



# 1. How Can Government Move Into the 21st Century to Become Better, Faster, and Cheaper?

By Irving Wladawsky-Berger

## Introduction

Most everyone agrees that economies and societies around the world are going through historic structural changes, driven by a number of powerful forces including digital technologies and globalization. Over the past two decades, companies—especially large, global companies—have been going through major transformations to help them adapt to these structural changes. In particular, they have embraced digital technologies to improve their productivity while leveraging globalization to better manage their supply chains and reduce their costs.

Just in the last few years, we have seen the explosive growth of innovation that can disrupt old ways of doing business to improve performance and reduce the time involved in operations—smart mobile devices, cloud services and apps, broadband wireless networks, Big Data, and analytics. Companies and individuals have essentially transitioned from the connected, PC-based, static world of 10 years ago to a hyperconnected, increasingly smart, real-time world today that is better, faster, and cheaper.

## Changing Structure of the American Economy

Over this same time period, government is viewed as lagging behind the private sector in improving its productivity and reducing its costs. In a study, *The Evolving Structure of the American Economy and the Employment Challenge*, published by the Council on Foreign Relations in March of 2011, Michael Spence and Sandile Hlatshwayo examine the changing structure of the United States economy over the past two decades.

Their study divides the economy into two distinct sectors:

- Tradable, which includes mostly private sector industries. The tradable sector is the part of the economy most exposed to global competition from foreign companies and suppliers. It includes most manufacturing, agricultural, mineral, and energy products, and more recently, many business and financial services.
- Nontradable, which includes much of government and a number of government-related industries. The nontradable sector is the part of the economy that must be produced and consumed locally, including government services, health care, education, transportation, construction, retail stores, restaurants, and hotels.

In summary, the tradable sector—which includes most private-sector jobs—significantly improved its value added per employee (a measure of labor productivity), but had negligible incremental employment, primarily because fewer workers are needed to do the same job as a result of the major increase in technology-based productivity, and because a number of jobs have moved to countries with lower labor costs. The nontradable sector—including government and government-related jobs in industries like health care and education—had virtually all the job growth during this period, but significantly lower productivity. While the specific

numbers have changed since 2008 given the impact of the financial crisis and subsequent global recession, the overall conclusions remain similar.

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## Uncertain Future for Advanced Economies

The continuing growth of government in advanced economies, such as the United States and Western Europe, is no longer sustainable given their aging populations and slow economic growth, says *The Economist* in a special report on *The Future of the State* published in March of 2011.

According to *The Economist*, these governments must address two major structural issues: they must become more efficient and they must seriously tackle the growing role of government. Productivity and redesigning services have been key business objectives over the past 20 years. Could some of the practices that have worked well in the private sector be applied to government?

This question was addressed in a report released in October of 2010 by the Technology CEO Council, *One Trillion Reasons: How Commercial Best Practices to Maximize Productivity Can Save Taxpayer Money and Enhance Government Services*. The report identified a set of recommendations aimed at reducing United States government spending by one trillion dollars over the next decade by restructuring how government does its work, without reducing government services or benefits to the public. The Council stated that its recommendations are actionable, proven ways of improving the overall efficiency of government based on real-world expertise, information technologies, and organizational practices that are already being successfully applied in the private sector.

The Technology CEO Council report states:

Our government has an opportunity to dramatically reduce spending and cut the deficit, while also improving its level of service to citizens. By harnessing major technological shifts and adopting best business practices, we can not only make our government far more productive, but also foster greater innovation in areas ranging from healthcare to education and energy—innovation that will generate economic growth and job creation.

We have seen this repeatedly over the past several decades in the technology industry, and in the impact of new technology models across our economy and society. Again and again, new capabilities have simultaneously reduced costs and sparked innovation.

Given the inherent differences between business and government, it is reasonable to question the extent to which good ideas and best practices from the private sector can be applied to the public sector. After all, there is a huge difference between the key objectives of business—

e.g., managing revenues and profits, and acquiring and retaining customers—and those of democratic governments, where the quality of life of its citizens, so well embodied in the phrase “life, liberty, and the pursuit of happiness,” is among its top objectives.

## Opportunities for Government to Become More Efficient

While there are differences, there are also many similarities between government and business. Large government institutions and large companies are both complex organizations employing many people and providing a wide variety of services to their citizens and clients, respectively. Both operate in increasingly fast-changing, complex, unpredictable environments. Both have access to innovative technologies and management practices that can be of significant help in dealing with their complex operations. And regardless of whether they are dealing with citizens or clients, both can significantly benefit from running more efficient, collaborative organizations.

*The Foundations of Efficiency: Learning to Do More with Less is the New Normal in Government*, a global study published in January of 2012 as part of IBM's Smarter Government initiative, identified major opportunities where technology and innovation can help government agencies save time in performing transactions that support their mission, reduce their operating costs, redesign their service delivery models and improve their overall performance. These opportunities include:

- Significant savings (often in the 20–30 percent range) are possible by employing proven methods to consolidate IT infrastructures. For example, a South Korean government agency consolidated its IT infrastructure from 4,600 servers down to 43, reducing server management costs by \$3 million per year and energy consumption by 90 percent.
- Cloud-based shared services in a number of areas, including IT, finance, legal, HR, and procurement, represent another major opportunity with the potential to generate 20–30 percent savings and improve the efficiency of business processes. County governments in southwest England have saved \$100 million and improved overall customer service by consolidating their procurement, back-office processing, and service delivery for citizens.
- The use of advanced analytics to maximize resource utilization represents another opportunity for savings and productivity improvements. The Government Accountability Office estimates that the U.S. government lost \$98 billion in fiscal year 2009 as a result of improper payments. Alameda County, California, has been using advanced analytics to reduce improper payments by 15 to 20 percent. The county's social services agency has generated considerable savings and improved the delivery of its services by implementing an integrated reporting system that reduced improper payments and provided caseworkers with more timely and accurate information.
- Shifting government processes to a Web-based electronic self-service model can significantly reduce costs, as well as improve the overall citizen experience. For example, a national tax agency in Latin America increased tax collections by eight percent and reduced collection costs by 10 percent by switching from its previous manual to an online tax collection process.

## Opportunities for Government to Redesign Public Services

Making government more efficient is absolutely necessary, but far from sufficient. The second major structural change is the need for government to rethink how public services are delivered and the roles of the public and private sectors in doing so. And it must do so while balancing government's responsibility to improve the quality of life of its citizens, while at the same time becoming more productive and reducing its overall costs.

What services should government continue to provide, and how? What is the role of the private and non-profit sectors? What is the responsibility of individuals and families? How do you decide which programs to transform, reduce, or eliminate altogether?

These are extremely hard questions. They are at the root of many of the ideological debates taking place in the United States and other countries around the world. Hard as it is, we must try to have rational, information-based discussions that will hopefully help us find the right balance between quality of life, affordability, and efficiency. Major issues facing the public sector include:

- Health care costs have to be brought significantly down by reducing waste and unnecessary expensive procedures, especially those at the end of life.
- Programs that serve retirees and beneficiaries of pensions need to be adjusted to account for our longer life expectancies and longer work lives.
- A good education must be available and affordable at all levels, given the very strong correlation between high educational attainment and low unemployment rates.
- Good physical and digital infrastructures are very important for economic success.

There are an increasing number of examples where government is now redesigning the delivery of public services to become better, faster, cheaper. For example, New York City has developed a new health and human services (HHS) website. With more than eight million residents, New York City has an extremely large job to do in providing health and human services benefits. Along with the difficulties of serving an immensely diverse population, the city has struggled with the internal roadblocks inherent in government. With ACCESS NYC, a new HHS Web portal, NYC residents can easily check their eligibility for 35 city, state, and federal human service benefit programs. It also lets citizens create an account, apply for programs and manage their own cases online. And ACCESS NYC is designed to reach New York's diverse population by providing information in seven languages: English, Spanish, Chinese, Russian, Korean, Arabic, and Haitian Creole.

One Million Healthy Children (1MHC), an initiative recently launched by Georgia Tech and other Atlanta institutions, addresses some of the most challenging and debilitating pediatric health care challenges with its initial focus on children suffering from diabetes, asthma, and autism. The project models economic, incentive, treatment, disease, and other factors that affect health care decisions to find practices and policies that will shift the focus of pediatric care from disease treatment to long-term wellness and disease prevention.

In Dubuque, Iowa, the city is driving economic growth by becoming a global leader in sustainability. By deploying advanced technologies, Dubuque households have access to real-time data that enable them to make smarter decisions on their use of electricity, water, and other resources. In addition, the city of Dubuque receives anonymous aggregated data to help it address the ever-increasing demands of cities to deliver vital services such as energy, water management, and transportation—all while reducing the community's impact on the environment. In 2008, Dubuque was named one of the most livable small cities by the United States Conference of Mayors, and in 2010 it was named one of the nation's best small cities in which to raise a family by *Forbes* magazine.

## Conclusion

Making government faster and less bureaucratic will require innovations at least as disruptive and profound as those embraced by the private sector. There are no one-size-fits-all solutions for government innovation and reform, any more than there have been for business transformation.

Different nations will make different choices. And in large, diverse societies like the United States, it is quite likely that different states, regions, and cities will come up with different approaches that best fit their respective constituencies.

Clearly, government and business have different objectives and operate by different rules. Most companies had to go through considerable turmoil and pain to adjust to the powerful forces restructuring our global economies. Those that didn't did not survive or are shadows of their former selves. But, there is a huge difference between failed companies and failed communities, cities, or countries. Clients can easily find other companies. This is not the case with citizens who cannot "shop" around for other governments.

As governments are now addressing some of these same powerful forces, they are going through even more turmoil and pain. It will take all our creativity, innovation, and strength to help our governments and societies adjust to the new realities of the 21st century to become better, faster, and cheaper.

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