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**1. DOCUMENT DESCRIPTION**

a. TYPE <p align="center">Oral History</p>	b. TITLE CHU, David 3-25-2009
c. PAGE COUNT <p align="center">54</p>	d. SUBJECT AREA National Security Personnel System History Project

**2. AUTHOR/SPEAKER**

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d. OFFICE OSD	e. AGENCY DoD	

**3. PRESENTATION/PUBLICATION DATA (Date, Place, Event)**

March 25, 2009 RAND, Arlington, VA, Oral History Interview

**4. POINT OF CONTACT**

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**5. PRIOR COORDINATION**

a. NAME (Last, First, Middle Initial)	b. OFFICE/AGENCY	c. TELEPHONE NO. (Include Area Code)

**6. REMARKS**

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54National Security Personnel System  
Interview with the Honorable David S. C. Chu  
March 25, 2009

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Diane T. Putney: This is an oral history interview with the Honorable David S. C. Chu, former Under Secretary of Defense of Personnel and Readiness. The interviewers are Diane T. Putney and Alfred Beck. It's March 25th, 2009, and the interview is taking place at the RAND Office of Dr. Chu, Arlington, Virginia. The purpose of this interview is to record your experience, Dr. Chu, with the evolution of the National Security Personnel System, NSPS, at the Department of Defense. A transcript of the interview will be preserved as a permanent NSPS record and may be used as source material for a DoD history of the NSPS.

Would you share with us the story of how it came about that you were selected to be Under Secretary of Defense for Personnel and Readiness?

David Chu: I'm delighted to do so. I was invited to stand as a candidate in roughly late February, early March 2001. I was privileged to be interviewed by Secretary Rumsfeld and Secretary Wolfowitz, who were both by that time in office, and they offered me the position subject to the decision by the President to approve my nomination and the Senate to confirm me

to the post. The last action took place in late May of 2001, and I came into office on June 1st, 2001.

Diane T. Putney: Before or shortly after you were sworn in as Under Secretary for P&R what did Secretary Rumsfeld ask you to initiate, and what did he want you to accomplish?

David Chu: We had several discussions before I came into office, including the job interview. I knew from those discussions the general direction that Secretary Rumsfeld wanted to go, which broadly was to be willing to rethink the Department's practices across the board.

As you may recall, President Bush had campaigned on a platform of transformation, and the view was we should be ready to relook at the Department's whole way of doing business across the board. At the same time, I also knew that Secretary Rumsfeld was a strong proponent for an all-volunteer force. He had endorsed that perspective as a young congressman before President Nixon had done so. He himself had served as a Navy officer in the early '50s, and he came out of that set of experiences with a very determined view that a nation should not use conscription to staff its military in peacetime. Because he was a strong believer in a volunteer force I also knew that the health and well-being of the volunteer force would be an essential element of my responsibilities were I to come into the Department.

Diane T. Putney: At that time, did he mention anything about transforming the civilian personnel system?

David Chu: No. No.

Diane T. Putney: Not at this point.

David Chu: No. No. No. That actually doesn't come until later. It was a response to a challenge he offered the Department in, if my memory serves me correctly, November of 2002 when he asked--from a statutory/regulatory perspective--what the Department wanted to change as a basis for formulating the calendar 2003 (which would be the fiscal 2004) legislative proposal package. And I'll come to how we got to this recognition in just a moment if you'd like.

But we (my office) said, "If you're willing to take on a big issue, Mr. Secretary, the civilian personnel system ought to be one such issue," and he approved that as part of a larger package. It was the transformation legislation package sent to Congress in early 2003 with the Administration proposal that has come to be the National Security Personnel System.

We came to that conclusion because of a process that Pete Aldridge, the Under Secretary of Acquisition, and I had put into place earlier, in about March of 2002. Mr. Aldridge held, or held jointly with me, a number of authorities having to do with the management of acquisition personnel. The acquisition community frankly was a bit reluctant to employ these

authorities under the so-called Acquisition Demonstration Project.

Mr. Aldridge's office had implemented them for those personnel it could directly control, but the bulk of that workforce is in the military departments, so his office was eager to explore whether it could extend these authorities. These were pilot authorities from the Congress, which had pushed the Department to experiment. The history goes back all the way to 1978 and the first so-called Laboratory Demonstration Project at China Lake. There was a series of others over the years.

At any rate, the acquisition demonstration effort stalled over the question of whether Mr. Aldridge was to try and mandate that the military departments had to make this change, or could they go their own way and decide for themselves. Mr. Aldridge and I agreed to try a middle ground and commissioned a review of what we called the Best Practices. This would look at demonstration projects stretching back, by that time, over 20 years, covering a lot of history, and a fair amount of evaluation by OPM.

I asked Ginger Groeber — who is not on your list and one of the persons I would urge you to talk to — to lead that effort. I gave her the somewhat arbitrary goal of getting this done by Labor Day. March 2002 to September gave her six months,

which was pretty sporty in terms of major bureaucratic reviews. My concern was if we didn't move quickly, we were going to lose control of the issue in the sense that the various parties were quarreling with each other as to what to do next.

This review was essentially of the Laboratory Acquisition Demonstration Project, not of the whole Department. Ms. Groeber, Ginger, did a wonderful job. She finished early; she was very proud of that fact since she faced an arbitrary, savage, capricious deadline! We were in the process of deciding what to do with her report. What she created was what we hoped for, a consensus: instead of mandating something the military departments would fight or give in to, we would in fact be able to get everybody to come to the table with a common approach. Ms. Groeber succeeded. Best Practices was not just an abstract academic exercise to say: I love this; this didn't work; or that worked; it was also an effort to build a consensus, some degree of unity.

In late November 2002, Mr. Rumsfeld asked each of the principals in OSD what we wanted to propose. We said, having studied this, if it is a good approach for the acquisition community, why isn't it a good approach for the Department as a whole? Moreover, the acquisition community authorities dealt only with certain issues because the Congress designed them for those specific purposes and interests. It had not necessarily

dealt with all the problems for the Department. Once Mr. Rumsfeld called on us, we had about three weeks to forge a legislative package. To Ginger's enormous credit and that of her colleagues, and the General Counsel's office, it got done. I would urge you to speak to the key lawyer there –

Diane T. Putney: Helen Sullivan?

David Chu: – Helen Sullivan, yes, is she on your list? They forged a legislative package in about three weeks' time.

This may be a longer answer than you wish, but I'll give you this whole history. The next challenge was to get it approved by the Administration. We had to get OPM and OMB to agree, and here is where Secretary Rumsfeld's leadership really was critical. The Office of Personnel Management really didn't want to agree, and you ought to hear OPM's side of the story as part of this history, and perhaps talk to its director of that period. At a later hearing actually, Secretary Rumsfeld revealed his perspective. This goes back to your question – did he tell me to do this at the start? No. Did he have a specific view on this? Absolutely yes. At a later hearing by the House Appropriations Subcommittee on Defense, Rumsfeld was asked a question about the civilian personnel pay raise, and he answered very acidly, "I don't control the civilian personnel of this Department." That was his expressed concern. This is the background music, as it were, to the story, running over

the year and a half or so before we actually made this proposal: Mr. Rumsfeld believed we were either over-militarizing a function, or we were too dependent on contractors, because we did not have a good way to recruit and managed federal government civilians

No explicit document says this, but Rumsfeld's background frustration builds over that year and a half. I knew I had a sympathetic audience, is one way to put it, when we got to the table and said, "Okay, boss, you want to do something challenging, let's try this." Rumsfeld agreed immediately, and he really put his back into the argument with OPM and OMB. By the time the decisive conversations took place, OPM was able to argue successfully below the President's level that we shouldn't do this. Mr. Rumsfeld's view was, I'm the Cabinet officer; I'll take it to the President. By the time that meeting was actually scheduled, war with Iraq was imminent. Everybody agreed that we should let the White House Chief of Staff be the arbiter. I suspect Mr. Rumsfeld, who had been in that office himself, calculated that if he couldn't get the Chief of Staff's backing, this wasn't going to work anyway.

Diane T. Putney: This was Andrew Card.

David Chu: Andrew Card. As we prepared to go over there, a very interesting development occurred. General Myers, Chairman of the Joint Chiefs of Staff, wanted to go, too, saying, "I

think this is important. This is critical for the Department.” I was astounded because I didn’t realize the uniformed leadership shared our view that the system was broken, and we needed a new approach.

At that meeting, we did not get a number of things we wanted. The crucial one was one of the reasons OPM was unhappy with our proposal: we wanted to sever ourselves from OPM, to assume the management of civilian personnel, just as we already managed the military personnel of the United States, 1.4 million active, 1.2 million Guard and Reserve, subject only to the Senate Armed Services Committee’s oversight. We could handle the approximately one million plus civilians. We could do this ourselves.

Of course, OPM thought that was a lousy idea, as you can imagine. That contaminated the debate from the beginning. It emphatically didn’t help (although I didn’t realize OPM knew it until later) that I had contributed a chapter to a book written for the new Administration in 2000 on DoD personnel issues. The co-author and I, a former deputy secretary of defense actually

—

Diane T. Putney: Mr. White.

David Chu: John White, yes. We had raised the questions: Why does Defense have to rely on OPM for civilian personnel

management? Why can't it, as part of the Secretary of Defense's responsibilities, be in charge of civilian personnel?

That spirit really gave us the NSPS title. When we had morphed from Best Practices to a broad personnel effort, I told the group, we need a better title; we can't call it the Best Practices Proposal because it's more than that. Some of these proposals have not been practiced in the Department, so we can't claim there's evidence for their excellence. I said, you need something that captures the spirit of what we're trying to do here, and Ginger Groeber came up with the National Security Personnel System for the title. It was a conversation, a partnership in which several people participated, but it was really Ginger who helped shape that title. The spirit was that this was about national security, and Congressional documents show that was central to our argument: National security is different. We need a different set of rules, more flexibility, etc.

We did not get a number of things from Andrew Card that we had hoped to get. We proposed to manage the Senior Executive Service ourselves, which also didn't sit well with OPM. By the way, if I were OPM, I probably would not have liked this either; I want to be fair to OPM in this debate. But we got the central concept approved – that we could ask for a vastly

different personnel system based on the successful experience of the Laboratory Demonstration Projects.

That proposal goes forward to the Congress in early 2003. We had the important advantage of contact with two other people I would urge you to speak to, especially the first, Tom Davis, then Chairman, House Government Reform Committee. He's retired from Congress now. I'd be willing to call Mr. Davis and implore him to give you a few minutes of his time. Congressman Duncan Hunter of California was the Chairman of the House Armed Services Committee. He's also retired, so he might be willing to be interviewed and get you a trip to California out of this. Maybe your budget person would insist on doing it by audio conference –

Alfred Beck: It's pretty tight [*laughter*].

David Chu: Anyway, they had both come into office in January 2003 as the new chairmen of their committees. I didn't really understand this till much later in the game, but they wanted to do something significant, particularly Mr. Davis. Secretary Rumsfeld authorized our taking it to the Congress and informally, unofficially, sketching it out there to see if we could get members to support it.

I went to Mr. Davis and Congressman Hunter, and I'll remember this, I think, to the end of my life. Midway through my fancy pitch, Mr. Hunter says, "David, you can stop. You've

already convinced Mr. Davis. You don't need to give the rest of this presentation." I was knocking on an open door from their perspective. Where we were not successful was on the Democratic side of the aisle. The House was very narrowly divided at that point, and I have not ever been able to understand why there was such deep antipathy from the Democratic side of the aisle – another thing to talk to Davis about particularly. He may have some insight on this. We could not even get people from the Democratic side to come to a meeting.

We finally rounded up some Democratic members of the House Armed Services Committee. You'll particularly appreciate a footnote here for your research. There was a long-standing and fortuitous practice in which changes to Title 5, U.S. Code, which governs civil service practice, can be made via Title 10 as part of the Armed Services mark up. That was critical because a stand-alone personnel bill probably had no real chance in the Congress and couldn't get through Floor action. One of the lovely things about the Armed Services Committee that you'll appreciate is they produce a bill every year, and that's why the Hunter-Davis partnership was so essential to our success. Hunter could produce a bill. Davis would be his partner. Under this parliamentary structure, we would transmit the language, Hunter would refer it to Davis, Davis would mark it up, send it back to Armed Services, Armed Services would do

its mark, and Hunter would endeavor to put it into his bill. I'll skip over all the fine details because you have others you want to talk in this regard.

They succeeded. Unfortunately, given both the history of the system and some of its provisions, Davis and Hunter could only do so on a partisan basis. In other words, we could not get any Democratic votes, zero, and the Committee was very narrowly divided. So Davis, in the Government Reform Committee, had only a couple of votes margin. He can't lose anybody. This is a tough vote because the unions decided they were against it.

We had made an effort to get the unions on our side, or, more specifically, the major union, AFGE [American Federation of Government Employees]. Bobby Harnage was then the president. I went to see Mr. Harnage, actually one of the first actions we took after the legislative language was approved in roughly January of 2003, before we unveiled anything publicly. In our judgment, we said, the strategic problem is this: If we don't change this system, the civilian workforce of this Department is slowly going out of business because the rules are so cumbersome. When a new function arises, no one wants to turn to civil servants. It's too hard to hire. It's too hard to pay competitively. It's too hard to manage.

What I didn't realize--Harnage and his lieutenants were not open to conversation. What I didn't know, and actually it was my fault, was that Harnage had to stand for reelection. He had been leader of AFGE, the major union in defense, for many, many years. The second Bush Administration had taken apart the apparatus the Clinton Administration had put into place, the Partnership Councils, an action deeply resented by the unions, so we were not necessarily the most welcome ambassadors. This may have been part of the Democrats' unwillingness to see us. In other words, we went to see Harnage first. I'm sure they all talked and said, you don't want touch this kind of thing. I don't know. I think it's one of the interesting mysteries out there.

Why was there this solid wall of partisan opposition? Quite privately, *privately*, important elements of the Democratic Party establishment came to me. I was confident that one individual I was talking to would be chief of staff if that individual's candidate were elected president. The individual said, we're hoping you get this through, David, so we can implement it! People who had served in the executive branch understood we needed to change, and this was someone who had not even touched Defense. *Interesting*. In fact, one of the problems we had with this proposal was other Cabinet agencies wanted to join, which, of course, would have broken the

parliamentary device we had used to get this through. If they joined, we could not do it through Title 10. We said, look, let us try first to get this; you can do your deal if we succeed. That was certainly the Bush 43 Administration's perspective.

At any rate, we meet this wall of opposition. Davis got it through his Committee. He had to give up certain pieces to do so. He sends it to Hunter. I must say it was most remarkable. Davis allowed us to watch the mark-up session and sit in the back room and offer advice. He actually offered to let us sit in the Committee Room, but I said, "No, I think I'll sit here and watch on the TV monitor. It's better I never show my face out there."

Helen Sullivan and Ginger Groeber were up there with others advising the Committee staff. Every faction had its own different view about exactly what was the right thing to do, but everyone agreed we needed to do something substantially different. They agreed that the lab demo foundation was the right one on which to build, including the key concept-- getting rid of the 15-grade General Schedule and replacing it with the pay-banding idea. This would give a supervisor more latitude to set compensation based upon local conditions and to change compensation based upon changes in duties, a central feature of a much more flexible system.

They had to give up certain things to get it through the House, but they got it on basically a party-line vote. This was hard given how the unions had now set their face against it. It was a hard vote for the Republicans. I firmly believe the only reason we succeeded is White House involvement. This is where Rumsfeld's political relationship was crucial because the White House team decided this was a good idea. During the deliberations over this, when there was a lot of controversy about the proposal within the Administration, Secretary Rumsfeld enlisted Vice President Cheney.

We had a video conference with Vice President Cheney because he'd heard all the "evil" things we were up to. We gave our little pitch, our briefing. Cheney said, "This is a sensible thing to do". As a result of that combination of ingredients Andrew Card approved, Cheney backed it - not everything we first asked for, so it was a smaller package.

The package shrinks over time. That's one of the interesting features. Some things I felt would be easy to get through got lost on the Hill after we got them through the Administration. There is a general proscription in the law against offering training to individuals that is not specific to their current responsibilities because, of course, by doing that, you're favoring one at the other's expense--if I gave someone the training and I don't give it to the second person.

In the modern era, that's terrible. I did a lot of sensing sessions during the course of this effort with our people, and also with union leaders, and they would often volunteer this. I wouldn't even have to ask. A GS-5 at Fort Bliss in the Southwest put up his hand: "My supervisor won't let me have the following training." I said, "That's right, that is the law." I thought that would be an easy change in the mark up. We had it in the package. From the Administration perspective, done. Still couldn't get it in the bill. I can't explain it to this day.

When I had the privilege of watching Davis's mark up, it was one of the most brilliant political maneuvers I've ever seen. Davis knew the provisions of the bill. He was not just presiding, he was leading. He knew where different members' soft spots were. He knew how to keep a coalition moving forward. It took two days and very high politics because, unfortunately, the Democrats decided it was a party matter, as far as I can figure out. They wanted to defeat this. Davis had to hold the Republicans in a tough vote with the unions against, tough because almost every member has a significant union contingent in his or her district. He had to hold all his Republicans. He could not lose a person, and so he had to be crafty about it, and he had to try to get the core of it through. And so I thought it was one of the most significant

political performances in recent decades to get this through the House.

Then how were we going to get it through the Senate, where we didn't have quite the same felicitous situation? In something that may have been partly my fault, the Chairman of the Senate Government Operations Committee, Senator Collins, felt we hadn't consulted with her sufficiently. My view of that story is we tried hard to get on her calendar and somehow never got on, which I took as a signal she didn't really want to talk to us. She took it as a signal that we were cutting her out. She told me about this quite forcefully, to be candid. She took it as a signal that we were trying to work exclusively with Senator Warner and the House at her expense. It was certainly not the agenda, but it's the way I think she may have perceived it. At any rate, it was somewhat of a touchy relationship with the Senate.

Senator Warner was a terrific ally. I think one of the key reasons we got it through the House, given the problems Tom Davis faced, was that the President's legislative team went to bat for us. They were there in the mark up, in the back rooms, and the word was, the President wants this. This was still early in President Bush's tenure, it carried a lot of weight and kept the Republicans on board. We had a session with the Republicans, and they were very enthusiastic. They agreed we

had to do this. Despite their public statement criticizing us for being so presumptuous here, privately they all understood we needed to do something like this. The President gave them the political backing they needed, and, therefore, it got through the House.

The House rule says you can only have "the following" amendments. Too bad about your amendments, basically, in terms of people trying to weaken the package, if they're not in the rule. With the Senate, you face a totally different parliamentary situation. You can offer all sorts of amendments to the authorization bill. The other person you ought to talk to on this list is Charlie Abell, who was my principal deputy and was really critical to a lot of the parliamentary aspects. He was very close to Senator Warner. Warner managed to get a unanimous consent agreement on his bill that year. Warner put nothing directly in the bill on the subject. What's going on here, I ask? Charlie says, Watch. Warner got a unanimous consent agreement that said only *germane* amendments could be added to his bill that year.

When people brought up amendments on the Floor to try to weaken the package, Senator Warner rose in his most gracious way, the courtly person that he is, saying, there are no provisions in my bill regarding this issue; therefore, it's not germane. He had the parliamentarian rule them out of order. He

kept it clean because he knew that given the Senate's deliberative process, if he had anything in this bill, it was going to be weaker than the House version, and he would be at a disadvantage. (This is my interpretation; I never asked him directly.) He would be at a disadvantage vis-a-vis the House because he would be forced to give a commitment to his Committee to yield to his chamber's perspective. This way, he could come in with a clean bill, no provisions about NSPS, and he could say, Oh, what a wonderful idea, let's do this. That's obviously a vast oversimplification of his position, but that in cartoon fashion is what happened.

In practice it turned out to be very difficult because Senator Collins was in the picture, although there's an ironic historical twist to all this. We now get to conference in the summer of 2003. Senator Collins, who was facing difficult reelection challenges in Maine, where the unions are important, feels that she can't go along with parts of this bill. The Committee was divided by one vote between Republicans and Democrats. All the members of the Committee, as I recollect the procedure, had to be on the conference for the Senate side, and, therefore, Warner needed every Republican signature on the conference report. As a practical matter within the system, Senator Collins held a very important swing vote, a bit like the recent vote on the stimulus bill. She held the balance of

power. We actually had to negotiate with Senator Collins extensively, which actually further reduced the scope of the proposal. It's quite ironic that one of its key elements, now moot from a practical perspective, was to give the Secretary of Defense the authority to deploy a uniform system throughout the Department, which was one of our key objectives.

Title 5 and other titles governing the civilian personnel of the Department of Defense effectively have many different systems because everything that is bargainable with unions has to be bargained locally. There are approximately 1,500 locals with different agreements on as many different issues: Can we do drug testing for security clearances or not? Fifteen years after we started that testing effort under Bush 41, there were still some locals holding out on this matter.

One of the things Rumsfeld wanted was a uniform system for the whole Department. The bill gave him the authority to impose that, subject to a large structure of procedural safeguards. If he couldn't get everyone to agree, he could say it's a matter of national security, back to the central purpose of the system. I am the Secretary of Defense. I am responsible. We're going to do it this way. Congress had the right to override him, but this was our proposal. And Collins put a sunset clause on this in the final version of the Senate, or conference,

report. That played, in my judgment, a crucial role when it came to the lawsuits.

After we got our authority, Homeland Security's system was challenged successfully in court on the grounds that it didn't observe collective bargaining rights. We were similarly challenged a little later, and a district judge wrote an opinion in our case that largely spoke to history rather than the law in terms of why this legislation was unacceptable. He struck down our right to impose a system on the Department. It goes to the Court of Appeals, where we were preceded in the order of things by the Homeland Security suit, which lost.

Despite this precedent at the Appeals level, we appealed our case for the Department. The irony of all this, given Senator Collins' basic position on the matter, is that her provision putting a sunset limit on the law was important to our Appeals Court outcome. To me as a non-lawyer, the statute is somewhat contradictory. It says, we're going to observe all collective bargaining rights, but the Secretary of Defense may do the following things. The Appeals Court pondered Congress's meaning in this statute and found great direction in the existence of this sunset provision in the law, which implied that Congress had really thought about this. And I don't mean in any way to impugn the justices, but I just saw this as a political bargain. I thought, therefore, from a historical

perspective the judges' reasoning, based on the sunset clause, is quite amusing and ironic. The whole thing is now moot because Congress revoked that authority later on when the Democrats took control again.

What I think is significant about Congress's most recent action is that it decided the central elements of the system are worth preserving. It said, however, "We will not just let you impose it on the unions. You will have to get them to agree." I think that's the political signal. They provided some structure in which to try to do that. The last Administration decided that we would do well to get the system deployed to all the non-bargaining units. We would not attempt it with the bargaining units. That was Secretary Rumsfeld's decision.

The unions remained very skeptical. Harnage lost the AFGE election to John Gage. As I read the union campaign dialogue, Mr. Gage ran on the slogan that Mr. Harnage was being too nice to us. I'm not Mr. Gage's most popular person, to put it as politely as possible, and he is not sympathetic to the NSPS system, is my reading of it. I'm not sure if that's true of all the other unions, and it may not be true over time if the system is successful. Gage asked Barack Obama his view of this, and Obama promised that he would, quote, "review the system," perhaps with an eye to terminating it. So we'll see what happens going forward.

It's not clear to me that everyone would say it's a bad idea. One of the sensing sessions I had was with union leaders in Honolulu, a big defense place with shipyards and a lot of other things. I went into my usual pitch about how we needed pay for performance. Some unions were very, very skeptical. They were concerned there's going to be favoritism and that the decision won't be based on objective criteria. What was fascinating is that one of the unions there already had a pay-pool performance-type system, and that union leader thought it was a great idea. It began with the skeptics attacking me, but then the other gentleman started defending this idea, so I could just step back and watch them fight with each other. It was wonderful because someone had had real experience with it.

I think lab demonstrations provide experience, a whole different view of the idea. By this I mean experience with a system where rewards are less uniform, where they're much more keyed to what you've contributed, much less dependent on longevity and tenure in the system, and where there's something that's not identical to, but closer to, private sector pay practices.

Diane T. Putney: In early 2002 when you set up the Best Practices task force, the purpose then was just to extend these to all the demo projects, including the acquisition demo project and the scientific and technical labs?

David Chu: Yes, because conceivably the acquisition demo authority would reach approximately 100,000 personnel if every possible element were brought under its authority. The acquisition staff wanted simply to insist this be done, and the military services were very wary of that. The Best Practices effort was an effort to bring everybody together rather than just mandate it from OSD, because my view was that if it were mandated from OSD, it would fail. The services had to be on board. We would be better off saying, okay, can we identify and agree on the Best Practices that we would wish to deploy on a standardized basis throughout the acquisition community? That was how we got started.

Then Rumsfeld came and said, "You want to try something significant in the calendar 2003 legislative package?" We said, "How about this, boss? And, by the way, we've discovered the following things that we would like to have authority for that we don't have now." I'm making the conversation with Rumsfeld longer than it really was. We said, "Basically we want a more modern personnel system; would you back us, boss?" Then there was discussion with him about the specifics, but he was enthusiastic from the start.

Diane T. Putney: What was the Office of Personnel Management's reaction to your trying to extend Best Practices to over 100,000 DoD employees?

David Chu: That's a great question. I don't know. We never got to that conversation, not at my level. They may have gotten to it at a lower level. Because of Rumsfeld's decision to back us in extending the proposal to the Department and dropping the Acquisition Demo as the focus, we would not try to use the AQ demo authority to get there, but try for broader, wholesale authority for the Department. This is the decision implicit in this whole story. We never got at my level to a conversation with OPM Director Kay Coles James over whether we could extend the AQ demo.

Diane T. Putney: I'm jumping ahead. You had the answer to that. Here's one about OMB.

David Chu: Yes.

Diane T. Putney: Now we're looking at NSPS. We have a proposal now.

David Chu: Right.

Diane T. Putney: When representatives of the Office of Management and Budget reviewed the proposed NSPS legislation, they instructed DoD personnel to redraft the proposal to make it fall under Title 5, and also to include language from the Department of Homeland Security. How did having to go through OMB change the NSPS proposal? Is this significant at this point?

David Chu: It was, and I think this is where the conversation with Helen Sullivan is particularly important. It was significant in the sense that it meant a huge new workload for poor Ms. Sullivan and company. We had started out, as you suggested, writing this as straight Title 10. My recollection is that we didn't lose anything significant, from a substantive perspective, by OMB's insistence that we use Title 5 as the vehicle. It made it much harder to accomplish, and Ms. Sullivan and Ms. Groeber expressed, to put it nicely, great frustration with this development. We had to get this language out there in time for the mark up. If we didn't get it out there by mark up, we're dead. We were also, I think, realistic enough to know if we didn't get it done in 2003, doing it in 2004, an election year, was going to be particularly difficult. The clock is ticking from our perspective, and people were coming and saying, oh, too bad about your draft language, which was good enough to get it approved by the political decision makers, Card and Cheney, and so on and so forth. We want to do it with this different template.

The Homeland Security stuff was a further complication. Philosophically we were in a little bit different place. I do think from Kay Coles James's perspective, and I don't know why, there was value in trying to follow the Homeland Security

approach. We weren't so convinced, and Helen and Ginger negotiated all those details basically with OMB.

The other person I urge you to talk to here is Pete Geren. Mr. Geren played a significant role in trying to advance the whole transformation package, and I believe he has announced he's leaving office next month, so he may have a little bit of time to give you once he's no longer Army secretary. His perspective on this would be valuable. My office also did ask the Naval Postgraduate School, Doug Brook and his colleagues, to do a little history of how the NSPS got started. That document is out there as a resource. They just finished it recently.

Alfred Beck: We have a couple of copies of it.

David Chu: Good.

Diane T. Putney: Best Practices is focused on human resources management initiatives primarily and not on labor relations, adverse actions, and appeals. The NSPS proposed legislation, however, did incorporate –

David Chu: Absolutely.

Diane T. Putney: – changes regarding labor relations, adverse actions, and appeals. Why did NSPS go so far beyond Best Practices regarding labor relations? What were the internal DoD discussions about expanding NSPS to include labor relations, adverse actions, and appeals?

David Chu: We focused on realities with which many on the Hill agreed. If we didn't deal with those subjects, we couldn't really change the dynamics inside the Department that were producing the failure to use civil servants where they're really needed. Labor relations is in because we wanted a uniform system, and if you didn't have something other than the local-by-local bargaining system that now continues to characterize Defense, then it would be essentially impossible, given the scale, to get a system-wide personnel edifice constructed. That's why the labor relations part is in there, to try to create a uniform system for the whole workforce. Our vision was one system broad enough, flexible enough, with all the employees working under it so you could both manage the Department better and give people in the Department more employment opportunities. One of the problems now is that if you qualify under one system, it does not give you any rights in a different system. The Department manages people with more than one personnel system already. In fact, we had some managers with offices containing fewer than 100 people who had five or six different personnel systems. From the manager's perspective, this was a nightmare. The manager is charged with substantive outcomes. He or she is not a personnel law specialist. You have to treat one individual this way, another a different way. It's very hard to cope, and that was one of

the things that came back to us from managers: a plea for some degree of uniformity. Make this easy for us to manage. That's why labor relations is there. We tried to get to a uniform system for the whole Department.

The adverse action component dealt with the issue that if you really want to reward performance, one thing you had to confront is poor performance, including the resulting possibility of removal. In the civil service it is widely viewed, a little unfairly, that it's "impossible to fire anybody." It's not really impossible, but I would have to acknowledge from most supervisors' perspectives, it's not worth the effort. It takes too long, it's personally abusive, and the appeals system will not back you. Testimony at the beginning of the year produced some wonderful anecdotes. On the uniformed side, if someone did some of these things we heard about, he'd be in Leavenworth. On the civilian side, in some cases people were reinstated. Can you imagine being a supervisor in this situation: You've taken on Smith's lousy job, in some cases, physically harmful actions, and he's reinstated? Is anybody else going to go through that hassle? No. We wanted to have a different adverse action template, recognizing the need carefully to protect the employee's rights, already well protected in a government system. Our approach was more sympathetic to management's perspective, to be direct about

this. I think this is something that made the unions particularly wary of the whole thing, because they tend not to be sympathetic to management's problems, and so the enterprise's back is against the wall.

That's why the adverse action stuff was in there. It was to say if we believe in performance being the driver as to who is retained, who is promoted, who is more handsomely rewarded, we need to be willing to deal with poor performance. Managers and employees would volunteer to us in sensing sessions that you've got to be willing to get rid of the people who aren't pulling their weight.

Diane T. Putney: OMB or OPM didn't force these provisions into NSPS about labor relations. This came from within the Department?

David Chu: No, no, no, no, no. The Department wanted them. In fact, OMB and OPM generally wanted weaker provisions. The Department typically wanted stronger provisions. You ought to talk to Ginger and Helen about the details of this. From their perspective, having OMB say you've got to use Title 5 was a huge deal, but from my perspective, strategically, this was a problem I could turn over to them, saying "Okay, ladies, this is going to be the price." They were very imaginative, and as a result I could barely keep track of the language because there were these Byzantine references to section so and so, and then

to further references. That became an issue in the lawsuits, too, because the structure is so convoluted as to what Congress really intended here.

Diane T. Putney: And "notwithstanding," that's another good term –

David Chu: Yes, "notwithstanding."

Diane Putney: – can trip things up.

David Chu: Yes. Also they were the experts. They were terrific. From my perspective, this is a speed bump, not a barrier.

Diane T. Putney: Another major decision was to implement NSPS by dealing with the unions via "meet and confer" and "collaboration" instead of collective bargaining. What's the story with unions being treated through the "meet and confer" and "collaboration" versus collective bargaining? When did that language get inserted?

David Chu: Fairly early on. Charlie Abell tried to undertake some investigatory work on this point, which is the reason I would urge you to speak with him. We recognized we could not be hostile to unions, although I think they perceived it that way. Nor did we start this journey with any agenda to get rid of unions, which I think some perceived as the objective. We recognized they were going to have to be our partners on this. We also believed that the collective

bargaining process, at least as it had evolved in Defense, was going to be poisonous to that aim, and it was adversarial. The very terms that you just employed, while they had some standing in the labor relations world, were deliberately selected to try to convey the idea that we were going to do something different here.

We were trying to get the unions to understand we're all in this together. We did not succeed at all in this agenda. That was my initial and unsuccessful pitch to Mr. Harnage. My emphasis to them throughout was: This is an effort to strengthen the role of federal civilians in the Defense enterprise, which I sincerely believe in, and Mr. Rumsfeld believes is an underutilized component of our workforce. That's come out now with some of the concerns about contracting out, but there's a reason for the contracting out. People are deeply frustrated by the older system. The question is: Are they happier with this new system once it's in place and actually functioning?

Ginger Groeber recognized what the mechanics should look like. We needed a different mechanism than the old style collective bargaining. That's why we put her wording in there. We didn't succeed when we held the first meeting with unions in early 2004. She almost literally had things thrown at her, and

there was juvenile behavior, with people announcing they weren't coming, issues of that sort.

Diane T. Putney: Did you meet with OPM Director Kay Coles James to discuss NSPS and to solicit her advice before you sent the proposed legislation to the Hill?

David Chu: Not as much as I think she would have liked. We did try to keep OPM informed of what we were doing, but remember our going-in position had the Secretary of Defense administering the personnel system separately. This was fundamental to the OPM unhappiness. I early tried to outline for her some of the issues in Defense, and while we had not yet decided to do this at that point, I had started to lay a foundation without being quite so explicit about the need for change. I think the fair statement is they saw this as a bit of an end run around their authorities. There was some degree of consultation, but not as much as they would have liked.

Diane T. Putney: One of the points of disagreement, it seems, between DoD and OPM concerned veterans' preference. Within the Department of Defense, who was advocating changing veterans' preference rules regarding hiring, RIFs, and termination? What was the rationale for modifying veterans' preference?

David Chu: The rationale, if you talk to anyone, especially off the record, including some important members of

the Congress who actually had run federal offices, veterans' preference is one of the central elements of complaint.

Remember I was trained as an analyst. What is at issue is the outcome. Do veterans get jobs? Which department has the highest ratio of veterans among its civilian employees? Defense, by far. My attitude, totally unsuccessful politically, was we're not the problem. Why do we need this? Everyone complains about it as the old thing we were trying to move away from. You get a veteran applicant who really wasn't qualified in the supervisor's eyes, but the system said he or she was in fact qualified anyway, and then the supervisor's sort of stuck. The veteran still wouldn't get the job because the supervisor then had to reject the whole list and start over again, usually by rewriting the job description. My perspective on this was you really weren't getting that veteran the job that he or she might deserve and need. In some cases it took so long to fill these positions because somebody out there with veteran status was blocking all the other candidates under realistic competitive consideration. A senior member of Congress pleaded with me: "If you do anything, David, make sure we deal with veterans' preference. This was my problem in running the XYZ office," he told me. "We've got to change the system." That's not necessarily what they all said publicly. I thought we were on very sound political ground to argue that since we had the

best veterans hiring record anywhere, we don't need this. We're going to hire veterans anyway. In fact, the irony at Defense is the high proportion of veterans has been a problem. One of the reasons Defense has something of a gender balance issue is that until recently women didn't serve in the military forces. If you tend to prefer veterans, women have an uphill battle getting consideration. That was not a determining element in the Department, but it was part of my mental calculus as to why we should be relieved of these rigid provisions. We're not the problem. We're going to hire veterans anyway because we like their acculturation, the experience they bring to the job. What this will do is liberate people from that set of situations where the supervisor feels the veteran really isn't up to speed.

Then what often happens, and this goes further back to the grievance issue and so on, they get the job, they get tenure, and then they can't be removed. It was just a huge irritant in the way the system actually functioned, again, part of the reason people wanted to turn to a contractor. Once you go to a contractor all those rules are off. Remember our strategic purpose is to make civilians a stronger potential choice when the Department staffs specific functions. That was the central objective of this whole effort.

Diane T. Putney: And veterans' preference always came to the fore during the RIF, the reduction in force.

David Chu: There's that issue, too. Yes, exactly. When you have a reduction in force, it ought to be the person who contributes most that you hang on to. The country owes the veterans something. That's a whole different statement. If the veteran is not competitive, what you ought to work toward is making that veteran a stronger candidate for both hiring and retention, not mandating by law and regulation that, no matter what, that person is going to keep the job versus everybody else. Ultimately we lost out on that. Although we got some very, very modest leeway, that was one of the things stripped away in the Congress. The way the statute is written, the Department could – though it decided not to – especially on the RIF front, move a bit away from the classic veterans' preference provisions. One of my regrets is we didn't do so. Maybe in the future that will be done.

Diane T. Putney: But that was on the Hill, where you lost it.

David Chu: We lost. It got watered down before we got there, and it got diluted further in the Hill negotiations.

Diane T. Putney: What was your reaction to the observation and complaint of David Walker of the General Accounting Office that DoD did not have a performance management system in place

to support a meaningful performance-based pay system? How influential are Walker's GAO critiques of DoD's preparedness to implement NSPS?

David Chu: I understand Mr. Walker's concerns, but our view, and importantly that of Mr. Davis, is that we really were only going to have any chance of succeeding by employing what you might call a Big Bang Theory. Walker wanted a smaller, incremental approach, which he actually took at GAO, but ended up with a union at his agency. I don't mean to be cheeky about this, but I think we had a better theory than he did. Yes, there are going to be preparation problems if you do it fast. Given the antibodies to change, and they are significant, we had to move fast. This is where I think Rumsfeld's political leadership was so important. He was willing to grasp the nettle. He was willing to drive forward. He was willing to back us, willing to take the political heat, willing to back me personally in doing this. It was extraordinary on his part. You've got to move it forward significantly within the Administration, and for the very reasons we now see with the new Administration being pressured to have second thoughts. That was Davis's counsel, deploy this fast. Get it in place. Get some experience behind it so when the review comes, it's not just a theory; there is some degree of practice.

I think the Administration's review will be helpful. It will probably find that there are a number of things the system could do a lot better, which is I suspect is the case. And if it's willing to give the system a chance, it will give it the opportunity to make those adjustments. But our theory was *deploy now*.

Diane T. Putney: How did it come about that, ironically, the demonstration labs were excluded from NSPS?

David Chu: Over our dead bodies.

Diane T. Putney: What is the story? How did that happen? You would agree it's ironic because of Best Practices.

David Chu: It is ironic. It is ironic. Again, you want to talk to others for their hypotheses. My hypothesis is that — let me point out this is my own fault — we did not get the lab directors on board with the notion of a uniform system. Within the uniform system you have a wrinkle. This is true for the labs. Each one is different. I'm lab director of X, and I have authority to do Y. In the new system I won't have quite that authority, or it'll come in a different form. But I like the way it is now, I'm comfortable with it, I know how to make it work, and you're telling me that just so you can have a uniform system, I'm to change? What they did was go to an influential congressman and say, no, no, we don't want to be part of it. We don't want to lose our authorities — this became one of the

points of friction after NSPS was enacted. They wanted every new authority NSPS has, but, without saying so, in my view, would not give the Department the ability to impose a uniform system. Unfortunately, that gained some traction. Candidly, keeping the labs in was not the most important thing, and we had to yield. We tried arguing with the congressman involved and with the others who had this perspective: Please keep this out, don't do this. We did not succeed, but it was not the most important thing. We could live with this inconsistency. We hoped once it became clear it was to be part of the statutory framework, we could coax the labs in. This then became a point of friction because I refused to grant the labs the extra authorities that NSPS could have given them. My view was you can have all that the moment you're willing to join the main system. In the meantime, I'm not going to let you eat your dessert before you've had your vegetables. I didn't succeed in this, I might add. It didn't work.

Diane T. Putney: So they want the benefits, but outside the system.

David Chu: Yes, yes. If I were a lab director, I suspect I would have some of the same view. They're very much self-contained places. What were we after in the uniform system? We wanted our people to be more mobile. We wanted our people to say, you know, I'll take that job over there because it's going

to be just the same conditions as the job I have here, and it's professionally enlarging. Now people are going to say, maybe professionally challenging, but they've got these other rules over there, and I'm not so sure I'm going to like that place.

Diane T. Putney: As a follow-on, when Secretary Rumsfeld gave speeches and testimony to Congress in support of NSPS, he stated that within DoD there were over 300,000 positions filled by military personnel that should be filled by civilians.

David Chu: Yes, that's correct.

Diane T. Putney: Where did he get that 300,000 figure? What was the Secretary's and your vision of how NSPS could aid in the replacement of military personnel by civilians? Why couldn't these positions be converted and filled under the General Schedule system?

David Chu: Let me start with the last part. Yes, they could, and we did succeed during the last Administration in converting approximately 50,000 positions from military to civil status, and my old office can give you these numbers. It was painful, but we got it done. Rumsfeld used that as part of the argument to buttress his perspective, and I think correctly, that with the current rules, we tend to over-militarize the operations of the Department. We use military personnel for what should be civilian functions, despite knowing that civilians would be equally attractive or better

because of their continuity, tenure, and long-time expertise. As to costs, by the way, those military are some of the most expensive people we have in the Department of Defense. This was just a way to argue for why we need a more flexible instrument, not to say we couldn't get them changed under the old rules. It's a bit like having a boat with a leak in the bottom, and you try to bail it with a small bailer. Yes, we converted 50,000, but more came in through the leak, and that's really what Rumsfeld was trying to address. There's an annual process within my office in which the services rate every position as truly military only or not. Could it be performed by a civilian, whether it's a contractor or a government civilian? That's where the 300,000 figure comes from. It's over 300,000 positions, and it's a slot-by-slot analysis of whether a civilian could do this job.

Diane T. Putney: Once Congress approved the establishment of the NSPS and the National Defense Authorization Act of 2004, what was your strategy for implementing the NSPS? What were Secretary Rumsfeld's directives about the implementation?

David Chu: My strategy was do it fast, coming back to Congressman Davis who actually talked to me afterwards and said, get this thing done. I turned to Ms. Groeber and said, "Okay, Ginger, fast." I didn't say it quite this way, but the essence of my endorsement was we should not be afraid to step

on people's toes, but, of course, don't stomp on them just to be vicious. Unfortunately that produced, particularly from the unions, a substantial backlash in early 2004. There was also less support in the military departments than I would like to have seen. Yes, we got everybody to agree to Best Practices. Whether they thought we'd never quite pull this off, which might have been their perspective, and then, therefore, they'd get another bite of the apple, I don't know. You need to talk to Mike Dominguez, Bill Navas, and Pat Adams, who are on this list. They were very "trepidacious," if that's a word. There was much trepidation, that is a word, about moving forward in the manner and the speed that we were intent upon going. And Gordon England, who was then Navy Secretary, specifically was very upset with this. He went to Rumsfeld, so Rumsfeld moved authority over deployment from my office to England, as a person, in early 2004. England did accept the recommendation I made that they ought to have some kind of--what we came to call an OIPT [Overarching Integrated Product Team], which is a concept borrowed from the acquisition community, composed of representatives from the military departments. In my view we needed to get them on board if they weren't already. That group, then chaired at my recommendation by my principal deputy, but working directly for England, not for me, supervised the drafting of the implementing regulations. There

is still an open question in the Department, and an issue for the new Administration: Should supervisory responsibility return to Personnel and Readiness in the future? I think, given the new Administration's desire to review the system, it's meritorious to keep it with the deputy secretary.

One of the actually helpful things about Rumsfeld's decision was that England proved to be an enthusiast for the set of changes, particularly once he came to be Deputy Secretary. That gave the whole thing enormous clout that it would not have possessed had my office remained in charge. I'll be candid that there were some hurt feelings in my office about this change, because we had earlier been in the lead. But Charlie Abell chaired the OIPT, and then Mike Dominguez eventually succeeded him. Being Deputy Secretary allowed England to drive it forward in a way that my office by itself might not have without constantly appealing to the Secretary: We need your help, boss, to solve X, Y, Z problem. England was very helpful as a leader, in my estimation, in making sure the Hill didn't suddenly yank the authority away from us. Oh yes, there were attempts every year, even though the Republicans controlled the Congress. Depending on which year we're talking about, the appropriation bills had language seeking to cripple the system. I continue to believe it was a strategic mistake on the unions' part because, while I never said this to them, I

thought it was plain enough: Look, you'd like more members; you're not going to get them if the number of civilian personnel keeps shrinking. Your real opponent here isn't us. It's the set of rules that cause many people to say, "I'm not going to bother hiring somebody; I'm just going to write a check to a contractor." That's the problem, not the Department. We could never get the unions to accept that perspective, and I think it's still true today.

Interestingly, the unions also, in my judgment, got hung up on the pay-for-performance aspect, a critical element of the system, but not by any means its only significant feature. As an economist, my personal training, I think the most interesting thing about NSPS is pay banding and the elimination of the 15-grade system so that you have more flexibility in being competitive in compensation in initial appointments, which is a real issue because the old system set up nationwide standards. It might be tough to hire an accountant in New York. There are geographical differences, and it may be easier in Houston, but we essentially tried to grade the positions everywhere the same way. You can play games with the job descriptions to get the salary right, but it's very hard. One thing Mary Lacey and the team did with NSPS compensation, especially in areas where we have real problems in hiring people like physicians and clinical personnel, governed by

superb pay scales. We can now pay physicians, except for the most highly compensated, at the same rate they can make in the civil sector. I think over time it's going to advantageously affect the Department's ability to deliver services to the people for which it's responsible.

In my perspective, pay for performance is very important, but the big gain, what I always thought was the central success of the various lab demo projects, is pay banding and compensation flexibility. They give a manager leeway in appointment and retention, whether it's an issue of meeting a competing salary from outside or whether it's flexibility in varying the duties of a job. In an NSPS, as long as you stay within your pay band (and there are some other rules governing this), we can just say these are the extra duties, here's X thousand dollars a year, do we have a deal? Under the old system, you have to compete for the job you already hold. It takes forever. I ran into a young lady who was doing a great job. We said, we'd like to enlarge this job--she was already doing half these added things anyway *de facto*. She said, "Please don't do that. If you recompetes it, I might not win. I will do this for you. Don't worry, I'll get it done." I thought, this is backwards. To me, and this is just a personal view, pay banding is the most important long-term change in NSPS.

Diane T. Putney: Flowing from that is the concept of locality pay where the market kicks in based on region and by occupation, too, within that market. That wasn't part of Best Practices. What's the origin of locality pay?

David Chu: Well, locality pay, of course, is a central feature in Title 5 anyway. I mean, there are locality adjustments across the board. They're not specific.

I give Ginger specific credit for the package. She had literally a few weeks to decide on what the Department needed to be successful in addition to Best Practices. It was almost miraculous. They came up with this very aggressive, ambitious package. Now we didn't get it all, as I said; but we got major parts of it included in the statute.

Diane T. Putney: DoD employees first converted to NSPS in 2006. How do you compare the NSPS system that emerged that year with the Best Practices identified by your Best Practices Task Force in 2002? To what extent did the Best Practices survive in NSPS?

David Chu: You'll need to ask someone closer to the details than I was. My office was supporting the process from the 30,000-foot level, but I was not the decision maker anymore. The spirit of what we started with was well preserved. The specifics often differed, and that comes particularly to this question of how to decide pay for performance. We adopted

the shares system, partly derived from the thinking we did on the SES system, which ironically changed as well. One of the things we accepted, which got us OPM's support in getting the original authorization through in 2003, was a revision to the SES rule structure in the sense there wouldn't be grades any more; there'd be more pay for performance, the theme in that SES world, too. That was a separate part of the legislation, not part of NSPS. We had to start implementing that sooner rather than later, and we came to the shares concept for the SES, which then carried over to NSPS. We liked the shares concept because it imposed discipline on the system, and it established a pay pool. It's not how all the lab demos did things. OMB and OPM liked that concept because the problem with most of the SES proposals from other Cabinet agencies is they were not fiscally constrained. They had the problem that if I say that you're an X-, Y-, Z-type person, and you get some kind of reward for this, people with generous evaluations cause the whole system to inflate. The number of SESs is so small there's not much fiscal difference, but for the system as a whole, that kind of mechanism is potentially disastrous. That actually was one of the problems in the acquisition demo, and it's partly why we went to this concept of shares. One of the problems with lab demos is their somewhat inflationary effect on the wage scale, as the critics noted: Of course they're successful

because you're giving everybody more money, so naturally they're all happier. The challenge we actually set for ourselves, I would argue, was tougher: For the same money, total, (from the management perspective, the same pay-pool size), can we make the system work better and have everybody on average happier in it? Of course history will tell us whether we succeed or not.

Diane T. Putney: Here's a couple of concluding questions. If NSPS had more closely kept to the Best Practices and had not incorporated labor relations, adverse actions, and appeals, would there have been less union opposition –

David Chu: That's a great question.

Diane T. Putney: – and would there be a significantly higher number of DoD employees under pay for performance now?

David Chu: A good question. I don't know. We can't run the experiment again. I think given the hostility that the unions generically have shown to pay for performance, and the specific reluctance of both Mr. Harnage and Democrats in the Congress to partner with us at the beginning when they could've influenced it, I'm not so sure it would've made that much difference. There is a very corrosive distrust between the unions and the Department as to what's the purpose of the system, and I don't mean just NSPS, the whole personnel system. It does lead, I regret to say, to the question of why we have public service

unions. In the private sector, the union's role importantly is to be sure due process is there for the members, and, of course, in a government agency by law and tradition, there are significant due process safeguards. Does the public-service union then become the guardian of the less effective worker? That's the hypothesis. I think it's interesting to focus on how unions came to be in the Department of Defense. They come out of local elections, and my understanding is most Defense installation commanders are very reluctant to take an energetic position on the merits of a union coming into the organization. Many of these elections are determined by a very small fraction of the total workforce, similar to just a small group of workers saying we want a bargaining unit. So who represents you; who is the union? Who really wants the union? It's not like Europeans, who force you to vote in every election, so you have to participate. A minority takes a stand. Management really doesn't take a stand. The proposition may carry; it doesn't always carry, but it may carry. What we observe is, and I believe it's true, a majority of the bargaining unit employees represented by the unions does not pay dues to the unions. Then the question is, again, what is the role of the union and for whom does the union speak? This goes back to your question, would it have been different? I'm not so sure. I think, and that may be the answer to my similar question, why

is there such antipathy to this? If the union is trying to safeguard the positions of those who perhaps are disproportionately at the weaker end of the performance scale, then a pay for performance system is anathema. They are going to be damaged by the change. That's not to denigrate them because I think one of the great things about pay for performance is you challenge people to improve their performance. My experience with the private sector is they either will do that, or they will decide they're in the wrong job, which may be part of the performance issue. It's not that they're a bad person or incompetent; this is not their cup of tea. The environment is wrong. The hours are wrong. Their family responsibilities clash, which precludes their being effective. Whatever the case might be, it's not a good job for them.

One of the problems in the government, and this goes back to the adverse action issue, is we don't have a good way of saying, "Time out, this ain't working," and to send you a good signal. It's not the end of the world for you, and you would be better off someplace else. I'm biased because I've worked in the private sector. It was my responsibility to give out raises with more to certain people and less to others, and that sent a signal. The supervisor would say that wasn't a good job, you are not pulling your weight. We didn't have to fire people.

They got the message. They often improved. They said: "I got it. What do you want me to do differently? How can I contribute better?" Performance improved, their rewards improved. Or they realized, I'm in the wrong place.

That was my public answer to questions at the hearings. Don't you want more rights to terminate people? I said, "No. If we have a true pay for performance system where we send good signals to those who perform weakly, the ones who really don't want to perform will leave of their own accord. We will not have to fire people *per se*. People aren't bad. They get the message. They will self correct."

Diane T. Putney: What are the criteria by which the success or failure of NSPS should be judged?

David Chu: I think there are two. One, does the Department find civilian staffing a more attractive option over time, and does it use civilians to carry out the mission? I'll give you a real-life example: running a port in an overseas theater.

There's a real example from Iraq. We ran the Port of Basra till recently. The Department's answer was to deploy a set of port operations reserve units. That's good in the opening phase, but after a while, my question was, why? The military wanted to remobilize operations units that had just served. I said, "Wait a minute, at the Port of Los Angeles, it's a civilian staff."

This goes back to Rumsfeld's 300,000-person count. It's not a

military staff at the Port of Los Angeles; civilians do this job. Why can't we constitute a group of civilians willing to deploy? This goes beyond NSPS and all those numbers the Department worked on. Why can't civilians willing to do it run the port? Do civilians start to play a larger, stronger, appropriate role in the life of the Department, including being deployed?

My belief is civilians will deploy if you ask them the right way. We did a wonderful little experiment run by Pat Bradshaw, Ms. Groeber's successor, when President Bush asked for additional provincial reconstruction teams. State had trouble staffing them. They came to Defense, where, again, the reflexive answer was, let's mobilize the reserves. I said, no, let's ask our civilians if they'd be willing to serve. We had hundreds of applications. Some of them had the wrong skills, but we filled 40-some slots with civilians. In fact State later threatened to shorten their tours, and our civilians rebelled: No, I came to do an important job; I want to stay here. I had to send Ms. Bradshaw to Iraq to calm everybody down and say, okay, you want to stay, you can stay. They felt what they were doing was important.

My first criterion would be: Does the Department make better use of civilians? It doesn't have to be a military

person every time. A civilian might be a better choice. And a government civilian might be better than a contractor.

The second criterion I would employ is whether our people, the civilians who then staff the future force, are at least as happy, if not preferably happier, than they were under the old regime? Through surveys, focus groups, and other indicators of well-being, do we find that our civilians feel better about their situation and what they're doing?

The younger generation tends to want a pay for performance system. One of the volunteered comments we often get in sensing sessions from younger civilian prospects is I don't want to join if you aren't going to reward me for working harder. I had one unit commander come up to me almost in tears and say: "You know, sir, the good people in this state won't take my jobs." She was confronting this whole question of job satisfaction. How people see themselves, I think, is the other major success criterion.

The lesson of the demonstration projects is it's not going to happen overnight. In the first three to five years, a manager was fortunate if it just stays the same, some people less happy, some people a lot happier. Fine. It's five to ten years out that you really need to see if there's going to be any positive effect, and the demonstration projects generally passed this test. People sort themselves out. If you don't like

pay for performance, you don't like this kind of system, you leave. Then you get a group of people that's happier with that situation. That would be how I would judge it.

In my estimation, we're very early in the history of this system. I hope the new Administration will retain it. I think the Senate specifically signaled in the change of authority a couple of years ago that it thought the core system was meritorious, and while it was going to remove the adverse action and the labor-relations authorities the rest should continue.

Diane T. Putney: That concludes it if you don't have anything else. You have an opportunity in the next session if you have any additional thoughts and clarification.

David Chu: Feel free to add questions if you have anything you'd like me to clarify.

**END OF SESSION**