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An American Taxpayer's Guide To CUTTING THE DEBT

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■ GOVERNMENT, not being a productive organization, cannot give anybody anything unless it takes it away from somebody else. As Henry Mencken once observed, "government is a broker in pillage and every election is sort of an advance auction sale of stolen goods." This year's election campaign was no different.

The only real debate seemed to be over the best method of looting Americans to make good on political promises past and present. Should the confiscation be accomplished by hiking taxes or by massive deficits? The spending and looting, of course, are to continue at an increasing level of rapacity.

Meanwhile, federal Budget deficits tell a frightening story. If present

If federal spending continues at the present rate the annual federal deficit by the year 2000 will be $2 trillion and the National Debt will be $13 trillion. The "Liberals" are pushing for higher taxes and demand less defense, but Conservatives are supporting the cost-cutting recommendations of the Grace Commission.

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trends continue — and they could get much worse — the annual federal deficit (now nearly $200 billion) will amount to $2 *trillion* within sixteen years. By the year 2000 the total National Debt will be in the neighborhood of $13 trillion ($160,000 per current taxpayer) and the interest alone will be some $1.5 trillion per year ($18,500 a year per current taxpayer).

In 1964, twenty years ago, the total level of federal outlays stood at about $100 billion, a sum which was considered outrageous. The federal outlays are now running just under one trillion dollars — ten times as much. By the year 2000, under *very* conservative assumptions, outlays will reach at least $5.5 trillion, with revenues on the order of $3.5 trillion. And these figures are all in current dollars.

Walter Mondale, Tip O'Neill, and Teddy Kennedy have for decades led the parade for more and more government spending and ever bigger deficits. Today, they have the audacity publicly to deplore what they call the "Reagan deficits," implying that they have no responsibility for their making. They have attempted to paint deficits as an issue *separate* from federal spending. Government's indebtedness, both in its annual form as a Budget deficit and in its perennial form as the accumulated National Debt, has become the subject of an historic debate. Let us consider the issue in terms of fundamentals.

Are Deficits Evil?

Deficits are that part of federal spending which is not covered by revenues from taxation. But how can the federal government spend such gargantuan sums beyond what it takes in as revenue? Because the federal government has the power to borrow money and to inflate.

As we have said, huge sums have been borrowed. The annual interest charges on today's National Debt are well over $100 billion and the third-largest item in the federal Budget (behind Social Welfare and defense, in that order). Even the money to pay the interest may be borrowed as the government compounds the debt accumulation at an ever-increasing rate.

When the government borrows to fund its deficits, the Treasury enters the private credit markets, selling securities (I.O.U.s) at whatever interest rate it takes to bring in the required money. This either pushes interest rates up for everybody, or prevents them from falling to the levels at which they would otherwise rest. Federal borrowing reduces the amount of capital available to other

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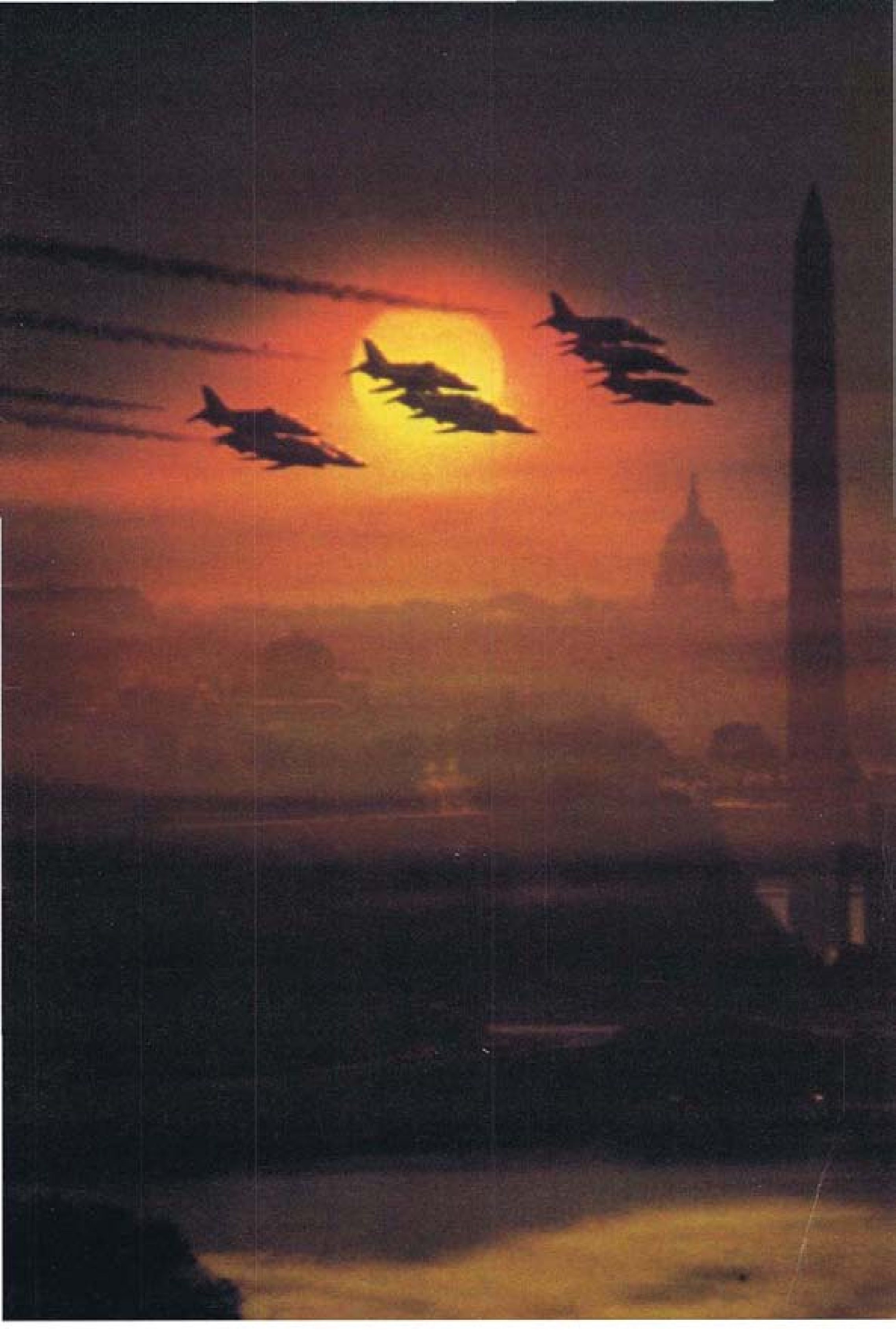


borrowers. Thus, higher interest rates cut into market efficiency, stop expansion, choke the housing and durable-goods markets, and tend to bring on recession. Increasingly illiquid corporations and beleaguered small businesses feel the financial squeeze as they desperately vie with Big Government in the credit markets to obtain capital necessary to do business or forestall bankruptcy.

Meanwhile, unemployment rates escalate as workers are laid off, especially in such interest-sensitive industries as housing, automobiles, and consumer durable goods. This higher level of unemployment and economic stagnation triggers even greater federal outlays due to automatic spending programs which are keyed to compensating those who are out of work. Because business production is down and unemployment is up, the tax base shrinks and federal revenues drop, further aggravating the deficit.

High interest rates from this "crowding out" of private-sector borrowers now attract capital from abroad, raising the value of the dollar relative to foreign currencies and making imports relatively cheap and domestic products more expensive. This further reduces domestic production, causes unemployment, reduces tax revenues, *etc*.

Alternatively, in conjunction with the Federal Reserve System, the federal government has another means of dealing with huge deficit spending: inflation. As a great many Americans have come to understand, inflation is not a rise in the "general price level" but an increase in the "money supply" (more fiat units used as money), and occurs whenever the Federal Reserve "monetizes" (turns into new phony money) the accumulated deficits incurred by our congressional spenders. The Fed increases the money supply to pay for its purchases of federal securities — pieces of paper representing (and funding) part of the government's indebtedness, which are used as a base to spin out still more fiat money and credit in the fractional-reserve banking system. This new "money," put into circulation to meet the deficit, bids up prices as it trickles through the economy, usually taking from eighteen to twenty-four months to do so fully. The purchasing power of our savings and other dollar-denominated investments is thus reduced. People soon wise up and saving and investing are discouraged, leading to a shortage of vital capital and then increased interest rates, *etc*.

Inflation, like direct taxation, is simply another form of confiscation. Instead of stealing the actual dollars from our billfolds, it steals their purchasing power as government pays its debts with phony money.

Every time Congress raises the National Debt ceiling (so it can *spend* more) the result is greater deficits which must be paid for by the American people either through monetary inflation via the Fed (which, again, dilutes our purchasing power and discourages saving for capital investment), or by the government borrowing in competition with business (which pushes up interest rates and also starves the private sector of desperately needed capital). And those are only the short-term consequences of deficits.

Inflation of the money supply does not merely raise prices. The process distorts economic signals to entrepreneurs and businessmen. Any monetary expansion breeds "cycles" of booms and busts because inflation artificially lowers interest rates briefly before driving them higher. This confuses the capital markets, causing

(*Continued on page ninety-five.*)

From page four

THE DEBT

malinvestments which must be liquidated eventually in the economic withdrawal of recession or depression. At that point the politicians seek another temporary "cure" by taking some more of the hair of the dog that bit them, starting another round of illusory boom and bust.

When deficits are monetized through inflation, it sets up a pernicious process which continues to disrupt the economy long after the actual act of monetary expansion. These long-term disasters are not generally recognized because most Establishment economists use statistical correlations between deficits and only their short-term consequences. Overlooking the longer-term results, they come to the conclusion that deficits are not so bad. That is stuff and nonsense.

Economist Leonard Silk, a member of the Council on Foreign Relations, is one who makes the error of looking only at the immediate and near-term effects of deficits. Silk perceives no correlation at all between deficits and inflation. In the *New York Times* for November 18, 1983, he wrote as follows:

"If one looks at the statistical relations between the deficit in particular years and the rate of inflation, there appears to be no correlation — or indeed the correlation often looks inverse . . . . For it has often happened that the forces that caused a deficit to widen also cause inflation to slow down. That was true during the past year, when steep recession both increased the Government deficit — by cutting tax revenues and by causing unemployment benefits and other social expenditures to rise — and simultaneously drove down the rate of inflation.

"Conversely, an economic expansion will decrease the Government deficit by increasing national income and tax revenues, but at the same time is likely to increase inflationary pressures . . . ."

Because there is a time lag in economic matters, those who rely on immediate statistical correlation get by with confusing cause and effect. There is no significant relationship between deficits and price inflation *in the short term*. But the inflationary process takes time to spin itself out. First, remember, the Treasury sells securities to the Federal Reserve to cover a portion of the new Debt. These new government I.O.U.s must then be turned into accounts or new currency, and the newly created bank reserves are expanded through a series of loans and deposits in our fractional-reserve system of banking. This is the process that inflates the money supply. Finally, as a result of there being more money around than before the process began, people begin to bid up prices for goods and services. All of that, as we have said, takes a minimum of from eighteen to twenty-four months. Savings and income buy less, and there is malinvestment and economic dislocation.

It should be clear that deficits are indeed an evil practice; especially when they are "financed" by an expansion of the money supply. But are higher taxes the answer?

Taxes Are Also Evil

Using their tunnel vision to focus on only the deficit consequences of federal spending, Walter Mondale, Tip O'Neill, and Teddy Kennedy want us to believe that black-ink spending is fine because it's all paid for by taxes. According to this view, if the federal Budget were one trillion dollars it would be fine as long as the

Budget is fully balanced by a trillion dollars of tax revenue. But such federal spending — whether it is paid for by taxes, borrowing, or inflation — steals a trillion dollars out of the private economy, diverting resources from areas of production called for by consumer demand and into uneconomic areas prescribed by government. Funds for the crucial activity of capital investment are siphoned out of our economy, reducing our standard of living from what would otherwise be possible.

As market analyst John A. Pugsley observed in the January 1984 issue of *Common Sense Viewpoint*: "It takes only a few moments' reflection to realize that whether the government takes its 'share' by taxing or borrowing, the private sector is still left with the same amount of wealth to either consume or invest. There is no increase in savings at all due to a tax reduction if the government still spends the same amount. The public may *think* it has saved more, since it now holds more Treasury bills, but that is a mere paper illusion.

"If it is true that total government spending is the real tax on society, and all current tax-or-borrow arguments are erroneously concentrating on short-term effects, how does one choose between the two alternatives — taxation or deficits? In the end, the government still spends the same amount, and by definition, that means that the private sector loses that amount. Does it make a long-run difference how the government covers its spending?

"Absolutely. An enormous difference. Both taxes and borrowing take the same amount from the private sector. In the case of taxes, you know immediately when the tax has been taken. You know you are poorer. You adjust your consumption and your investment patterns accordingly. You have accurate information on your own financial status with which to make rational long-term plans.

"However, when the money is borrowed by the government, you are deluded into thinking you still have the money — only now it's in the form of a government IOU. That IOU will never be paid off, so someone is going to lose. The loss comes through the depreciation of the value of money — inflation. The illusion that you have more real wealth than you really do causes you to err in your planning. On a national level, it causes malinvestment, speculation, the business cycle, and creates an enormous pressure for government intervention in the marketplace."

And, contrary to the imaginings of Mondale, O'Neill, and Kennedy, further increases in the tax burden will not make deficits vanish. They only encourage the politicians to spend more. Raising taxes will not balance the federal Budget as long as the federal government continues to have the power to borrow and/or inflate. If Mondale and his cronies were sincere about making the government balance its Budgets, they would support the Balanced Budget Amendment and repeal the Federal Reserve Act which allows monetizing of the Debt.

Further taxation will not solve the problem. Income taxes on the median American breadwinner rose from $284 in 1948 to $2,218 in 1983. If we add up federal income taxes, state income taxes, Social Security taxes, as well as sales, property, and other specific taxes (both direct and indirect), more than fifty percent of the income of Middle Americans is already being drained away by the vampire bureaucrats and politicians.

Walter Mondale called for higher taxes on "the rich" to balance the federal deficit. Such utter nonsense! Since ninety percent of all personal taxable income is generated below the level of $35,000, any significant increase in revenues from personal income taxes would have to come from lower- and middle-income families. In fact, if the government confiscated one hundred percent of all taxable income beyond the $75,000 tax bracket not already taxed, this would yield only $17 billion in revenues — enough to run the federal government for only seven days! And that would destroy what's left of America's productive enterprise system by consuming the primary source of savings and investment from which capital is generated to pay for plant, equipment, improvements, and wages.

So much for the practicality of schemes to "soak the rich."

The ultimate and correct solution to the problem of runaway spending and exploding deficits is neither more taxation nor further borrowing and inflation, but rather a reduction in government spending. This, however, is not an easy solution because the vast political power of special-interests is arrayed against it.

If we wait for the politicians to do something about the rising tide of red ink, nothing significant will be done, our economy will drown, and our liberties will be destroyed with it.

But where to cut? That question has been answered in a new book published to serve as a guide for American taxpayers in effectively pressing for reducing the size and cost of Big Government. This important little book, by William R. Kennedy and Robert W. Lee, is *A Taxpayer Survey Of The Grace Commission Report* (Green Hill Publishers, Ottawa, Illinois; $1.95).

Cutting Gracefully

Before citing some examples of potential cuts from the Kennedy/Lee book, let's briefly review the background of the Grace Commission, now being all but completely ignored by the "Liberal" news media.

In 1982, President Reagan established a private commission to study ways to cut costs in the federal bureaucracy. This immense endeavor was named the President's Private Sector Survey on Cost Control, but it is generally referred to simply as the Grace Commission because its energizing force was J. Peter Grace. Mr. Grace is chairman and chief executive officer of W.R. Grace & Company, a mammoth firm with broad industrial interests both in this country and abroad.

In an exclusive interview with *The Review Of The News* for August 26, 1981, Peter Grace left no question about where he stands, declaring: "Government is too big, too powerful, taking too much of our money in taxes, draining off our capital." He observed that "there is no doubt in my mind as to the long-range superior performance of an unfettered Free Market system over an alternative system closely regulated or 'helped' through subsidies and preferential treatment of selected sectors."

Mr. Grace proved well-suited to head the huge cost-cutting study initiated by the President. Working entirely through the private sector, he moved quickly to assemble an Executive Committee of 161 top business executives and other professionals. These leaders, in turn, enlisted another two thousand business volunteers to probe for tax savings, managerial inefficiencies, wasteful practices, and administrative overlaps and duplications. They sought ways to improve cost control and enhance managerial accountability.

Thirty-six specialized task forces were organized, each chaired by two or more members from the Executive

Committee of the Grace Commission. Twenty-two of these task forces were assigned to study specific departments and agencies of government, while the remaining fourteen set to work examining such functions as data processing, procurement, personnel, and cash management — problems which cut across all government departments. Eleven other groups dealt with special problems and issues not covered by the task-force teams.

You may be wondering how much of the taxpayers' money went to finance this vast project to cut the cost of government. Not a penny! Everyone involved was a volunteer, and the amazing Peter Grace was able to get the private sector to pick up the entire $75 million tab for expenses.

In January 1984, after eighteen months of evaluating the federal bureaucracy, the Grace Commission presented its Report on how to cut spending in the federal government. That Report consists of forty-seven thick volumes — one from each of the thirty-six task forces and eleven special reports — standing five feet high and backed up by two million pages of documentation stored separately.

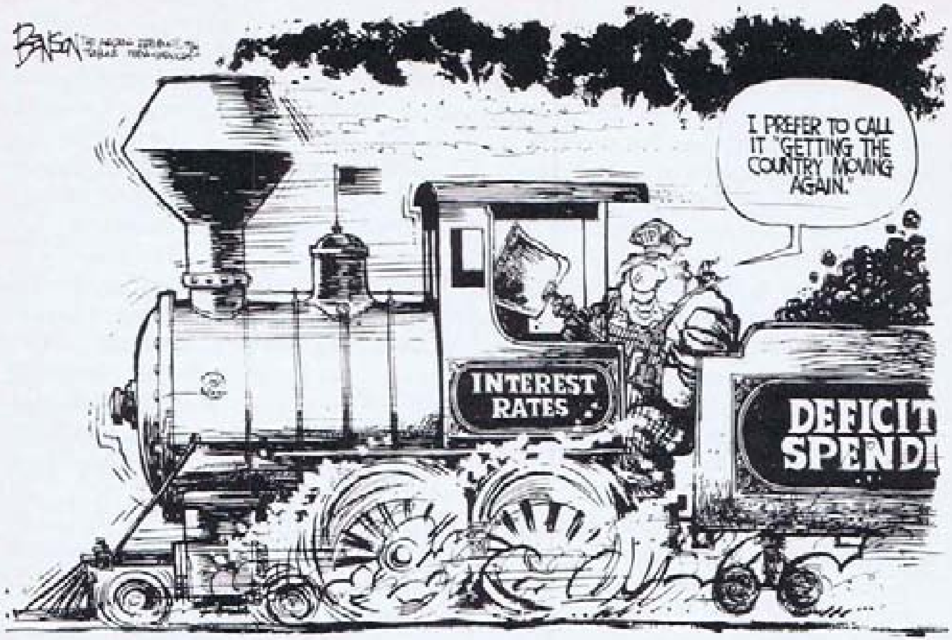
In his letter to President Reagan accompanying the Commission's full Report, Mr. Grace announced: ". . . we came up with 2,478 separate, distinct, and specific recommendations which are the basis for the carefully projected savings. For practical purposes, these savings, if fully implemented, could virtually eliminate the reported deficit by the 1990's versus an alternate deficit of $10.2 trillion in the decade of the 1990's if no action is taken."

Aware that statist reaction against any call for cuts was to be expected, Grace continued: "Equally important, the 2,478 cost-cutting, revenue-enhancing recommendations we have made can be achieved without raising taxes, without weakening America's needed defense buildup, and without in any way harming necessary social welfare programs."

How much money would implementation of the Grace findings save the taxpayers? If all the suggestions were put into practice, they would save $424 billion over the first three-year period. By the year 2000, the accumulated savings and economies would amount to a projected total of at least $1.9 trillion! These savings and improvements are analyzed and supported in great detail in the Grace Report. Broken down into the functional problem areas to which they relate, over half (57.1 percent) of the three-year savings would come from eliminating system failures and personnel mismanagement, while 37.9 percent would result from reducing program waste.

In their very important new book, *A Taxpayer Survey Of The Grace Commission Report*, Bill Kennedy and Bob Lee summarize examples of waste cited by the Grace Report and describe in detail how to save those hundreds of billions.

For instance, governmental paper-passing is needlessly slow and inefficient, involving far too many bureaucrats. After examining the flow of correspondence going to the Secretary of the Department of Health and Human Services, the Grace team found that "21 people handle the drafting and clearance of a secretary-signature response" and, if you add in "typists, messengers, and other clerical support personnel," the "actual H.H.S. number would increase to between 55 and 60." Remember, that is for *one* document, proposal, memo, or letter. It was found that, on average, the time it took to process even a response to a letter in this one office takes *forty-seven days*! By contrast,



big corporations — hardly known for their efficiency — can usually reply to their correspondence, even when the volume of mail is very large, within five days.

The Grace Commission concluded that the "extensive time required, and the complicated process involved, in completing responses to letters received by the O.S. (*Office of the Secretary*) is symptomatic of H.H.S.'s organizational layering duplication problem. The numerous levels of review, the multiple clearances, and the delays in processing, all indicate too many people with similar responsibilities performing the same function." You *do* get the message!

According to the Grace survey, if the handling of correspondence at H.H.S. could be brought even to the level of most other federal agencies — let alone the level which prevails in the private sector — the savings to the taxpayers would amount to at least $7.1 million over the first three years. The Grace Commission tells how to do that.

The various agencies and departments of the federal government currently spend $4.6 billion each year on freight charges. Because there is no coordination of information among these various bureaucracies as to their freight needs, no volume discounts have been negotiated with suppliers. Centralizing freight data among the agencies through an automated freight-management system would save taxpayers $530 million over a three-year period.

A study conducted twenty years ago identified at least 11.5 million acres of federal land as excess acreage that could be sold off to the private sector. Selling only one-third of that excess federal land would yield a non-tax revenue of $900 million over three years. These new revenues could then be used to reduce the service costs paid on the National Debt by $146 million over the first three years. Anxious environmentalists should be assured that these proposed land sales would not involve national parks and wilderness areas.

Lack of communication among federal agencies concerning costs of services has resulted in the use of widely different rate schedules, often leading one agency to pay far more than another for the same service. For example, because the Environmental Protection Agency uses different billing standards than the U.S. Coast Guard, "the Coast Guard will pay $100 *per week* for the use of an office trailer. The EPA's schedule allows for $100 *per day*." Centralizing and coordinating federal purchases would save millions of tax dollars.

Undelivered Mail

Not surprisingly, the Grace Commission found tremendous waste in the federal Postal Service. Bill Kennedy and Bob Lee devote an entire chapter to the Grace analysis of this American institution, which is the oldest socialist enterprise in the United States. Consider the problem of undelivered mail.

As Kennedy and Lee observe: "Mailers have been suspicious for years that a certain percentage of properly-addressed mail was being treated as U.A.A. (Undeliverable As Addressed) mail and not being delivered by the Postal Service. Until 1981, little comprehensive and statistically valid data were available. But in September and October of that year, one major book company conducted a test to determine whether all properly-addressed mail (including bulk third-class advertising mail) was delivered. The test revealed that a shocking 8.4 percent of typical advertising pieces, properly mailed and addressed, were *not* delivered, while 6.6 percent of pieces endorsed 'Forwarding and Return Postage Guaranteed' were not delivered.

In 1980 and 1981, the Postal Service conducted its own Diagnostic Survey Analysis Testing program to measure delivery time. In both the private-sector and Postal Service studies, the special mailing lists used were verified for accuracy prior to mailing. But the analysis also revealed that 5-44 percent of third-class mail, and 3-18 percent of second-class mail was 'not received.' "

Non-delivery of correctly addressed bulk advertising hurts the company doing the mailing, but results in big losses of revenue to the Postal Service as well. As Kennedy and Lee point out: "A significant percentage of third-class mail is advertising that can generate additional volume for the Postal Service. The Grace Commission comments: 'Based on a study, one major mailer estimated that one respondent to a third-class advertising piece can generate as many as 43 additional pieces of first, third, and fourth-class mail within a year. Other major mailers contacted estimated that additional pieces generated could easily exceed 43 pieces: *e.g.*, a response accepting a subscription to a weekly magazine.'

"Applying an average of eight percent non-delivered to the 24.7 billion pieces of regular third-class bulk-rate mail indicates the magnitude of the problem. The Grace Commission reports: 'Using conservative estimates of additional volume generated by respondents to third-class mail, and assuming a response rate of 1 percent if this mail were delivered, leads to an estimate of up to 652 million pieces of mail that could be generated.' "

When you consider the high cost of postage these days, you begin to appreciate how much revenue is forfeited by our Post Office as a result of losing, destroying, or just not delivering correctly addressed mail. According to the Grace people, if the federal Postal Service took the specific steps it recommends, it could re-

"WHY, BROTHER O'NEILL, IT'S BEEN A LONG TIME! AND BROTHER FRITZ, WELCOME BACK TO THE FLOCK OF BELIEVERS! AND IF IT ISN'T BROTHERS CRANSTON AND JACKSON! SO GOOD TO HAVE YOU RETURN TO WORSHIP WITH US AGAIN! AND HERE COMES BROTHER..."

duce "the estimated 8 percent of properly mailed and addressed nondelivered third-class mail to 4 percent." The estimated three-year savings would be $30.4 million. This estimate moreover, does not even include the incalculable *indirect* revenue impact resulting from the above-mentioned factors.

Of course, permitting private-enterprise delivery of first-class mail, in competition with the Postal Service would be a more fundamental reform, giving customers market alternatives to this government monopoly. The Grace Commission was unable to make such a proposal because that was beyond the scope of its Presidential mandate. We will return later to that limitation placed on the Grace Commission's authority.

Employing User Fees

Those who are directly assisted by a particular service should pay for it whenever possible. As the Grace Report observes: "It is unfair to burden the general public with payments for a service that benefits only certain user groups." Therefore, Grace urges expanded adoption of user fees — specific charges collected from the recipients of government services, goods, or other benefits which are not shared by the general public. Instead of socializing specific services, giving a special-interest advantage to those who use them, the Grace Commission seeks to have business-like services now provided by the federal government paid for by those who commercially benefit.

This would not only be fair, but also more efficient. "When users pay for a Federal service, they have an economic incentive to match the quantity and quality of the service with the cost of the service. In the absence of a user charge, the user has an incentive to request as high a level of service as possible, regardless of cost, since the cost is being paid by the general taxpayer."

A Taxpayer Survey Of The Grace Commission Report contains a lengthy chapter covering many instances where the application of user fees could bring in significant revenues. We will mention only a few examples here.

Bill Kennedy and Bob Lee report: "The Grace Commission discovered, for instance, that both the National Aeronautics and Space Administration (N.A.S.A.) and the Department of Defense (D.O.D.) maintain wind tunnels which may be used for research and development by the government and the private sector. But whereas the D.O.D. charges $6,000 an hour for use of its facility, N.A.S.A. charges only $2,000 per hour. It is N.A.S.A.'s position that certain indirect costs should not be included in its charges, whereas D.O.D. includes them. 'The obvious result,' the Commission notes, 'is that private-sector industries, as well as Government agencies, including D.O.D., overuse the N.A.S.A. facilities.' Clearly, the Defense Department's interpretation is most in line with private-sector pricing principles and should be adopted by N.A.S.A." There is no justification for all taxpayers to subsidize the use of federal wind tunnels by a select few private businesses.

There are hundreds of other instances in which user fees could be applied. Such fees are already used in many government programs, and the Grace Commission rightly contends that extending them to other areas should be a priority issue.

For more than twenty years the Federal Highway Program has been funded almost entirely by user charges based primarily on the fuel tax. Yet this means of financing has not been employed in the inland waterway system administered by the national government. Over ninety-seven percent of the burden of financing the construction, operation, and maintenance of dams, locks, and channels used to facilitate commercial traffic on inland waterways is borne not by the businesses involved but by taxpayers. The Grace Commission advocates modernizing the system to include higher fees in order to place a greater share of the burden on those who actually use the system. The proceeds would be $600.7 million for the first three years.

The National Park Service charges entrance fees for only sixty-four of its 333 parks, and these fees are nominal. Ninety-eight percent of the cost of operating and maintaining those parks is paid by the taxpayers. In fact, when costs were averaged out for the year 1981, visitors to the national parks paid approximately three cents each in admittance charges, while the taxpayers picked up the bulk of the tab.

Contending that those "who directly use and enjoy the Nation's parks ought to pay a larger share of the cost of operating and maintaining them," the Grace Commissioners estimate that $66.2 million in new, nontax revenue would be generated over three years if the National Park Service took its advice. The recommendations include such items as charging nominal fees at twenty-three parks at which entrance is now free to visitors; extending the hours of fee collection at fourteen other sites; increasing the price of a Golden Eagle Passport, which authorizes admission to all national parks for one whole year, from the current ten dollars per vehicle to twenty-five dollars.

The U.S. Government prints and sends out millions of publications, almost all at taxpayer expense. Even a modest program of fees to help cover agency printing and publishing costs could generate an estimated $80 million over an initial three-year period.

And there are many other areas where user fees could be applied. The Interior Department could collect

"(YAWN) WOULDN'T YOU KNOW IT—THEY GIVE US KING'S BIRTHDAY OFF, AND I SLEEP THROUGH IT!"

$410 million from increased user fees for outer continental-shelf mineral exploration and development. The Forest Service could raise its user fee for small-lot timber sales, for a possible revenue of $99.3 million. An additional $57 million could be generated if the government's Metropolitan Washington Airports (Dulles and National) appropriately increased their landing and concession fees. The examples go on and on.

Some of these changes could be effected by agencies and departments, and others are obstructed by antiquated legislation or court decisions. But Kennedy and Lee conclude their chapter on user fees by noting: "Implementation of the Commission's recommendations could generate revenue totaling $10.2 billion within three years. The wider employment of user fees is not just a more efficient way to generate revenues, it is much more fair. Those who voluntarily use commercial government services do not have the right to compel others to pay for them."

Depoliticalization

Going beyond user fees for government-provided goods and services, the Grace Commission pointed out a host of examples in which services now performed inefficiently by federal bureaucrats could be either contracted out to private firms or left to the private sector altogether. This is not a new idea, as Kennedy and Lee report in their superb little book:

"Federal policy on the operation of commercial activities was first put forth by the Eisenhower Administration in a series of Budget Bulletins. In 1966, Circular A-76 was issued to establish guidelines for implementing the basic principle that government should not perform any activity that can be performed by the private sector. Or, as Office of Management and Budget (O.M.B.) Circular A-76 (Revised, March 29, 1979) put it: 'The Government's business is not to be in business.' Most recently, in August of 1983, further-revised Circular A-76, which attempts to establish a procedure for the review of commercial federal activities that could be handled by the private sector, declared: 'In the process of governing; the government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs.' "

Would that this were true! The Grace Commission found: Decades "after the policy of reliance on the private sector for commercial services was first promulgated, there are an estimated 400,000 to 500,000 federal employees currently engaged in activities which could be performed at less cost by the private sector. Within the U.S. and its possessions, excluding the Postal Service, at least one out of every five Executive Branch civilian employees is performing a commercial function. They are involved in an estimated 11,000 separate commercial activities, costing approximately $20 billion a year."

The United States has gone a long way down the road of socialism. Today, the federal government is the world's largest conglomerate and ranks as our nation's largest power producer, insurer, borrower, hospital-system operator, landowner, owner of grain, warehouse operator, ship owner, and truck-fleet operator. The Grace Commission conservatively estimates that *billions* of dollars each year could be saved by returning many of these operations to the private-enterprise sector. One study showed that 11,700 such jobs in the Defense Department alone could be contracted out to private suppliers to achieve an annual savings of at least $1.2 billion! Kennedy and Lee note that this is the amount of individual income taxes paid to the federal government in the year 1981 by all the citizens of the State of New Mexico combined.

Privatizing socialist activities would be a lot more fair . . . to the taxpayers. The "Liberal" Democrats attempted to make "fairness" an issue in the 1984 Presidential campaign. Somehow they never think that increasing the burden on the already penurious taxpayer should be considered in weighing "fairness." The Grace Commission did, however. So do Bill Kennedy and Bob Lee in their new Grace Commission book, observing:

"By privatizing government programs in only eight areas, the Grace Commission asserts that savings and revenue enhancements totaling $28.4 billion can be realized. The changes would include withdrawing the federal government from the hydroelectric power business; involving the private sector in certain space-launching services (including the fifth Space Shuttle); phasing out the Veterans Administration construction programs for hospitals and nursing homes, then contracting with the private sector for hospital and nursing-home facilities and services; turning military commissaries over to the private sector where appropriate; selling the two metropolitan Washington airports to a local airport authority (today, Dulles and National are the only commercial airports in the country owned by the federal government); using private-sector options to improve the government's vehicle fleet; privatizing, or imposing user fees for, sundry Coast Guard activities (where lives are not threatened); and, finally, employing the private sector to help solve the enormous data-processing problems experienced by the Social Security Administration."

Unfortunately, many of these proposed changes in the way things are done are being opposed by bureaucrats and the politicians in Congress. A strong wave of popular support for the Grace recommendations, supported by massive distribution of *A Taxpayer Survey Of The Grace Commission Report*, could reverse that.

The Welfare Waste

One of the main sources of waste was found in the various subsidy programs, especially in means-tested benefit schemes. According to Grace, seventy-nine percent of all the taxes collected, including personal and corporate, are soaked up by government contributions to transfer payments ($408 billion in Fiscal Year 1983) and interest payments on the National Debt. That leaves only twenty-one percent of taxes collected available to run the government — and some $60 billion of that goes for the administrative overhead in those bureaucracies delivering program subsidies! The Grace Commission trimmers estimate that a three-year savings of $59 billion could be achieved in the area of means-tested subsidy programs alone.

In their uniquely useful survey, Bill Kennedy and Bob Lee inform us that the Department of Health and Human Services, by far the biggest-spending department in the federal maze, runs sixty-four needs-based or means-tested subsidy programs. The Grace Commission cites figures for only ten of those sixty-four programs. The total cost of those ten was $61.3 billion in Fiscal Year 1982. For perspective, Kennedy and Lee note that "the *total* federal income taxes paid in 1981 by all taxpayers in the nation earning under $20,000 was $50 billion."

Verification of income is a crucial test in properly administering federal transfer programs, and in ferreting out waste and abuse through overpayments. And based on 1982 information, at least 6.3 percent of the total federal and state benefit payments for only five major programs (Aid to Families with Dependent Children, Food Stamps, Supplementary Security Income, Medicaid, and Section VIII Housing) resulted in overpayments, accounting for at least $4.1 billion in wasted tax dollars.

Keep in mind that those $4.1 billion are dollars which, according to the standards in the laws written by our "Liberal" legislators, are going to people who *do not need them*. Many whose incomes are well above the level required to qualify for transfer payments illicitly receive benefits from our subsidy system. According to the Grace bloodhounds, this is largely due to lack of proper verification of incomes. The infamous Food Stamp program was singled out as illustrative of bureaucratic waste and rampant fraud and abuse. "Most of the loss," notes the Commission, "is due to households that obtain more Food Stamp benefits than they should or the receipt of benefits by completely ineligible households." No doubt.

A major reason for improper income verification in the Welfare programs and other subsidy schemes is the chaos in government data processing. The national government has more than nineteen thousand computers, most of which are not compatible with one another. That makes coordination among departments virtually impossible. Even when information is processed correctly within one agency or department, it may not be used efficiently by other bureaucracies. For example, Medicare officials were notified that more than eight thousand "patients" on its rolls were in fact dead. But the Social Security Administration was not informed of this fact and continued to send benefit checks to the deceased.

Kennedy and Lee write: "To improve the incredibly lax verification process, the Commission would modernize the Government's automated data-processing capability, and require the submission of Social Security numbers and income-tax returns before individuals can qualify for A.F.D.C., Food Stamps, S.S.I., Medicaid, and Section 8 Housing. A conservative estimate of the potential net savings is more than $2.2 billion over three years."

* * *

AMERICANISTS will not greet *every* Grace recommendation with an approving nod. The call for a more centralized and coordinated data-control system is a case in point. Using improved computerized cross-checking among various federal agencies and government lists to save money by ferreting out Welfare and Food Stamp chislers makes *everybody* potentially vulnerable to arbitrary government surveillance in violation of financial privacy. Taxpayers must weigh and debate the estimated savings of tax revenues against the greater price they would have to pay in terms of lost privacy. All too often Republicans, when they get into high office, wind up trying to make the Welfare State programs of their Democratic brothers run more efficiently by applying modern business practices. Perhaps we should be glad that we do not get all the efficiency in government that some want!

It must also be pointed out that the improvements in data processing and information handling recommended by the Grace Commission could be used to go after *more* tax money, as well as helping to provide savings by reducing waste and fraud in the subsidy programs. Many Americans are legally protesting arbitrary taxes and illicit methods of collection used by the I.R.S. Luckily for tax protesters today, the Internal Revenue Service is behind in its data gathering and its handling of cases. For instance, more than twenty percent (one out of every five) of the tax returns for the year 1978 (that's right — six years ago) still have not been entered into the I.R.S. computers. Delinquent accounts are, therefore, at least running at approximately $23.2 billion and growing rapidly. The taxers do not like to admit any of this, of course, but because their computer system is for the most part antiquated, the federal government does not collect well over $100 billion each year in taxes which it alleges to be owed. But the goal toward which we must strive is to cut spending *and taxes* — and not to raise revenue through Police State methods.

Consolidating

Many of the Grace proposals surveyed in the Bill Kennedy and Bob Lee book involve savings from consolidating operations and activities which have become over-bureaucratized even by federal standards. Consolidating air-traffic-control facilities would provide the same level of service and safety, but over three years would save $418.4 million.

Consolidating the Federal Trade Commission, which presently operates out of seven separate locations in Washington, would bring in savings of an estimated $1.1 million a year.

Then there is the Department of Energy. There is an extraordinary glut of managers in that bureaucracy — too many chiefs per Indian. The D.O.E., reports Grace, has twice the number of supervisors for each employee as does the federal government as a whole; that is, one for every three workers compared to one for every seven government-wide! If the D.O.E. could be brought into line with the rest of the federal bureaucracy, at least 120 unnecessary managerial positions and supervisory posts could be eliminated, with a savings to the taxpayers of $19 million.

We have barely skimmed the surface of examples where savings to the taxpayers could be effected if Grace Commission advice were to be taken by the federal government. Thanks to the Grace volunteers and the Kennedy-Lee summary, we now have the means to press for specific cuts. The problem is *implementation*. Remember, the Grace analysis determined: "Nearly three-quarters (72.5 percent) of the projected savings require Congressional action if they are to be realized. Another 19.6 percent can be acted on by individual departments and agencies, while 7.9 percent require Presidential action."

Over the years, some of the reforms now advocated by Grace have been attempted, but ran up against special-interest opposition in Congress. For example, the Commission recommends repeal or amendment of the Davis-Bacon Act, which has resulted in much-higher construction costs in federal projects. On September 23, 1982, an amendment was offered to a bill which would have waived Davis-Bacon on projects involving national defense and the defense industrial base. This was defeated by a vote of 162 to 178. On January 31, 1980, a legislative change was defeated by a vote of 130 to 266 which would have deleted language in an anti-recession bill requiring the payment of Davis-Bacon wages with countercyclical and fiscal assistance funds.

More recently, when the House of Representatives took up the 1985 appropriation proposal for the Department of Agriculture, an amendment was offered by Representative William E. Dannemeyer (R.-California) to reduce some programs by $24 million, on the assumption that the Agriculture Department should administratively implement recommendations offered by the Grace Commission in this area. Incredibly, that attempt to save $24 million was defeated by a vote of 153 to 232 (Roll Call 206) on June sixth.

House Speaker Thomas P. "Tip" O'Neill has done all he can to bar consideration of the Grace proposals for cutting waste and abuse. O'Neill even tacked a provision onto veterans' legislation which would keep the V.A. from acting to implement cost-saving suggestions of the Grace task force.

The Pro-Waste Partisans

Those who oppose saving hundreds of billions in tax money by adopting the suggestions of the Private Sector Survey on Cost Control reveal themselves as mindlessly devoted to big spending. These are the people who have led the votes in Congress for more and more spending and even bigger deficits. Tip O'Neill, Teddy Kennedy, and Walter Mondale are at the head of this pro-waste parade.

Never mind that the Grace Commission seeks only to save us money by squeezing out waste and improving management. It didn't even challenge the assumptions of the Welfare State. Which, as Bill Kennedy and Bob Lee observe, was beyond its mandated objectives. The political point is, "the Grace Commission plan would move in that direction, *without* hurting those who are truly in need. In line with its limited mandate, none of the Commission's recommendations endangers either the substance or the legislative intent of existing federal programs. The vast majority of the Grace proposals would merely result in reduced waste; higher revenues from sources other than taxation (such as user fees); and a bigger cash flow made possible by improved management practices and more efficient operational techniques . . . ."

We repeat: The Grace Commission Report does not attack the existence or substance of any existing program established by law. The Welfare State schemes and programs — so dear to the hearts of collectivists — are not challenged. That, again, was beyond the Commission's mandate. None of the savings would come from those "truly needy" people now said to be served by these programs. Why, then, has the Grace Report been received with total and complete opposition by the "Liberal" knee-jerks? The answer is that the vast majority of "Liberals" are as honest as a vampire in charge of a blood bank. They continue their propaganda war, claiming that no cut (other than in defense) can be made without drastically injuring the poor and disabled, whom they hold up as emotion-evoking hostages in response to all attempts at trimming the size and cost of government.

By opposing the Grace proposals the "Liberals" and statists — Walter Mondale, Tip O'Neill, Teddy Kennedy, and their friends — place themselves squarely in favor of waste and inefficiency. Could anything be more clear? Or politically more dangerous for them?

Saved By Grace Alone?

It is of course clear that America will not be saved by the Grace plan alone. Even if all 2,478 recommendations were immediately put into practice, it would only buy time. Instead of merely consolidating bureaucracies like the Federal Trade Commission, we should be abolishing them altogether. Bill Kennedy and Bob Lee are well aware of the limitations of the Grace Report and have made several follow-up suggestions, including one for another private-sector commission to advise on the elimination of whole departments and agencies.

As Robert W. Lee has written in *The Review Of The News*, "the main criticism which many Conservatives will have of the Grace Commission's work is that its Presidential mandate specifically side-stepped the question of whether certain agencies or programs should be eliminated outright. Instead, the Commission's *assignment* was to determine how to operate the existing federal monolith more efficiently and at less cost. It appears to have fulfilled that mandate in fine style. Now, a follow-up project is surely needed to focus on the question of which federal agencies and programs are sufficiently outmoded, constitutionally questionable, and/or destructive to the national welfare to merit outright abolition."

Should Americanists support the Grace recommendations, and purchase and distribute *A Taxpayer Survey Of The Grace Commission Report*? Absolutely! The Grace suggestions do not go nearly far enough. But, if they are implemented properly, they will buy us the time needed to lay an educational foundation for restoring the American Republic. ■ ■

CRACKER BARREL

■ Pirates believed that piercing the ears and wearing an earring improved eyesight. This idea, scoffed at for centuries, has been reevaluated in light of acupuncture theory. The point on the lobe where the ear was pierced corresponds to the auricular acupuncture point controlling the eyes.