportionment of the Congress.

Research by the Census Bureau staff suggests that a number of factors, such as illiteracy, non-English speaking immigrants and concerns about privacy, may make the environment for census-taking even worse over the next decade. There is general agreement that the current census methodology does not, and cannot, count the entire population and that the challenges will continue to mount. As a result it is expected that the census undercount will increase, the cost will rise and the accuracy of the census will decrease. The use of sampling of nonrespondents to support the enumeration based method offers the opportunity to improve the accuracy, reduce the undercount and lower the cost of the census.

Recommendation

1. Congress should amend Title 13, Section 195, of the U.S. Code to remove the current prohibition on the use of sampling in the census to determine the apportionment of the Congress and authorize the Director of the Census Bureau authority to use sampling of nonrespondents to supplement the current enumeration based method. While questions have been raised about the legality of sampling for the census count, according to Census Bureau officials, available legal opinions and case law do not appear to prevent the use of sample-based methods to supplement enumeration-based methods. However, Congressional action must take place before the end of 1995 to allow the Census Bureau to make final design recommendations.

2. The Bureau of Census should begin planning and developing the methodology to use statistical sampling (of households that fail to respond to the mail-out census form) for the 2000 Census, rather than attempting to locate and count every individual.

Implications

The use of sampling of nonrespondents will add sampling error to the census results. The key technical question, is whether non-sampling errors can be reduced enough to offset the sampling error. For example, if the reduced workload resulting from use of sampling can be completed with fewer errors, the total error of the results may be less. The key policy issue to be addressed is whether various stakeholders--the Congress, states, localities, and businesses--are willing to accept census counts that are based in part on a sample.

Implications

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Fiscal Impact

The potential savings from use of sampling can be approximated through the use of the Bureau of Census' cost model. For example, in 1992 dollars, it is estimated that approximately \$300 million would have been saved with a 50 percent sample of the nonresponse follow-up workload in 1990. With a 25 percent sample, it is estimated that approximately \$450 million would have been saved maintaining the full complement of district offices and \$650 million would have been saved reducing the number of district offices.

Fiscal Impact Table

(Dollars in Millions)

	1994-99	2000 (1 in 2 Sample)	2000 (1 in 4 Sample)
Budget Authority	0	+ 300	+ 650
Outlay	0	+ 270	+585
Change in FTEs	0	- 13,000	- 26,000

The Department of Commerce Should Build a Business and Economic Information Node for the Information Highway

Background

The Department of Commerce (DOC) is an acknowledged leader in the dissemination of business and economic information through computer and telecommunication technology. The Economics and Statistics Administration (ESA) has been an outstanding innovator in the field. The Census Bureau began distributing its data on computer tape in the 1960 Census and has moved to CD-ROMs for the 1990 Census. The Bureau of Economic Analysis distributed its national economic account data on diskette in the early days of the micro-computer. The Office of Business Analysis pioneered on-line dissemination of economic data with the Economic Bulletin Board and has greatly facilitated the department's export promotion function with the National Trade Data Bank on CD-ROM.

ESA electronic dissemination products now go directly to almost 400,000 individuals and organizations; through "multipliers" (information vendors, state and local government agencies, and educational institutions), ESA information goes to as many as one million individuals and businesses in the U.S. But, there remain many millions of individuals, businesses, and other organizations that do not have access to basic information that would help them in their daily lives and business affairs and which would increase their understanding of the choices open to them.

Expanded and extended electronic dissemination can deliver information freedom to create economic growth and development. New developments in computer technology and the potential of emerging telecommunications technologies present the department with a significant opportunity to expand the availability of its data services to businesses and individuals at limited costs.

Recommendations

1. The Department of Commerce should build a business and economic information node for the information super highway. ESA has already established an INTERNET (a global network of over a million computers, spanning seven continents, with up to 20 million users) node for the Economic Bulletin Board and is now proceeding to test that system with

the Federal Depository Library system.

The INTERNET is a predecessor of the National Information Infrastructure and so information products and dissemination techniques developed and tested on the INTERNET will be ready for the NII. The Economic Bulletin Board (EBB) should be extended to a full scale economic and business information source.

- 2. The Economics and Statistics Administration should establish common formats and protocols for data transfer and standards for data description for use within the department and for extension to the entire federal government information community.** Precedent for this exists in the standards established for the EBB, the National Trade Data Bank, and the National Economic, Social and Environmental Data Bank; 41 federal agencies already contribute to these products and use these standards. It is essential that business and economic information from the entire federal government be accessible in a unified way.
- 3. Commerce should establish a prototype "on-line" business and economic information system in the White House (National Economic Council), to develop the concept, refine the data and communications standards, and create a state-of-the-art search and retrieval and analytical system.** Later the dissemination techniques developed in the INTERNET test system can be combined with the most universally useful techniques of the White House system to create a first rate business and economic information system for the NII.

Implications

The implementation of these recommendations will bring the federal government significantly closer to connecting every citizen and U.S. business to the government through easy, low cost, direct access to information. At the end of these projects, government business and economics information would be directly available to 10 to 20 million citizens through INTERNET alone and to millions more through secondary sources.

On the negative side is the clear challenge that these moves will present to the private sector information industry. In the past, these private firms have vigorously protested any move by the government to make information directly available to the public and have adamantly protested "value added" information products. In addition, both the Government Printing Office and the National Technical Information Service have announced plans to enter

the electronic dissemination business in earnest and they may resent an expanded DOC role.

Fiscal Impact

Although this is a fiscal year 1995 initiative, work will actually begin in fiscal year 1994. ESA has already presented a preliminary proposal describing the prototype system to the NEC and the White House. NEC staff would be the first users of the system's data retrieval and analytical capabilities. The estimated cost of this project for fiscal year 1994 is \$850,000. Commerce needs to explore funding these costs through transfers. The costs for fiscal year 1995 is \$1.1 million.

	In Millions of Dollars						
	1993	1994	1995	1996	1997	1998	1999
Budget Authority	\$0	-\$0.8	-\$1.1	-\$0.3	-\$0.3	-\$0.3	-\$0.3
Outlays	0	-\$0.8	-1.0	-0.4	-0.3	-0.3	-0.3
Change in FTEs	0	-3	-3	-3	-3	-3	-3

SECTION III

AGENCY REINVENTION ACTIVITIES

THE COMMERCE PERFORMANCE REVIEW:
RENEWING TO MEET THE NATION'S CHALLENGES



"American companies have spent the past decade modernizing their management. As representatives of the private sector in government, we must use this opportunity to make equally dramatic improvements here in the Department of Commerce."

Secretary Ronald Brown



I. Summary of Agency Reinvention Effort

The Department of Commerce has been in partnership with U.S. business for eighty years, seeking to maintain a prosperous, productive America. But over the past decade or so, the department slid from being a powerful advocate of economic prosperity to a bystander. As the national and world economies changed, the department too often continued to rely on its traditional ways of doing business.

Secretary Brown believed the time had come for change. The fiercely competitive world economy, environmental threats, headlong technological change – all these and more demand that the department re-examine its basic policies, programs, and operations.

Under the Secretary's leadership, Commerce began that process: to redefine the role it plays in the country's economic and environmental future, to bring to reality the Secretary's determination to make Commerce a government leader, and to spread through the ranks of Commerce employees an optimism about the impact the agency can have and a commitment to a pragmatic, bottom-line approach. The Commerce Performance Review has been the vehicle to launch us in that direction.

The Commerce approach was somewhat different than that of other agencies because of Secretary Brown's profound conviction that tapping the knowledge of employees would yield an abundance of improvement ideas. Events have borne him out. Nearly 8,000 ideas flooded in from employees across the country and around the world.

Change was the goal and this outpouring of help set the stage for change at every level. Few areas of the department will not be touched as we proceed to implement these ideas. They range from proposals to redirect legislation to steps for improving financial management to methods of streamlining correspondence processing. And Commerce will pursue every idea, regardless of whether it will save millions or will merely make one person's job more satisfying.

The department's structure was designed to reflect both the department's central policy themes and its diverse program priorities. Its key elements were: The Executive Committee, consisting of the Secretary and his top staff, which was responsible for final review and approval of all ideas and for systematic review of implementation efforts. The Steering Committee consisted of the Assistant Deputy Secretary, the Acting Chief Financial Officer and Assistant Secretary for Administration, the Director for Budget, Planning and Organization, the Director for Human Resources Management, and the Confidential Assistant to the Deputy Assistant Secretary was responsible for day-to-day coordination of the idea generation effort, oversight and assistance to working teams and cross-cutting teams, compilation of idea books for the Executive Committee, and design of the implementation effort.

A bureau lead, was responsible for the success of this project within his/her bureau, including introduction of the idea generation process to employees, monitoring of the process, and ranking and evaluation of ideas.

The response was amazing -- nearly 8,000 ideas arrived from throughout the country and around the world. And, as the chart shows, the ideas were predominately "high payoff" ones.

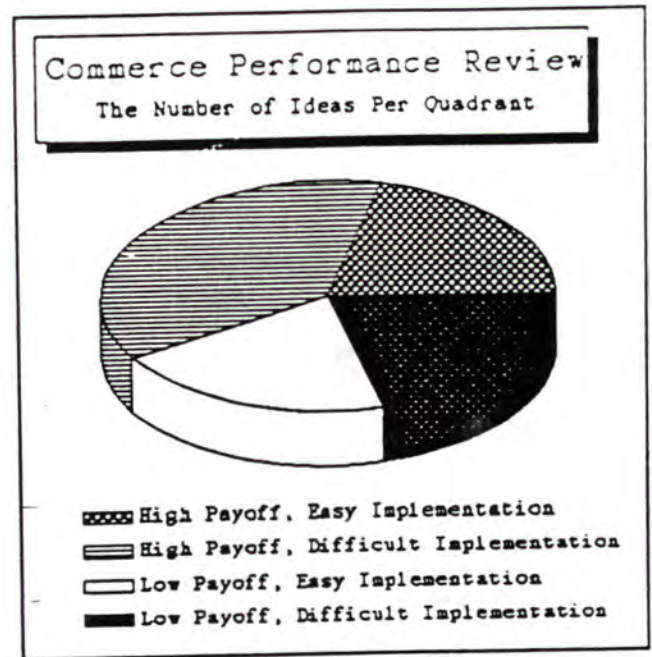
The Secretary's faith in the expertise and innovative spirit of employees was well-founded. The number of ideas received, their quality and creativity, and the obvious effort that went into them... all this was ample evidence of the commitment

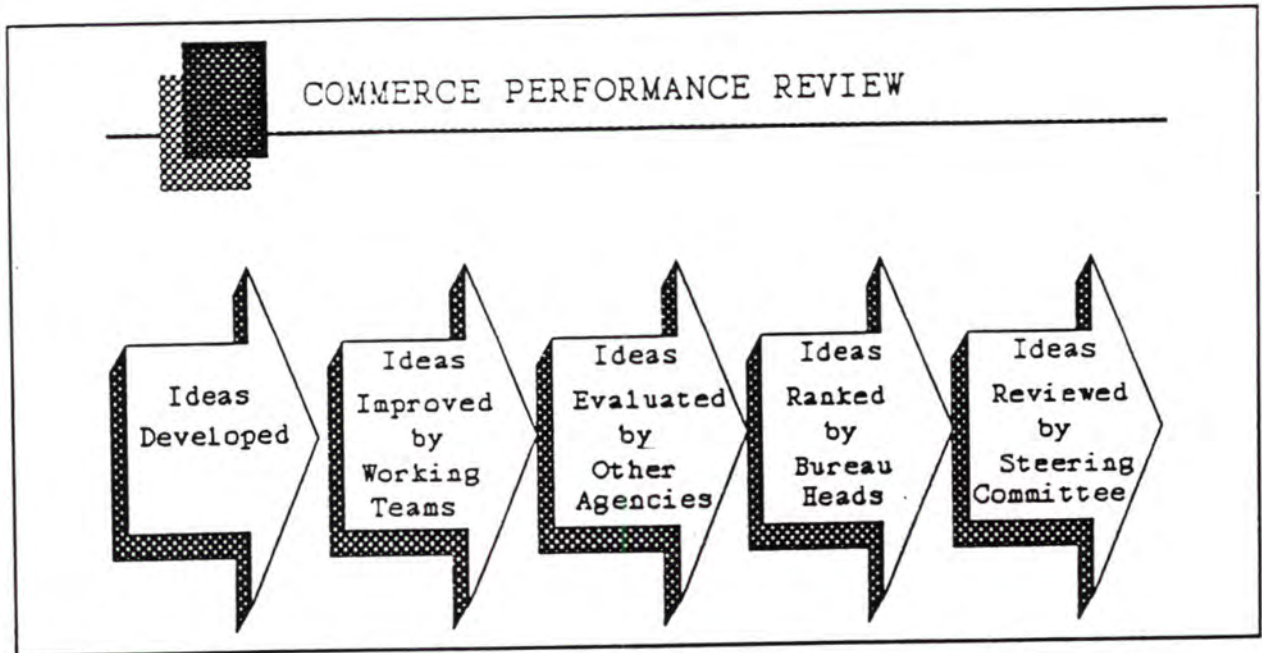
of the Commerce workforce to making the department a better and more effective place to work.

The review process, illustrated below, was intensive. Every idea was reviewed and evaluated by the head of the bureau, assisted usually by a team of employees and then submitted for departmental review first by the CPR Steering Committee and then by the CPR Executive Committee, which includes the Secretary. The Steering Committee then met with each bureau head and agreed upon follow-up implementation.

In the meantime, Secretary Brown directed that implementation begin immediately and a number of important steps have been taken. For example, the following internal procedures were streamlined or eliminated:

- The requirement for approval of travel by multiple persons to the same destination was delegated to bureau heads.
- The "counterpart clearance" process for personnel clearance was eliminated.
- The threshold for clearance of grants was raised to \$100,000.
- The threshold for clearance of advisory and assistance services contracts was raised to \$100,000.
- The threshold for BankCard purchases was raised.





The department has also selected priority ideas that will be fully researched and prepared as action documents. While some may ultimately not be implemented because of cost or other factors, all offer considerable potential for improving its service delivery. Examples of the topics being pursued include:

- expand the availability and improve the quality of economic data on the Newly Independent States and Eastern Europe,
- develop options for an annual forum on federal-wide technology transfer as a means of enhancing commercialization by the private sector,
- automate standard government-wide and Commerce forms to reduce printing and labor costs,
- explore methods to improve effectiveness of handling fisheries collection cases in state and federal courts,
- propose the establishment of a threshold of public burden hours for OMB approval of public information collections, and
- examine cost/benefit of automating fee collection for use of the patent and trademark search systems by the public.

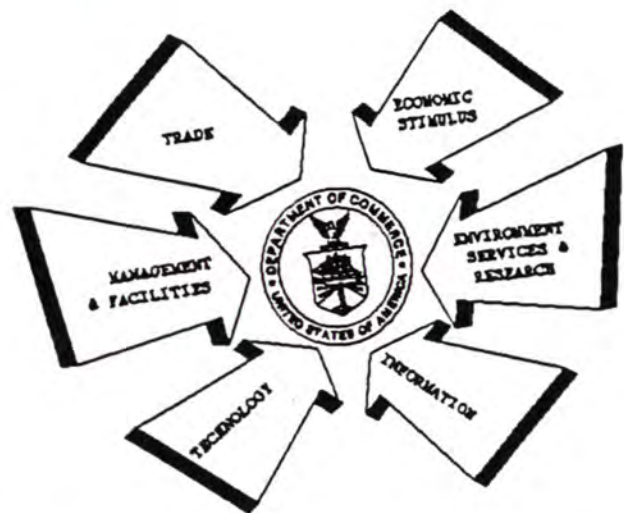
To supplement the internal idea generation process, the department will also seek the views of its customers. A preliminary customer survey (approved on an expedited basis by OMB's OIRA) was used by five bureaus to provide information to support management improvements. The department is now working with the Bureau of the Census to develop a comprehensive customer survey methodology that will incorporate a combination of written surveys and interviews. This initiative will be part of our continuing effort to reinvent Commerce.

Cross-cutting Teams

Shortly after the idea generation effort began, six cross-cutting programmatic teams were formed. Each was headed by a bureau head and included members from throughout the department, selected because of their reputation for achievement and innovation. The teams -- illustrated in the diagram below -- examined broad functional areas, deliberately not confining themselves to the traditional boundaries of organization, and developed a wide range of recommendations for the Secretary's approval.

Their reports, just completed as this summary was being prepared, include thirty-five proposals for action. Although too numerous to list here, the following are a few examples under review now:

- establish a one-stop source for computer access to government data on business, economics, international trade and demographics in the department.
- develop a coordinated intra-departmental program to inform industry of the need for ISO 9000 quality system standards registration and to educate them on its importance for global competitiveness.
- launch an initiative to have the department serve as focal point for U.S. firms to promote trade in oil and hazardous chemical spill response products, building on the department's own experience in this arena.
- design and implement a prototype Technology Data Bank, using CD-ROM



technology, to bring together for U.S. manufacturers, research reports, abstracts and other data on use of new technology.

- establish sustainable development as a unifying policy for Commerce programs, reflecting the Administrations' rejection of the false choice of economic development or environmental protection.

These few examples serve to illustrate the breadth of ideas that have been advanced under this initiative. Commerce expects significant benefits to the public from better service delivery to result.

Focus Group Sessions

A third way of getting new ideas is through a series of focus group sessions which brought together managers from different parts of the department in small, facilitated groups to generate and discuss ideas for improvement. The meetings were organized around specific themes, including five programmatic and seven administrative management topics.

Over 400 employees, located both in Washington and in the field, were asked to participate. Thirty focus group meetings were held, including twenty-one in the Washington, D.C. area and nine in five different field locations. The field sessions were held in Boulder and Denver, Colorado; Miami, Florida; Kansas City, Missouri; and Seattle, Washington.

In general, headquarters participants tended to be concerned with the policy directions the department will take and how "reinventing" concepts will be used to facilitate change. Field managers, in contrast, tended to be more interested in administrative and management themes and, particularly, in increasing their authority through greater delegation. Specific proposals include the following examples:

- improve government's ability to work productively with U.S. standards setting bodies to represent U.S. interests in the international arena,
- draw together the community-based field offices of EDA, MBDA, and SBA to work cooperatively on assistance programs,
- require value-added and cost-benefit analyses of all new or revised administrative processes, procedures and rules,
- simplify security classification procedures by removing excess layers of clearance and relaxing the "aggregate classification" rule, and

- conduct an analysis of the extent to which new technologies are moving overseas and why.

These five ideas illustrate the nearly 100 specific proposals that emerged from the focus group sessions, all of which are now under review for implementation.

Reinvention Laboratories

Our fourth avenue for "reinventing" the department is the reinvention laboratory. This technique will enable us to experiment with a variety of approaches to improving program performance, and to do so at different types of installations. Five reinvention laboratories have been approved so far, each of which is briefly described below:

The National Technical Information Service will experiment with means to provide one-stop, electronic service for business. Key components will be "FedWorld," a pilot gateway to federal agency electronic bulletin boards, the comprehensive existing NTIS document collection, and electronic on-line dissemination techniques.

The Bureau of the Census will establish an environment of innovation and risk-taking to re-engineer the full process associated with computer-assisted technologies. This approach reflects the move from traditional paper and pencil data collection to fully automated approaches.

The Patent and Trademark Office plans to experiment with a plan to allow employees to perform a substantial portion of their duties at another work site, typically their home. The experiment will build upon recent PTO advances in automated technology.

The Bureau of Export Administration plans to creatively deal with its budget driven downsizing by creating a more flexible, performance-driven organization, reduced in size without recourse to reductions in force.

The department's Boulder, Colorado facility houses scientific laboratories from three bureaus. Our reinvention laboratory will experiment with ways to achieve more efficient operations by examining delegations of authority, responsiveness of services, and other support service mechanisms.

III. Lessons Learned

One of the most important lessons we learned was that an effort to get ideas for improvement must have the clear support of top management to assure employees of the sincerity of the effort.

Secretary Brown's commitment to this process was evident to all, from top program managers to part-time summer clerks. Collateral to that principle is the necessity to provide for adequate resources to manage the initiative and to seek ideas through multiple channels.

A second lesson is the necessity for an intensive follow-up. We recognized that gathering and evaluating ideas was merely the beginning of our reinvention effort; assuring that the ideas are acted upon and employees and clients informed of the results is the real challenge. We will retain our present project structure through implementation, supplemented by staff to assure careful monitoring.

In addition, the involvement of field office management and employees is critical to achieve reinvention goals. In the department's case, nearly one half of our staff are located outside the Washington, D.C. metropolitan area and their perspective provided an invaluable means of re-examining our operations. As was confirmed by our focus group sessions and the ideas provided by employees, field staff tend to have a different focus on priorities and problems and are more concerned with operational issues.

IV. Synopsis

The department took an ambitious approach to the reinvention effort and its Commerce Performance Review tapped the ideas of managers, employees, and customers. The full impact of the effort is not likely to be known for some time as changes are implemented and their benefits verified. But we work with a vast array of ammunition -- nearly 8,000 ideas from employees, 100 recommendations from focus groups, and 30 detailed proposals from cross-cutting teams. Potential savings could be significant, but these must be carefully researched. Credibility is critical to the continued success of this initiative and we must be sure that the results we expect will in fact result.

That principle applies to the less tangible, but equally important, improvements we expect to see in customer service and product quality. That is the ultimate test of this effort and Secretary Brown is determined we will not just meet, but exceed expectations in this area.

SECTION IV

FISCAL IMPACT SUMMARY

DEPARTMENT OF COMMERCE
FISCAL IMPLICATIONS SUMMARY

CHANGE IN BUDGET AUTHORITY
Numbers in Millions

Ch. Ref.	Recommendation	Fiscal Year						Change in FTEs
		1994	1995	1996	1997	1998	5-YRS	
CS 1	Commerce should coordinate export promotion	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 2	Create seamless delivery of export promotion	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 3	Provide Alternative Financing for Minority Owned Small Business	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 4	Increase Access to Capital for Minority Business	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 5	Federal field structure review comission	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 6	Use sampling in decennial census	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 7	Single civilian polar satellite program	\$0.0	\$75.0	\$75.0	\$75.0	\$75.0	\$300.0	0
CS 8	Public / Private competition for NOAA fleet	\$0.0	(\$8.3)	\$0.0	\$0.0	\$0.0	(\$8.3)	0
CS 9	Reduce trade data collection	(\$1.0)	(\$4.6)	(\$3.7)	(\$4.0)	\$2.3	(\$11.0)	151
CS 10	Commerce Data	(\$0.8)	(\$1.1)	(\$0.3)	(\$0.3)	(\$0.3)	(\$2.8)	3
RA 11	National trade data bank	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$3.0)	0
CS 13	Adjust commerce overseas budget for exchange rate	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 14	EDA Public Works Loan Guarantees	\$0.0	(\$1.0)	(\$11.0)	(\$16.0)	(\$26.0)	(\$54.0)	8
CS 15	Reinventing Federal Economic Development efforts	\$600.0	\$600.0	\$800.0	\$800.0	\$800.0	\$3,600.0	-1,340
CS 17	Improve Marine Fisheries Management	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 18	Transfer harbor maintenance trust funds to NOAA	\$0.0	(\$22.5)	(\$22.5)	(\$22.5)	(\$22.5)	(\$90.0)	0
CS 19	Create a National Environmental DATA Index	\$0.0	(\$1.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$3.0)	0
CS 30	Expand Availability of Census Data	(\$1.3)	(\$3.7)	(\$5.3)	(\$5.6)	(\$6.5)	(\$22.4)	58
CS 31	Coordinate Federal Export Control	(\$17.4)	(\$12.8)	(\$12.8)	(\$12.8)	(\$12.8)	(\$68.6)	95
Total, Department of Commerce		\$578.9	\$618.9	\$818.3	\$812.7	\$808.1	\$3,636.9	-1,025

CHANGE IN OUTLAYS
Numbers in Millions

Ch. Ref.	Recommendation	Fiscal Year						Change in FTEs
		1994	1995	1996	1997	1998	5-YRS	
CS 1	Commerce should coordinate export promotion	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 2	Create seamless delivery of export promotion	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 3	Provide Alternative Financing for Minority Owned Small Business	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 4	Increase Access to Capital for Minority Business	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 5	Federal field structure review comission	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 6	Use sampling in decennial census	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 7	Single civilian polar satellite program	\$0.0	\$75.0	\$75.0	\$75.0	\$75.0	\$300.0	0
CS 8	Public / Private competition for NOAA fleet	\$0.0	(\$4.8)	(\$1.9)	(\$1.4)	(\$0.2)	(\$8.3)	0
CS 9	Reduce trade data collection	(\$0.8)	(\$3.6)	(\$3.9)	(\$3.9)	\$0.7	(\$11.5)	151
CS 10	Commerce Data	(\$0.8)	(\$1.0)	(\$0.4)	(\$0.3)	(\$0.3)	(\$2.8)	3
RA 11	National trade data bank	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$3.0)	0
CS 13	Adjust commerce overseas budget for exchange rate	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 14	EDA Public Works Loan Guarantees	\$0.0	(\$0.9)	(\$2.0)	(\$2.0)	(\$3.0)	(\$7.9)	8
CS 15	Reinventing Federal Economic Development efforts	\$600.0	\$600.0	\$800.0	\$800.0	\$800.0	\$3,600.0	-1,340
CS 17	Improve Marine Fisheries Management	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0
CS 18	Transfer harbor maintenance trust funds to NOAA	\$0.0	(\$13.0)	(\$19.3)	(\$20.9)	(\$22.5)	(\$75.7)	0
CS 19	Create a National Environmental DATA Index	\$0.0	(\$0.9)	(\$0.7)	(\$0.5)	(\$0.5)	(\$2.6)	0
CS 30	Expand availability of Census Data	(\$1.3)	(\$3.7)	(\$5.3)	(\$5.6)	(\$6.5)	(\$22.4)	58
CS 31	Coordinate Federal Export Control	(\$14.8)	(\$12.7)	(\$13.1)	(\$12.8)	(\$12.8)	(\$66.2)	95
Total, Department of Commerce		\$581.7	\$633.8	\$827.8	\$827.0	\$829.3	\$3,699.6	-1,025