Center for American Progress

doing what works

Reorganizing Government to Promote Competitiveness

The Key Recommendations from "A Focus on Competitiveness: Restructuring Policymaking for Results"

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Introduction

Remember that line about smoked salmon in President Barack Obama's State of the Union address earlier this year? "The Interior Department is in charge of salmon while they're in fresh water, but the Commerce Department handles them when they're in saltwater," the president quipped. "And I hear it gets even more complicated once they're smoked."

Some 40 million people around the country laughed at the president's joke. But behind the humor was a serious point. The federal government's ability to make policy and implement programs that promote competitiveness is very fragmented. And that fragmentation could in itself be a barrier to future U.S. prosperity. The president promised to put forward a plan to reorganize government to best serve the goal of a more competitive America. This issue brief offers concrete options to achieve this goal based on the following four considerations:

- Grave concern about the future economic competitiveness of the United States
- The role of the federal government in promoting competitiveness
- The case for reorganizing the federal government to better promote competitiveness
- Options for reorganizing the federal government

This brief is based on the Center for American Progress's report "A Focus on Competitiveness" by John Podesta, Sarah Rosen Wartell, and Jitinder Kohli, published in December 2010, which proposed that federal government should be reorganized to allow a stronger focus on promoting competitiveness. In the pages that follow we examine the first three considerations in turn and then present four options for reorganizing the federal government.

Grave concern about the future competitiveness of the United States

The United States is the richest and largest economy in the world, with economic growth rates that have outpaced other developed countries. Between 1986 and 2005, for example, the U.S. economy grew at a rate of 3.1 percent compared to 2.1 percent for Japan, 2.6 percent for the United Kingdom, and 2.6 percent for Germany.[1]

Among the reasons for the United States's economic success:

- World class post-secondary education: The United States is home to the world's top research universities. According to High Impact Universities, the top 12 research universities in the world are all in America, and of the top 50, only 10 are outside of the United States.[2]

- Smart regulatory policy: The United States remains one of the easiest places to start a business. It costs less than 1 percent of per capita income to start a business in the United compared to 5.1 percent in Germany and 7.5 percent in Japan.[3]

- An entrepreneurial culture: The United States has a uniquely strong entrepreneurial culture. The Global Entrepreneurship Monitor reports that Americans are the least likely of developed countries to have a "fear of failure that would prevent them from starting a business."[4] Only 27 percent of American respondents indicated that they would not start a business due to a fear of failure. In Germany, France, and Japan, that figure was 37 percent, 47 percent, and 50 percent, respectively.[5]

- A commitment to innovation: The United States as a whole, including American businesses, devote more money to research and development as a share of GDP than almost all other developed countries, including Germany, France and the United Kingdom. The exception to this is Japan and South Korea, which, over the past three decades, have invested more in research and development than the United States.[6]

But, looking forward, it is less clear that the United States will maintain its superior economic position, especially with the rapid growth of economies such as China and India. International comparisons indicate a number of areas where the United States is beginning to fall behind:

- For the first time in 10 years, the United States does not rank first on the World Economic Forum's international rankings of competitiveness.[7]

- High school graduation rates in the United States are significantly lower than the Organization for Economic Co-operation and Development's average. The OECD ranks the United States 16th out of 27 industrialized democracies by percentage of high school graduates.[8]

- The United States in 2001 ranked fourth in broadband penetration among 30 OECD countries; by 2007 it had dropped to 15th.[9]

- The United States has dropped from seventh to 23rd in a World Economic Forum ranking of global infrastructure quality.[10]

- The United States attracts an increasingly smaller proportion of international students to its institutions of higher education, as immigration controls make it ever more difficult for graduates to remain in the country.[11]

- Foreign investments in U.S. business as a share of gross domestic product have fallen significantly behind those in France and the United Kingdom during the last decade.[12]

These developments are cause for concern. The ingredients of economic growth for the future seem to be at risk in the United States. Without action, there is a real possibility that the country will lose its competitive edge.

The role of the federal government in promoting competitiveness

While the private sector is the engine of economic growth, in many of these areas the federal government has a crucial role setting the conditions for businesses to succeed.

There are legitimate differences of view about the best decisions that the federal government should take to enhance competitiveness. Those on the right tend to argue that the best thing the government can do is to reduce taxes and regulation so that it gets out of the way. Republican House Speaker, John Boehner, for example, recently said, "Reducing the size and cost of government is key to unleashing small businesses to grow and hire."[13] That is, the appropriate way to ensure U.S. competitiveness is to reduce government involvement and allow market forces to work.

Those on the left, however, argue that there is an important role for government to help shape industries of the future such as clean energy. Case in point: The new National Economic Council Director Gene Sperling argues that, "None of us in government think we can foresee specific winners or losers of the future, but it doesn't mean that we shouldn't be laying the foundation for innovation."[14]

But behind these differences of view there is actually enormous consensus. Few would claim, for example, that a high quality education system that equips young people to succeed in the labor market is not essential. Similarly, most would agree that effective transportation infrastructure is necessary if American businesses are to succeed. Even a competitiveness strategy that emphasizes deregulation and free markets is nonetheless a policy vision for making the country more competitive. Such a policy vision still requires coherence at the federal government level to ensure that it is carried out.

We at the Center for American Progress believe that the United States needs a strong strategy to safeguard future competitiveness and adequate machinery in government to implement it. The question, therefore, is what drives the future competitiveness of a nation? We believe there are six key pillars to a coherent competitiveness agenda and that government has a role in each:

- **Infrastructure,** including communication networks, energy production facilities, and transportation
- **Education** and skills, including K-12 primary and secondary education, post-secondary education, and workforce development to improve the skills of current and future workers
- **Science,** technology, and innovation, including capacities for basic research, development, commercialization and deployment of ideas, the cultivation of innovation for goods and services, and a strong culture of entrepreneurialism that encourages risk taking and exploration
- **Finance** and investment, including tax, fiscal, capital markets, credit, and other policies that create an attractive environment for private capital and world-leading financial institutions, along with public institutions and infrastructure where necessary
- **Networks,** comprising the complex web of relationships that allow infrastructure to be built, innovations to be discovered, capital to be invested, skilled workers to be produced, new competitive businesses to be created, and innovation clusters to be formed that enhance the value and expand the capacity for all of the above
- **Access** to markets and resources, including demand for goods and services both domestically and in international markets, alongside access to natural resources such as minerals

Reorganizing to better promote competitiveness

Competitiveness policy is among the most complex areas of policy that any government works on. It cuts across a wide range of policy areas from skills to transportation, from science to trade, and from education to immigration. As such, it would be impossible to locate all the policy levers in one place.

But there is still a strong case for having a single government department that is identified as the lead agency in championing competitiveness. That department would take the lead in implementing a strategy to promote competitiveness. It would have direct responsibility over a significant proportion of the levers of competitiveness. And it would need to be influential across government so that it can ensure that other departments frame and carry out their policies in a manner that helps to promote competitiveness.

In addition, a department that is focused on promoting competitiveness and has real power over a number of the policy levers to do so is more likely to understand how policy can play a role in promoting competitiveness. It is also more likely to have access to the views of business at the highest level.

The problem is that competitiveness policy is very fragmented in the United States by comparison to other countries. Consider the issue of export promotion. In the U.S. government, the Department of Commerce, the U.S. Trade and Development Agency, the Export Import Bank, and the Department of Agriculture as well as several other agencies are all involved, in one way or another, in export promotion:

- The International Trade Administration in Commerce helps businesses select markets and sell products in the global marketplace.

- The U.S. Trade and Development Agency engages in trade capacity building. Its mission is to advance economic development and U.S. commercial enterprise in developing and emerging economies.[15]

- The Export-Import Bank encourages American exports by financing exports of U.S. goods and services to international markets; it provides pre-export financing, export credit insurance, direct loans, and loan guarantees.

- The Department of Agriculture's Foreign Agriculture Service has responsibility for the development of markets and international trade agreements, as well as providing export credit guarantees for American agricultural exporters.

And export promotion is just one part of the trade jigsaw. Negotiating trade agreements, and devising and enforcing export controls—also important aspects of trade policy—are the work of additional governmental agencies. Indeed, export controls are equally fragmented in the federal government with three agencies responsible for the system.

The Obama administration is currently leading a significant effort to provide greater coherence in this area. But much remains to be done. In most countries, there is a clear lead department with responsibility for a significant proportion of the policy levers of competitiveness. (see box)

An international survey of government competitiveness agencies

How other countries organize their competitiveness strategies

While there is no country where all policy responsibility for competitiveness is concentrated in one department, the United States stands out as unusually fragmented. Here's how a select group of our key international competitors do it:

- **Japan:** The Ministry for Economy, Trade and Industry's portfolio includes international trade, science and technology policy, business development, manufacturing, and natural resources and energy.
- **United Kingdom:** The Department for Business, Innovation and Skills is responsible for economic development, trade, workforce development, higher education, small business, and science and technology policies.
- **France:** The Ministry of the Economy, Industry, and Employment has an economic policy portfolio that in the United States is split among the departments of commerce, labor, and treasury.
- **Germany:** The Ministry of Economics and Technology handles energy, domestic and international economics, technology, telecommunications and mail, and industrial relations policies.
- **The Netherlands:** The Ministry for Economic Affairs oversees trademarks and patents, consumer protection, economic analysis, energy, telecommunications, technology and innovation, and foreign economic relations.
- **India:** The Ministry of Commerce and Industry wields administrative control over international trade, domestic and foreign business, infrastructure, intellectual property, and industrial policy and promotion.
- **Singapore:** The Ministry of Trade and Industry is responsible for science and technology, energy, competition, productivity and innovation, international trade, statistics, tourism, and infrastructure and industrial development.
- **Australia:** The Department for Innovation, Industry, Science and Research handles policies relating to manufacturing and construction, innovation and technology, international trade, small business, intellectual property, and investment promotion. The department also manages the so-called Business Entry Point, which provides businesses with a simple access point to all parts of the government.

Typically, that department also acts as the champion or lead agency for competitiveness across government, so that while they may not control the policy levers on issues such as transportation, immigration, or schooling, they are always influential in key decisions in these areas that impact on competitiveness.

The closest analog in the U.S. federal bureaucracy to a lead department for competitiveness is the Department of Commerce, but it has historically wielded middling influence unless there is a strong personal relationship between the commerce secretary and the president. This is in part because its programs have modest economic impact.

In other countries, commerce-like agencies are the primary point of interface between government and the business community. In contrast, U.S. agencies whose work affects business are distributed across multiple cabinet agencies, creating an array of entry points for business interests.

Commerce's portfolio also includes governmental functions that are only indirectly related to commerce, such as national weather forecasting and the census. One former senior department official said that in some periods, the commerce secretary "spent 60 percent of his time dealing with fish," referring to the department's National Oceanic and Atmospheric Administration.

A federal government reorganization should create a more powerful and economically important agency with greater control of resources and responsibility for those policy areas that touch on the private sector and job creation. This agency would help focus the executive branch on the competitiveness of firms and workers. Its potent set of authorities would also help bring the department into what is informally acknowledged to be the top tier of federal agencies—State, Defense, Treasury, and Justice—making it attractive to top candidates for cabinet posts.

Consolidation would also make it easier for American firms to navigate their way through the federal bureaucracy. More important, there would be a voice at the cabinet table that is understood to speak for the interests of America's employers and employees in global competition.

Another reason for consolidation is efficiency. As we already mentioned, a great deal of trade and export expertise is spread across a wide array of agencies. Each of these agencies develops expertise in a large number of sectors. Consolidation of some of these functions could, if done right, result in not only better-coordinated policy but also more cost-effective implementation.

The time may be right to make this move. If we are to see the rebirth of high-quality jobs in the U.S. economy, the executive branch must make that an unrelenting focus. The diffusion of agencies, officials, and programs result in diffuse focus. The cost of this is simply too high for American workers and businesses in the current global climate.

Options for reorganizing government

We believe there are four broad options to reorganize the federal government to better promote competitiveness.

Option 1: A small scale reorganization as a precursor to wider reforms

It would be possible to focus initial efforts in one policy area. The Obama administration, for example, has well-developed plans to reorganize agency efforts on export control. These would bring together work in the State Department with that in the Commerce Department.

A similar move might be possible to bring together export promotion agencies (see above) so that their efforts are better coordinated. This would provide a better service to American businesses who currently find it difficult to navigate a complicated federal government bureaucracy.

Reorganization along these lines would be easier to implement than other options that are more far-reaching. Yet, such a reorganization may still encounter problems associated with jurisdictional boundaries in Congress, which can lead to resistance from committee members. While a small scale reorganization is not immune from this risk, it is less likely to run into significant problems of this nature.

A downside of this approach is that it would still leave federal government agencies with responsibility for competitiveness significantly more fragmented than other countries.

Option 2: Create a Department for Business, Trade, and Technology

A further option would be to create a Department of Business, Trade, and Technology. In this model, all of the relevant agencies within the Department of Commerce would be brought together under one roof with trade and business-focused agencies and offices in other agencies, including the Office of the United States Trade Representative, the Small Business Administration, the Export-Import Bank of the United States, the Overseas Private Investment Corp., and the U.S. Trade and Development Agency.

By combining the major trade, business, and technology functions from throughout the government, it would be easier to set priorities, enlist the resources of diverse programs in service of a national strategy for competitiveness, and align agencies' work to deliver outcomes that matter to the public.

Under this proposal, there would need to be a decisions on two major Commerce Department "administrations" with tangential relationships to competitiveness: the National Oceanic and Atmospheric Administration, which supplies environmental information, manages coastal and marine environments, and provides data and applied scientific research on ecosystems, climate, weather, and water; and the Economics and Statistics Administration (including the Bureau of Economic Analysis and the U.S. Census Bureau). Both are large organizations with important and often controversial mandates that have distracted the commerce secretary in the past from the competitiveness agenda that we argue should be the unrelenting focus of the next era of U.S. economic policy.

A careful review should determine the best place for these important agencies, whose missions would not closely align with the mission of the new department. Preliminarily, the functions of NOAA would seem to better reside within the Department of the Interior, whose mission includes protecting America's natural resources and heritage.

NOAA and Interior both monitor climate change and environmental conditions, including water quality, and share responsibility for fisheries management. NOAA regulates fishing of saltwater salmon, for example, while Interior regulates fishing of freshwater salmon.

ESA might be moved to a new "American Statistical Agency" along with other federal statistical bureaus such as the Bureau of Labor Statistics. Alternatively, ESA could remain in the new department but function as part of a new virtual statistical agency.

There are operational risks to any reorganization. When they go wrong, the consequences are long lasting as the experience of creating the Department of Homeland Security demonstrates. Creating a Department of Business, Trade, and Technology would be a far smaller reorganization, the new agency would have about 18,000 staff (compared to more than 200,000 staff in DHS) and a budget of around $5 billion (compared to DHS's budget of more than $50 billion). It also would have a focused mission that could allow it to come together more quickly as an effective department.

Option 3: A Department for Competitiveness that includes job training, higher education, and science policy

A more far-reaching design for a competitiveness agency would be to include the job training and higher education programs from the labor and education department along with programs that promote science for economic development purposes, such as those in the departments of energy and transportation as well as White House coordinating responsibilities for science and technology policy.[16] Such a department should not include the National Science Foundation and other functions with responsibility for basic research, whose independence from political interference should be assiduously protected.

This model would deliver a strong Department for Competitiveness that would likely rank in the top tier of cabinet agencies. It would have significant control over the levers of competitiveness policy and would be influential across the administration.

But the move would also be controversial. Education and labor interests would likely object strongly to this move. Universities, for example, might be concerned about the academic consequences of moving higher education programs into a department that is not principally focused on education. Labor unions might similarly object, fearing a shift in focus from the needs of workers that are implicitly paramount in the Labor Department to the needs of employers.

Another objection would be that it is better to leave programs that invest in developing and commercializing technologies in the agencies that are expert in the issues those technologies are meant to address. So it could be argued, for example, that the Advanced Project Research Agency, or ARPA-E, program currently in the Department of Energy should remain there rather than in a Department of Competitiveness. But there are also strong arguments for bringing this program and other similar programs, such as the Technology Innovation Program in the Department of Commerce, together to maximize their collective impact and place them all in a competitiveness-focused agency that understands finance and commercialization.

A large scale reorganization such as this would inevitably have a significant impact on committee jurisdictions in Congress and would encounter resistance on those grounds, too. In addition, while the department created under this option would remain significantly smaller in terms of its staff numbers than DHS, creating a new Department for Competitiveness from so many different parts of government would require considerable leadership skill.

Option 4: A wider reorganization across government

President Obama's State of the Union speech said that there had not been a major reorganization of government since the days of black-and-white television. Aside from the creation of the Department of Homeland Security, the last major reorganization of federal government was in the late 1970s with the creation of the Departments of Education and Energy.

Taking President Obama's lead, it would be possible to have a reorganization effort that goes beyond competitiveness and looks at other ways in which agencies could be merged to create a more coherent structure across the executive branch. For instance, former Chair of the National Endowment on the Arts Bill Ivey has proposed that there should be a new Department for Cultural Affairs which addresses fragmentation in that policy area and brings together key aspects of policy on the arts and broadcasting under one roof.[17] If there were to be such a major reorganization, there would also be other policy areas that could be better aligned. Homelessness policy, for example, currently cuts across some 20 departments and could benefit from consolidation and a clearer lead agency.

Any large-scale reorganization would face significant barriers in Congress and from interest groups who will fear that they may have something to lose from the change. There is also an operational risk that managers in agencies focus their energies on reorganization rather than on conducting their jobs well.

But there are also advantages. A far reaching reorganization effort could fully address fragmentation in other policy areas such as homelessness or job training in which numerous agencies work toward the same policy ends and agencies leaders find it difficult to compare the relative effectiveness of programs and make decisions about what the priorities should be. By setting out clearly who the lead agencies are on particular policy areas, a large-scale reorganization could improve the capacity to compare the relative effectiveness of different programs. In a fiscally tight world, the need to do so is particularly great.

Moving forward

President Obama said in his State of the Union speech that "In the coming months, my administration will develop a proposal to merge, consolidate, and reorganize the federal government in a way that best serves the goal of a more competitive America. I will submit that proposal to Congress for a vote—and we will push to get it passed."

In developing its proposal, the White House will first want to define clearly its goals in terms of reorganization. Is the primary focus on promoting the ability of the United States to compete globally as the president said in his speech? Next, he and his administration will need to decide whether they wish to start with small-scale proposals and build on them over time, or whether to put forward a comprehensive approach for restructuring government.

As the White House develops its proposals, it will need to work with outside experts including business, labor, and education interests to ensure that the plans are both sound and enjoy support. They will also want to work with Congress to gauge the views of leading members. It will be impossible to come up with an idea that everyone likes, but the administration will need to ensure that it has a proposal that enough people like so that it has a chance of getting through.

Even though the United States has been the world's most successful economy, America's future competitiveness is far from assured. Government policy will have a key role in determining the future prosperity of the nation. But the fragmentation of the federal government on this key policy area means that it is much harder to develop and implement strong policies to promote our future competitiveness. Reorganizing government to build a stronger and more effective focus in the executive branch on competitiveness could well reap enormous rewards for future generations of Americans.

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Endnotes

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CAP's Doing What Works project promotes government reform to efficiently allocate scarce resources and achieve greater results for the American people. This project specifically has three key objectives:

- Eliminating or redesigning misguided spending programs and tax expenditures, focused on priority areas such as health care, energy, and education
- Boosting government productivity by streamlining management and strengthening operations in the areas of human resources, information technology, and procurement
- Building a foundation for smarter decision-making by enhancing transparency and performance measurement and evaluation