

W.R. Grace & Company

Democrat Peter Grace Identifies THE ISSUES

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■ A TENET of Republicanism is that the Welfare State can be made to run more efficiently by applying modern private-sector business practices to the operation of government. As governor of California, Ronald Reagan launched a series of task-force teams, composed of 252 top business leaders, to study and evaluate the operations of the state gov-

ernment and to submit recommendations for cutting overhead and improving efficiency. Governor Reagan asked the businessmen to look upon the government of the Golden State as if it were a private-sector company with which they were considering a merger, and to propose its reorganization. These executives were directed to ask themselves what busi-

Peter Grace (r), named to head the President's Private Sector Survey on Cost Control, shares Conservative hostility to Big Government. Instructed to "Be bold" in rooting out inefficiency, the Grace Commission came up with 2,478 recommendations to save \$424 billion over an initial three-year period.

ness practices could be employed in the state bureaucracy to make it run more efficiently. According to Mr. Reagan's account, he implemented 1,600 of the group's 2,200 suggestions, saving state taxpayers almost \$200 million a year. Pretty impressive!

As a typical example of the many suggestions which he implemented in California, President Reagan recalls that his taskforce survey "found fantastic savings in such routine things as filing; storage files weren't utilized but were stored in expensive, per-square-foot office space, when they could have been out in much lower-cost warehouse-type space." Merely standardizing the dimensions of government forms enabled the state to purchase 4,200 fewer file cabinets during one year alone.

After becoming President, Ronald Reagan resolved to have a similar study directed toward the mammoth and sprawling federal government. He announced this intention at a press conference on February 18, 1982, and named J. Peter Grace, chairman and chief executive officer of W.R. Grace and Company, to head this awesome project. The immense endeavor was named the President's Private Sector Survey on Cost Control, but is usually referred to as the Grace Commission.

Although a member of the suspicion-arousing Council on Foreign Relations, Mr. Grace was well suited to lead the huge cost-cutting study. Not only has Grace an illustrious and successful record in the world of big business, but he shares Conservative hostility to Big Government and to the mushrooming federal deficits. A life-long Democrat, the seventy-year-old chairman of W.R. Grace and Company had sponsored educational advertisements on television and in major newspapers to expose the threat to economic productivity posed by the spendthrift policies of the Carter Administration.

In an exclusive interview with *The Review Of The News* for August 26, 1981, Mr. Grace sounded like a John Bircher, declaring: "Government is too big, too powerful, taking too much of our money in taxes, draining off our capital." And, he said, "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."

Peter Grace is clearly something very special. And it seemed that President Reagan would give him his full backing. During a news conference on February 18, 1982, the President



Mr. Grace told President Reagan that if federal spending is not cut the National Debt in 16 years will be \$13 trillion with interest of \$1.5 trillion a year. Grace is taking his message to the public, letting Americans know that savings could amount to \$10.5 trillion, \$130,000 for every taxpayer, by the year 2000.

pledged: "This is not going to be just another blue-ribbon, ornamental panel. We mean business, and we intend to get results." He asserted: "This will be the largest effort of its kind ever mounted to save tax dollars and to improve the working of government." The President warned that "government has grown too fast" and the "economic stakes for the American people are too high for politics as usual on this vital issue." He went on to promise that the emphasis of the survey "will be placed on eliminating overlap, red tape, and duplication; identifying nonessential administrative activities; and increasing management effectiveness."

The goals of the Grace Commission were identified more specifically when, on June 30, 1982, President Reagan formally established the Executive Committee for the Private Sector Survey on Cost Control. The Grace Commission would:

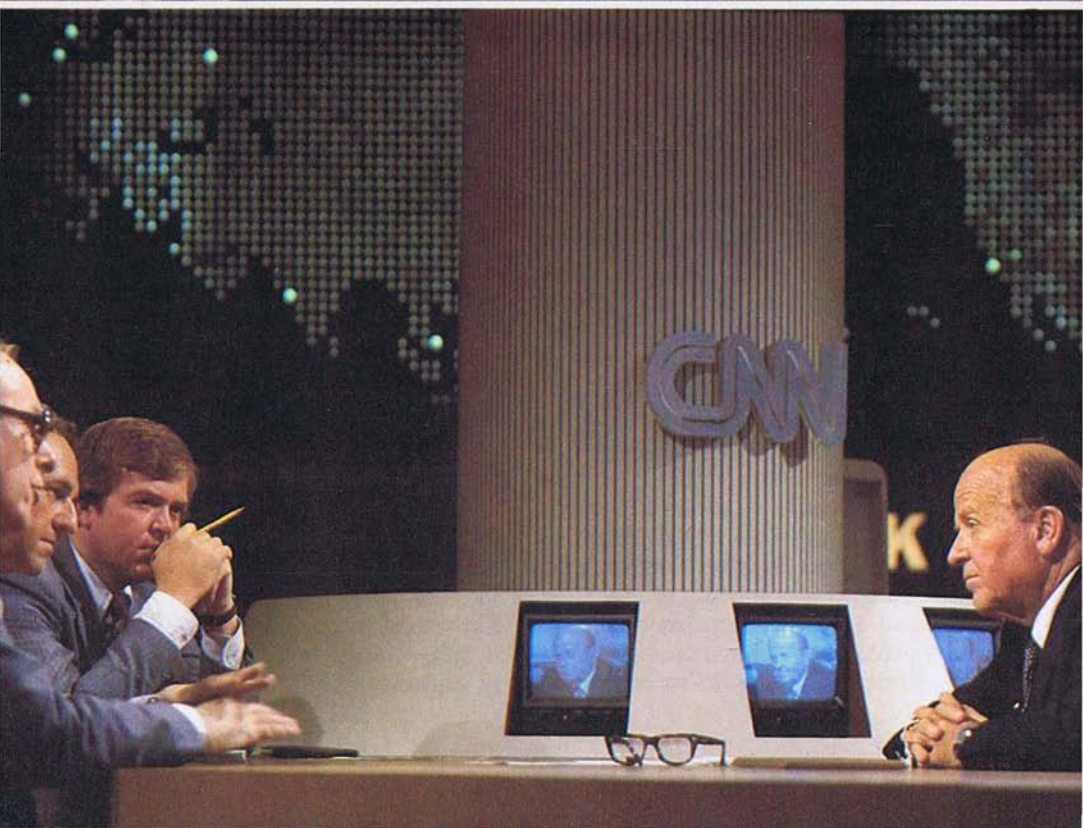
- Identify opportunities for increased efficiency and reduced costs achievable by Executive action or legislation.
- Determine areas where managerial accountability can be enhanced and administrative controls improved.
- Suggest short- and long-term managerial operating improvements.
- Specify areas where further

study can be justified by potential savings.

- Provide information and data relating to governmental expenditures, indebtedness, and personnel management.

Peter Grace moved quickly to assemble his Executive Committee of 161 top business executives, including several heads of Fortune-500 firms. These leaders, in turn, enlisted more than two thousand other private-sector volunteers to probe for tax savings. Thirty-six specialized taskforces were organized, each chaired by two or more members of the Executive Committee. Twenty-two of the taskforces 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 federal departments. Still other groups took up special problems and issues not covered by the taskforce teams.

To get the war on waste started in the right spirit, President Reagan urged the members of the Grace Commission to "Be bold. We want your team to work like tireless bloodhounds. Don't leave any stone unturned in your search to root out inefficiency." That may have set a



The Grace Survey provides myriad ways to save money. Over a three-year period \$6 billion could be saved if the Pentagon maintained standard inventories; \$59 billion could be saved with better management of Welfare; and, \$79 billion could be saved using private-sector cash management procedures.

record for mixed metaphors, but everyone understood what the President had in mind.

You may be wondering how much of the taxpayers' hard-earned money was siphoned off to finance this vast waste-finding project. You may indeed be thinking that such a massive undertaking could well cost the taxpayers more than the savings it might uncover. You would be wrong! Not a penny of tax money went to fund the Grace Commission's study. Everyone involved was a volunteer, and the amazing Peter Grace was able to get representatives from the private sector to pick up the entire \$75 million tab for the survey's expenses.

Mr. Grace has a driving personality and years of experience running vast operations. This, plus an obsession for numbers and accounting, made him a perfect choice for rooting out waste and finding less expensive ways to do things. Asked if he ever felt like giving up during his eighteen months of exhausting work as chairman, Grace replied: "I have an unbelievable stick-to-it-iveness. Anything is possible if you give it all you've got." In an interview with the *New York Times* in July of last year, the New York industrialist explained his motivation: "I have nine children, 12 grandchildren, and I'm concerned

about their freedom. We've got to get this growth rate [*in government spending*] and the outlays down. It can't go on this way. If the deficit goes to \$1 trillion a year, our freedoms are gone."

In January 1984 the Commission presented its Report on how to cut waste and overhead in the federal bureaucracy. That Report consisted of forty-seven thick volumes — one from each of the thirty-six taskforces and eleven others on selected issues — which make a stack five feet high, backed up by two million pages of documentation stored separately.

The summary of the huge Grace Commission Report has since been condensed to a 591-page paperbound book entitled *War On Waste* (Macmillan, \$9.95) and includes everything you would ever want to know about the project, including all forty-seven executive summaries for each volume of the Report. In his letter to President Reagan of January 12, 1984, which accompanied the Commission's full Report, Mr. Grace notes: "... 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 went on to observe: "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."

Peter Grace was not born yesterday. As economist Walter E. Williams has shown in his book *The State Against Blacks*, there is a vast army of what Williams calls "poverty pimps" who are determined to maintain their cushy jobs and authority. Poverty is their *business*, and they are very powerful. But despite Mr. Grace's care in trying to put other cuts first, he has received the full deluge of smears from the vested interests of the Welfare State. This only confirms that *no cut* in domestic spending is acceptable to the advocates of the Welfare State and that the solution isn't finesse but assault.

How much money would implementation of the Grace findings save the taxpayers? According to the Grace Report the recommendations would, if adopted, immediately save the taxpayers \$424 billion over the first three-year period. By the year 2000, the accumulated savings and economies would amount to a projected total of \$10.5 trillion — or \$130,000 for every American taxpayer. That's a great deal of waste, fraud, and abuse! And Grace maintains that his recommendations only "scratch the surface" of the problem.

In contrast to the claimed savings, what will happen to the federal Budget if the recommendations are not

adopted? Mr. Grace has told the President: "If fundamental changes are not made in Federal spending, as compared with the fiscal 1983 deficit of \$195 billion, a deficit of over ten times that amount, \$2 trillion, is projected for the year 2000, only 17 years from now. In that year the Federal debt would be \$13.0 trillion (\$160,000 per current taxpayer) and the interest alone on the debt would be \$1.5 trillion per year (\$18,500 per year per current taxpayer)."

These projections are in fact conservative. For one thing, the interest- and inflation-rate assumptions are far too optimistic. The interest rate assumed is eleven percent, while the inflation rate is based on a presumption of six percent for the longer term. Good luck! But applying even these very conservative assumptions it was computed that every dollar of deficit spending saved today will amount to \$32 over the next twelve years and \$71 over the next seventeen years. Put another way, it means that any potential saving implemented now — as compared to not making the saving — translates into a savings in cumulative debt of thirty-two times the amount saved today through the year 1995, and seventy-one times that amount through the end of this century. Any less optimistic set of assumptions reflecting the realities of politics means that unimplemented savings will show up as even more spectacular spending and deficits than the Commission projects.

Peter Grace is alarmed about the impact which the looming federal deficits will have on the U.S. economy. What will happen when all that debt hits the economic fan? It could result in horrendous recession or depression, with bankruptcies and unemployment skyrocketing to new

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highs. What to do, then about the ocean of red ink?

The economic quacks and spend-thrift politicians tell you they want to raise your taxes to reduce or eliminate the Budget deficits. But all history shows that tax increases only encourage more spending. Despite stupendous tax increases under the Carter and Reagan Administrations, government revenues have not only failed to keep pace with the explosion of federal expenditures but have fallen ever further behind. Our National Debt stands at \$1.5 trillion — an increase of more than \$500 billion since Mr. Reagan took over from President Carter less than four years ago! The annual deficit for Fiscal 1983 is officially \$195 billion — more than one hundred times larger than it was less than twenty years ago.

Yet look at taxation. Pointing out that "median family income taxes have increased from \$9 in 1948 to \$2,218 in 1983, or by 246 times," Grace correctly notes: "This is runaway taxation at its worst." Mr. Grace understands that further taxation of the already beleaguered taxpayers won't solve the problem. He writes: "Importantly, any meaningful increases in taxes from personal income would have to come from lower and middle income families, as 90 percent of all personal taxable income is generated below the taxable income level of \$35,000. Further, there isn't much more that can be extracted from high income brackets. If the Government took 100 percent of all taxable income beyond the \$75,000 tax bracket not already taxed, it would get only \$17 billion, and this confiscation, which would destroy productive en-

terprise, would only be sufficient to run the Government for seven days." So much for the practicality of the schemes to soak the rich.

The solution, then, is to cut spending. But where and how? One of the first pieces of bad news that the Grace volunteers discovered about the federal government is that it has an awesome "information gap." A chasm, if you will. For example, no one even knew how many agencies and bureaus there were, or how many people were on the federal payroll. No one could say how many "consultants" are employed, or even whether the projects they work on are duplicating studies that have been done before.

The government has more than nineteen thousand computers. And most of them are incompatible with each other, so coordination among departments is often impossible. The computers are so old that maintenance must be done by a special staff at a cost of millions every year.

Even when information is processed correctly in one part of the bureaucracy, it may not be used efficiently by other agencies. 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 that these people are dead and continued to send benefit checks to the deceased.

Because the computers used in the federal government are on average about twice as old as those used in the voluntary sector, information processing is not timely. The Social Security computers, for example, are always four to six weeks behind in issuing new Social Security cards, and the agency is unable correctly to process some 7.5 million new claims every year.

Luckily for many non-filing tax-

payers, the Internal Revenue Service is also behind in its information gathering and handling of cases. More than twenty percent of all tax returns for the year 1978 (that's right — six years ago) still have not been entered into the I.R.S. computer system. Delinquent accounts are therefore at \$23.2 billion and growing. This is at least partly due to the fact that the data processing gear used by the I.R.S. gestapo is more than twenty years old. Grace estimates that as a result the federal government has failed to collect more than \$100 billion each year in taxes owed. "If you're still paying taxes," he told one audience: "Hi, sucker!"

The Grace people also uncovered accounting horrors and widespread incompetence, producing (among other forms of waste) so-called "suspense accounts" — spending which cannot be assigned to a specific category of expenditures. The Grace volunteers counted 138 million such "suspense account" items in the Social Security Administration, representing \$89 billion. This makes it virtually impossible to get an accurate audit of the operations in this transgenerational Ponzi scheme.

Bureaucratic mismanagement and "disincentives to economize" were identified in abundance. In 1967 the Atomic Energy Commission became the first federal agency to use word processors. The new machines made the work of secretaries much easier, faster, and more efficient. Productivity soared. But, in 1979, the government's Office of Personnel Management decreed that operators of word processors did not possess the same level of skills as a regular secretary — skills including shorthand, acting as receptionists, and dealing with people. So it was decided that salaries of those operating

word processors should be cut by \$3,000. Soon training centers for word processing began shutting down for lack of applicants, operators shifted back to secretarial jobs, and productivity fell like a lead zeppelin.

This was the situation for several years, with employees forsaking the use of the efficient new technology in favor of the higher secretarial salaries. In effect, they were paid more to be less efficient at their jobs. Even though some improvements have since been made, the federal government still owns an estimated \$100 million worth of word-processing equipment that is either sitting idle or is being used inefficiently.

Needless duplication and organizational overlaps are rife in the bowels of the federal establishment. The Commission named a few of them. For example, six federal agencies maintain separate inspection services at ports of entry into the U.S., despite the fact that they could be consolidated for a savings of \$43 million every year. Meanwhile, the Department of Energy employs eight separate accounting and payroll systems, with differing monthly closing days, thus wasting an estimated \$12 million annually. Of course, several billion dollars could be saved each year if the entire Department of Energy, along with its infamous synfuels boondoggle, were eliminated as Ronald Reagan promised he would do if elected President. Unfortunately, the Grace Commission was prohibited from asking for the abolition of any agency or department.

The U.S. Government owns the world's largest fleet of motor vehicles (318,000), and these, too, are very inefficiently used. On average, the vehicles are driven only nine thousand miles a year — compared



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Chaired by the compelling Peter Grace (c), the Executive Committee of the President's Private Sector Survey on Cost Control was made up of 161 top business executives, including several heads of Fortune-500 companies. Members are shown above meeting to discuss government waste and inefficiency.

with twenty-five thousand miles as the optimal distance for those used in the private sector. The Grace Commission reports that at least 100,000 of these vehicles could be sold off by the government without ever being missed.

Bureaucratic fiefdoms abound. There are 4,352 Social Security field offices which the Grace team judges to be superfluous. Closing them would save over \$96 million a year. More than one-third of the nation's post offices (12,469 to be precise) serve fewer than one hundred people. Their elimination would save an estimated \$272 million every year under current operating expenses.

In personnel management, the government also gets low marks. About three times as many white-collar workers are employed by the U.S. Government as are working in the private sector. These federal employees tend to be overpaid, underworked, and are absent from their jobs far more often than are workers in the private sector. In 1981,

a typical year, postal employees took an average of nearly nine sick days each, versus only five days' average for employees in private enterprise. This meant a loss of more than 21,734 workweeks in that agency alone at a cost to taxpayers of \$652 million.

Federal employees get thirty-five percent more vacation time than do workers in the private sector, and their health benefits run \$134 per month per family (at taxpayer expense) compared to the average in private industry of \$93 (not at taxpayer expense). Furthermore, these federal bureaucrats are allowed to file on-the-job injury claims at a ludicrous rate. We are not sure if the alleged injuries most often took the form of accidental stabbings by pen and pencil, or infected paper cuts, or dropping a typewriter on a foot, but 6.3 percent of federal workers filed such claims in 1980, in contrast to only 1.7 percent of workers in private industry.

According to the Grace study,

nearly one-third of all Education Department employees are overpaid because of something called "overclassification." That department has never had a classification audit; consequently, it is a haven for gold-bricks and freeloaders who in 1980 received average cost-of-living raises in pay of 17.3 percent. In 1981 the average pay increase in the Department of Education was a whopping 27.3 percent! That was the *average* increase. Meanwhile, Johnny still can't read, write, or figure.

Federal bureaucrats need armies of supervisors to guide their activities. How many federal bureaucrats does it take to replace a light bulb? No one knows! We do know that the Department of Energy has one supervisor for every three employees. That's twice the ratio of supervisors in the rest of the federal government, and several times as many as in the private sector.

Despite the high rate of absenteeism, the laziness, the inefficiency, and the lavish salaries, federal employees enjoy outrageously unjust retirement benefits. Government pensions are two to six times as generous as those for private workers. Moreover, the government's retirement programs allow retirement on full pension at age fifty-five in the case of the Civil Service and as young as age forty in the military — compared to age sixty-four in the private sector. Pensions for federal retirees are based on averaging of incomes for the last three years of government service, a significant advantage over the five-year base used in private business. A private-sector worker on a pre-retirement salary of \$25,000 typically receives approximately \$266,000 in private pension and Social Security income during his retirement years. In contrast, the retired federal bureaucrat gets

\$542,000. If the pre-retirement salary is assumed to be \$50,000 a year, the private-sector pensioner receives \$398,000, while the retired bureaucrat gets \$1,085,000!

In the Civil Service, between 1977 and 1981, automatic cost-of-living adjustments (C.O.L.A.s) ballooned pensions by fifty-five percent. All this naturally had the effect of a large-scale exodus of experienced personnel from government employment to take advantage of these bountiful retirement benefits. In 1979 only twenty percent of those federal employees who were eligible chose to retire, whereas in 1980 the percentage jumped to sixty-five percent. The Grace Commission offered several suggestions to correct this system which encourages early retirement, increasing years of payouts, and a growing burden on the taxpayers.

The problem of excessive retirement incentives is even worse in the Armed Forces. Retirement income for military personnel is at least *six times* as great as the best private-sector pension plans. At a pre-retirement salary of \$50,000 a year, an officer in the military can retire early and receive some \$1,679,000 from his military pension alone. Even after only twenty years, the retiree can hang up his uniform at half his pre-retirement salary. By waiting another ten years he gets full pension. This means that the most experienced and highly trained people in the military are encouraged to retire early and live it up on generous benefits. Generally the retired military man goes into a second career, giving him access to Social Security and a private pension plan on top of his generous military retirement income.

Among other recommendations, the Grace survey calls for the cost-

of-living adjustments for federal pensions to be reduced to only seventy percent of the Consumer Price Index for former federal employees without access to Social Security, and scaled down to thirty-three percent of the inflation level for those (such as retired military personnel) who obtain access to Social Security. Grace also thinks the age at which government workers and military personnel can retire at full benefits should be higher.

The alterations in the federal retirement systems suggested by the Grace Commission would save the taxpayers about \$20 billion a year over the next three years, and many times that amount over the next decade. And bear in mind that, even if by some miracle all of the Commission's recommendations for the retirement plans were implemented, federal bureaucrats would still be getting more lavish pensions than private workers. But it is doubtful that these proposals for trimming federal pensions will ever get serious attention. A vast army of bureaucrats has a vested interest in perpetuating such largesse. And let's not forget that Congressmen and Senators also have extremely generous retirement plans. Calls for savings by cutting Civil Service retirement pay would no doubt be met with calls for the same to be meted out to our elected representatives.

The Grace Commission found that Congress often interferes with attempts to eliminate waste and unnecessary operations. For example, the Defense Department maintains some four thousand military bases throughout the continental United States. Only 312 of these are considered by the Pentagon to be vital to national security. The Defense Department wants to save money by closing down unnecessary and inef-

ficient bases. But Congress refuses to permit this. Our Congressmen jealously guard these tax-wasting facilities as subsidies for their Districts. The survey concluded: "Congressional barriers render it almost impossible to close unneeded military bases. Yet the cost of maintaining them ranges from \$2 billion to \$5 billion annually."

The example above is only one of 150 cases of congressional opposition to needed reforms and economies in government that the Grace team enumerated in its Report to the President. Originally, the Report named the names of the big spenders in Congress and cited specific boondoggles. Realizing that they would have to have the cooperation of Congress to get even some of their recommendations passed, the Grace volunteers deleted those details from the final Report.

We sometimes forget that the Pentagon is a vast socialist bureaucracy, but no one will be surprised that it was found to be rich in waste and inefficiencies. The Grace survey has provided a wealth of detail. For instance, each branch of the military has a separate heavy maintenance program, but a joint-service operation shared by the branches would save more than \$196 million a year. Underuse of military depots costs the taxpayers over \$39 million each year. Commissaries (military food stores) subsidized by the taxpayers are losing \$320 million a year under management of the Defense Department. The Grace bloodhounds propose that the government save hundreds of millions of dollars a year by contracting out the management of these facilities to private enterprise. But, instead of considering such reforms, the military is building even more subsidized supermarkets and expanding those served

Spendthrift politicians claim the deficit can be eliminated by raising taxes. But history shows that tax increases only encourage more spending. And even if all taxable income beyond \$75,000 were confiscated the government would get only \$17 billion, enough to run the bureaucracy for a mere seven days.

to include not only current and former military personnel but also "former spouses" of veterans!

Of the Defense Department's \$240 billion budget, about \$13 billion is spent on spare parts. The Grace-led team found incredible waste, inefficiency, and abuse in the procurement of these. Over \$2 billion each year could be saved if the Pentagon would maintain standard inventories. Meanwhile, the Navy often has no way of knowing how to access needed spare parts in its possession because of the total breakdown of its inventory system.

Then there is the penchant for purchasing items on a year-by-year basis. The Air Force will decide to buy a hundred jet fighters over a five-year period, but procure them through one-year contracts one year at a time. If the military used multi-year contracting for procurement, reducing unit costs, savings from this for the Air Force alone could total nearly \$2.5 billion over the next three years.

The problem of inefficient procurement goes well beyond the military, of course. About twenty percent of the entire federal Budget (nearly \$200 billion for Fiscal 1983) goes for buying supplies and equipment. In addition, about \$90 billion worth of inventory is stored in hun-

dreds of locations all over the country. Federal procurement is performed by an army of 130,000 federal officers who work out some 18 million "procurement actions" annually. How good a job do they do? Well, crazy as it may seem, last year the Navy paid \$100 for aircraft simulator parts that cost a nickel at any local hardware store. In fact, the Pentagon bought three-cent screws at \$91 each. The Navy's Training Equipment Center in Orlando paid \$511 for light bulbs that cost sixty cents in the grocery store. Multiply this sort of thing by the thousands of parts used in our weapons systems and you are talking about very large sums of money.

Many believe that there is competitive bidding among producers for government contracts. But it turns out that only six percent of major weapons-systems contracts are competitive. The figure is less than ten percent for the provision of spare parts. What usually happens is that a company wins a government contract by underbidding what few others enter the field, then the cost is jacked up under the excuse of "cost overruns." The original firm becomes the monopoly supplier of parts for decades, and consequently has little incentive to worry about cost or quality control. Because of their

cozy relationship with the political sector, such corporations act like extensions of the federal bureaucracy. Merely by relying on at least two sources for all Navy weapons systems and spare parts, the Grace Report claims, we could save the taxpayers more than \$340 million a year. And that's just for the Navy!

According to the Grace Commission, more than \$28 billion could be saved over the next three years in federal procurement just by tightening procedures and using common-sense business practices.

But common sense seems to be rather scarce in the federal bureaucracy. In the area of cash management, for example, the government misses many opportunities that are standard practice among businessmen. The simple practice of putting idle funds into interest-bearing accounts could earn millions annually for the government; but it doesn't occur to bureaucrats to do this because there is no incentive in a state-run system for maximizing profit and minimizing losses.

According to Grace, some \$635 million could be saved if the government used direct deposit for all the millions of payments it makes each month. This would allow the money to remain on deposit longer and reduce the "float" time. The Commission proposed several ways to speed up governmental cash flow through improved management techniques and the use of electronic funds transfers.

Grace also wants the government to crack down on the prolific Welfare fraud through the use of computer matching between departments. And the Department of Education could generate more than \$4.68 billion in additional cash flow and \$1 billion in interest savings over three years simply by making loans to

students in timed increments rather than in lump sums.

The Grace experts found that the government could save up to \$79 billion in three years if it implemented cash-management procedures like those used in the private sector.

The taskforce assigned to study the Veterans Administration identified cost savings and revenue enhancements that could be had in that agency totaling \$3.3 billion over three years. These involved a variety of reforms, including using private-sector practices in the collection of debts, more efficient means of discovering and eliminating overpayments of benefits, and improving efficiency of V.A.-administered hospitals and other programs now rife with waste.

Recommended improvements in the management practices related to the V.A.'s mortgage-guarantee program could net a savings of some \$356 million. The way it operates now, notes the Commission, "the V.A. voluntarily purchases homes at foreclosure sales in 95 percent of the cases where a V.A.-guaranteed mortgage goes into default. By the time these homes are subsequently resold, the V.A. loses \$6,700 per home due to sales commissions and property management expenses. If the V.A. would simply honor the guarantee (which is its option) and not purchase the 10,150 units projected to go into foreclosure in FY 1983, the savings potential would be \$68 million."

When the Veterans Administration does get around to selling its homes, the survey states, "the V.A. holds the mortgage on the properties for an undetermined period," which "subjects the Government to the vagaries and risks of the financial markets, of which it need not be a part." If the V.A. were to put together and sell such mortgages in the

secondary markets shortly after acquisition of the properties, this could yield about ninety cents for every mortgage dollar sold, compared to only fifty-eight cents now. "With average annual mortgage acquisitions of about \$900 million," predicts the taskforce, "it would follow that annual revenues of about \$288 million are possible through our recommended program."

It should be observed that the recommendations made by the V.A. Taskforce could nearly all be undertaken immediately by the Veterans Administration itself without further action by either Congress or the President. This is not the case with all the Grace Commission's proposed reforms, however. At least two-thirds would require congressional action. Which is why it is our belief that implementation of the Grace proposals should be made the Number One issue of the 1984 congressional elections.

A substantial percentage of the Grace Commission recommendations relate to the myriad federal transfer programs and to subsidies of one kind or another. In 1983 the U.S. Government doled out more than \$500 billion to individuals, businesses, and other government agencies. The Department of Health and Human Services, alone, gives away nearly forty percent of what the entire government spends — some \$269 billion for Fiscal Year 1983. Not counting such mammoth transfer programs as Social Security and V.A. benefits, the U.S. Government operates sixty-four different Welfare programs costing around \$100 billion a year. That figure is continually rising.

As of last year, there were an estimated 22 million Medicaid recipients, 19 million Food Stamp users, 11 million recipients of Aid to Fam-

ilies with Dependent Children, and 4.1 million Supplemental Security Income beneficiaries. The Grace survey found that cheating in the Food Stamp program, alone, amounted to at least \$1 billion in 1981 — about ten percent of the entire program. One man who happened to get caught was found to be on Food Stamp rolls in thirteen different counties in five states! By implementing a few Grace recommendations, many more such freeloaders could be caught and removed from the dole, netting substantial savings.

Meanwhile, \$80 million a year is lost in the Aid to Families with Dependent Children (A.F.D.C.) program due to mispayments made by the administering states. And an estimated 206,100 aliens living outside the United States collect U.S. Social Security benefits, with the average alien family receiving \$24 in benefits for every dollar paid in F.I.C.A. taxes. This should be stopped.

The Commission also criticized the fact that thirty-four percent of Food Stamps go to people who are above the official poverty level, and that most of the subsidized mortgage loans made by the government have gone to Americans who could have bought homes without such assistance. In fact, some fifty-three percent of those receiving such loans were among the most affluent families in their states, with many making over \$50,000 a year. And such easy loans from the government to help some people result in higher mortgage rates for everyone else who would like to buy a home.

The Grace people were especially concerned that the Social Security chain letter has a massive unfunded liability which continues to grow despite the temporizing of the President's bipartisan commission. Payroll taxes will continue to rise to even

more agonizing levels. The system is a cruel hoax on the elderly and an excruciating burden on taxpayers, yet at least \$76 billion in Social Security payments go to senior citizens who are living comfortably above the poverty line. The Grace Commission believes that this \$76 billion should be saved by instituting a means test.

Over the projected three-year term, about \$59 billion could be saved through better management practices in the government's subsidy and Welfare programs, according to Grace. Tightening eligibility, consolidating the now-separate Welfare schemes into one coordinated program, and improving agency accounting systems are among the suggestions offered by the Grace examiners.

While there are limits to what applying private management practices to political operations can achieve, many functions now performed badly by government itself could at least be contracted out to private firms for less expensive and more efficient results. The Grace Commissioners specified instances in which this could be done, netting at least \$28.4 billion over three years in estimated savings. For example, when the Veterans Administration constructs one of its nursing homes it spends \$61,250 per bed to do the job; in contrast, private nursing homes are built at a cost of only \$16,000 per bed. Contracting out would save taxpayers an estimated \$474 million.

The Department of Defense employs 11,700 people to do such jobs as providing food, laundry services, maintenance, firefighting readiness, and so on. The government could contract these functions to private companies, saving at least \$70 million a year for the Pentagon alone.

Obviously we cannot do more here than to cite a few cases and exam-

ples of the nearly 2,500 proposed reforms advocated by the President's Private Sector Survey on Cost Control. The big question now is whether any of this will be acted upon. Keep in mind that at least two-thirds of the Grace Commission's recommendations require Congress to act through legislation. Already, organized efforts are under way in Congress to bar consideration of the Commission's reforms. Senator Edward Kennedy and Congressman Tip O'Neill even tacked a provision onto a recent piece of veterans' legislation which would keep the V.A. itself from acting on the suggestions of the Grace V.A. Taskforce.

No sooner was the Commission Report made public than its savings figures were attacked as too optimistic. Congress hurriedly responded with a 397-page analysis, cooked up by the bureaucrats of the Congressional Budget Office and the General Accounting Office, which disputed the Commission's conclusions. The C.B.O.-G.A.O. report claimed it could identify only \$98 billion in immediate three-year (1985-1987) reductions in federal spending.

First, the admission on the part of Congress that nearly \$100 billion can be cut out of the Budget and slashed from the deficit over the next three years is an accomplishment in itself. Second, the congressional report examined only 396 of the 2,478 Grace recommendations, and admitted that it was unable to calculate the exact dollar savings for some 122 of the 396 proposals which were evaluated. Also, the C.B.O.-G.A.O. analysis looked only at those reforms which would have an immediate impact on the next three years, deliberately ignoring the recommended savings which would come over the next fifteen years.

We hope our membership in the

At least two-thirds of the Commission's recommendations require congressional action, but Congress often interferes with attempts to eliminate waste. If support of the Grace Report were made the cornerstone of the G.O.P.'s campaign strategy for 1984, the big spenders could be identified and turned out of office.

Club of the Perpetually Idealistic won't be revoked if we suggest that the C.B.O.-G.A.O. report was heavily biased by political considerations! The May 1984 issue of *Reason* magazine expressed the political difficulty of effecting the Grace recommendations:

"Every one of the suggested cuts will have to be relentlessly argued, and each will have to cope with the classic imbalance in the political process of budgeting: those who stand to benefit by the spending are a concentrated, coherent, organized group whose members have a large vested interest in the contest and therefore fight effectively; but those who benefit from cuts are the general public, who are diffuse, unorganized, not a coherent group, and therefore virtually unrepresented on the political battlefield. Each taxpayer has relatively little at stake in a single contest, because he or she is bled with a thousand small cuts. It is that structural defect in the political system that makes democratic policies perverse in their results and gives us overgrown and inefficient government at ruinous expense to the economy.

"The Grace Commission does an excellent job documenting examples of unjustifiable government spending, but beyond the suggestion of a

presidential line-item veto and biennial instead of annual budgeting, it has no suggestions for overcoming at their roots the political disincentives to prudent budgeting. Maybe some of the smaller economies can be achieved through their mere documentation, as taxpayers see the sheer numbers and appalling extent of bloated spending. A few good businessmen like Mr. Grace appearing on talk shows and addressing conferences might help. And some feature articles and editorials. It would be nice to think that such action could rein in the federal budget beast. But even a random sampling of the abuses documented by the Grace Commission suggests that the battle to implement them will be fierce."

Fierce, indeed! Even so, the Commission was not permitted to go nearly far enough. As Robert W. Lee pointed out in his comment on the Grace Commission for the September 21, 1983, issue of *The Review Of The News*, the Commission's detractors were blasting away even before there was any Grace Report to examine:

"... Typical is the claim of some Grace Commission critics, demonstrating their anti-capitalist mentality, that the corporate executives involved in the study sought to hamstring those federal agencies

which regulate their firms in one way or another. To the contrary, each taskforce went out of its way to *avoid* any justified charge that it was attempting to hinder, abolish, or otherwise neutralize the agencies or departments involved. Indeed, 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 Committee'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."

Since well over ninety percent of what the federal monolith is engaged in doing is either unconstitutional or illegitimate, purists on the Right advocate wholesale elimination of government agencies and entire departments as quickly as possible. After all, Mr. Reagan himself vowed to abolish the Department of Education and the Department of Energy. That would be a good start. And it is true that, looking at the U.S. Constitution, we find no place where the central government is given authority or jurisdiction in such areas as education, energy, agriculture, poor relief, industrial safety, pensions, transportation, or anything other than national defense and a few other auxiliary functions.

The great Thomas Jefferson warned the American Republic: "I place economy among the first and most important virtues, and public

debt as the greatest of dangers to be feared. To preserve our independence, we must not let our rulers load us with perpetual debt If we can prevent the government from wasting the labor of the people, under the pretense of caring for them, they will be happy."

The Grace Commission's suggestions are sound as far as they go, but we need a nuclear-powered chain saw to cut government down to its proper role of protecting our lives and properties from violence, fraud, and invasion. Today, it is the federal government itself which is the biggest violator of our rights to life, liberty, and property. King George III was a libertarian in comparison to our present bureaucratic tyranny.

But let's not wait around expecting Ronald Reagan to start up the chain saw. He had his chance right after he took office in January of 1981 and he failed to do so. American socialism is therefore still alive and well under the Reagan Administration. But the President *could* make the Grace Report the cornerstone of the G.O.P.'s campaign strategy for the 1984 elections. He could go on the offensive and demand the specific cuts enumerated by Chairman Grace, a Democrat, challenging the big spenders in Congress to join the effort or be turned out in November. This whole issue could be the Republican equivalent of the Left's call for a "nuclear freeze." Only by making the "Grace Freeze" a hot political issue can the President and his party go to the electorate with hope of being believed. As things stand, we think the people share the view offered by Joseph Sobran in his syndicated-column for May seventeenth. Mr. Sobran wrote:

"Conservative regimes function primarily to consolidate the gains of

their socialist predecessors. A conservative president may make a marginal difference for the better, but no matter what he would like to do, the power formations already in place always manage to tighten their grip under his administration. Moreover, since he can do only a few things at a time, they take advantage of the situation and claim a 'bipartisan' sanction for any program he doesn't get around to repealing."

Columnist Sobran illustrates this pattern as follows:

"Under President Eisenhower, the New Deal was able to gain a legitimacy it never quite had under President Roosevelt or President Truman. Under President Nixon, Great Society programs were enormously expanded, inflation zoomed, and the country assumed that whatever Mr. Nixon hadn't reversed was irreversible. Under Mr. Reagan, federal spending has continued growing at the same rate as under President Carter, and Mr. Reagan has given up any real hope of reducing it."

Of course, one can question whether those Presidents were ever really Conservatives in the first place; but the point to keep in mind is that, despite political rhetoric, the system seems to thwart any proclaimed differences between the two major parties. Sobran observes: "The Republican Party has virtually ceased to exist. It was inept in opposition and it is incompetent in wielding power. It can only promise to do what the Democrats do, only to do

less of it. A Republican is in effect a reluctant socialist."

After staring in horror at the tax and spending increases that have taken place during the first three years of the Reagan Administration, it is hard to disagree. As columnist Sobran goes on to observe: "However they denounce each other, both parties tacitly (even unconsciously) agree to leave nine out of 10 of the system's features untouched. Inflation — a constant breach of faith — is now accepted as a permanent feature of democracy. Those who have learned to take advantage of it even demand it.

"In theory, under the Constitution, the people's representatives could abolish frauds such as Social Security tomorrow. But there is a 'bipartisan' consensus to treat such contingent institutions as necessary; to pretend that frauds of long standing are 'commitments,' to act as if voluntary decisions to sustain familiar evils are somehow pre-terminated; and to regard inherently controversial things as if they are sacred traditions."

To reverse this trend, and make it possible to repeal the ever-consolidating socialist advances, what is needed is something extraordinary. We think a heavy G.O.P. commitment to implementing the proposals of the Grace Commission could be that something. Let Republican candidates pick up the Grace banner, and the people will support them in unprecedented numbers. ■ ■

CRACKER BARREL

- The Soviets look upon diplomacy as the art of saying "Nice doggie, nice doggie" until they can find a club.
- The Hilton Hotel chain has a fleet of nine planes. This ranks it Number 43 among the world's air powers, just behind Nepal which is Number 44. And Hilton isn't even a member of the United Nations.
- In 1961 a painting by the French artist Henri Matisse hung upside down for forty-seven days in the New York Museum of Modern Art before somebody noticed and reported it.