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GRACE COMMISSION
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In response to numerous requests for information on the Grace Commission (formally known as the President's Private Sector Survey on Cost Control) and its reports, or for a copy of the Summary Report issued on January 12, 1984, we have compiled the enclosed packet of materials. This includes statements from the Grace Commission summarizing the 2,478 recommendations on ways to save \$424 billion of "waste" in the Federal Government over three years, as outlined in the 656-page, two-volume Summary Report. This Info Pack also includes a packet of newspaper and magazine articles which provide additional information on the Grace Commission and its Summary Report.

A Fact Sheet provides information on where copies of the Grace Commission's Summary Report and its 36 Task Force Reports and 11 Special Reports may be purchased. An address is provided for the Government Printing Office (GPO), where constituents may place orders for copies of the Reports, or obtain a list of Federal depository libraries, which may have reference copies of the reports available for use.

Members of Congress may obtain more information on this topic by calling CRS at 287-5700.

We hope this information will be helpful.

Congressional Reference
Division



THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

FACT SHEET INFORMATION AND REPORT AVAILABILITY AFTER PPSSCC

PPSSCC expects to close its offices in Washington on January 31, 1984. Reports will be available, however, at the

Central Reference and Records Information Facility
Hoover Building of the Department of Commerce
14th and Constitution Avenue NW
Room 6628
Washington D.C. 20230
Contact: Geraldine P. Leboo/Phyllis D. Lambry
(202) 377-3271

Also, the Government Printing Office has reports available at specific Government Depository libraries across the country. For information of depositories containing reports nearest you, contact:

Superintendent of Documents
U.S. Government Printing Office
Washington, D.C. 20402
(202) 783-3238

In addition, Janet Colson, Fred Bona or Chris Tofalli of W. R. Grace & Co. will help answer any questions:

Fred Bona/Chris Tofalli
W. R. Grace & Co.
1114 Avenue of the Americas
New York, NY 10036
(212) 819-6000

Janet Colson
W. R. Grace & Co.
1511 K Street, NW
Washington, D.C. 20005
(202) 628-6424

1730 Pennsylvania Avenue • Suite 450 • Washington, D.C. 20006
(202) 466-5170

A COMPLETE LIST OF THE GRACE COMMISSION'S 36 TASK FORCE REPORTS
AND 11 SPECIAL REPORTS

A listing of the 36 Task Forces follows:

Agriculture	Health & Human Services-Public Health
Air Force	Service/Health Care Financing
Army	Administration
Automated Data Processing/Office Automation	Health & Human Services-Social Security
Boards/Commissions-Banking	Administration
Boards/Commissions-Business Related	Housing* & Urban Development
Commerce	Interior
Defense-Office of Secretary	Justice
Education	Labor
Energy (including Federal Energy Regulatory	Land, Facilities and Personal Property
Commission and Nuclear Regulatory	Low Income Standards and Benefits
Commission)	Navy
Environmental Protection Agency/Small	Personnel Management
Business Administration/Federal	Privatization
Emergency Management Agency	Procurement/Contracts/Inventory
Federal Construction Management .	Management
Federal Feeding	Real Property Management
Federal Hospital Management	Research and Development
Federal Management Systems	State/AID/USIA
Financial Asset Management.	Transportation
Health & Human Services-Department Management/	Treasury
Human Development Services/ACTION	User Charges
	Veterans Administration

Management Office Selected Issues Reports were as follows:

Vol. I: Publishing, Printing, Reproduction, and Audiovisual Activities
Vol. II: Travel and Traffic Management
Vol. III: Financial Management in the Federal Government
Vol. IV: Wage Setting Laws: Impact on the Federal Government
Vol. V: Anomalies in the Federal Work Environment
Vol. VI: Federal Retirement Systems
Vol. VII: Information Gap in the Federal Government
Vol. VIII: The Cost of Congressional Encroachment
Vol. IX: Federal Health Care Costs
Vol. X: Opportunities Beyond PPSS
Vol. XI: Federally Subsidized Programs

Source: President's Private Sector Survey on Cost Control. A Report to the President. January 1984. 2 vol., 656 p.

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THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

EMBARGOED FOR RELEASE
10 a.m., Thursday, January 12, 1984

CONTACTS:

Murray Sanders/Chris Tofalli
President's Private Sector Survey
On Cost Control
(202) 466-5170

Fred Bona
W. R. Grace & Co.
(212) 819-6000

PRESIDENT'S COST CONTROL COMMISSION DISCLOSES \$424 BILLION IN WASTE

WASHINGTON, January 12--Waste in the federal government amounts to at least \$424 billion over three years, disclosed businessman J. Peter Grace, chairman of the President's Private Sector Survey on Cost Control, a businessmen's study commission of efficiency in government.

"The 2,478 cost-cutting, revenue-enhancing recommendations we have made can be achieved without raising taxes, without weakening America's needed defense build-up and without in any way harming necessary social welfare programs," Mr. Grace will say in a report to President Reagan, when he formally presents the 656 page, two-volume report to the President at the White House on Monday, January 16th.

"Because we are starting from a deficit of \$195 billion," Mr. Grace will stress, "every dollar we can stop spending is a dollar that the government does not have to borrow."

Without implementing the savings of the Private Sector Survey recommendations, and assuming that outlays and revenues increase at rates comparable to the 1975 to 1983 experience, the deficit in year 2000 becomes about \$2 trillion. If the

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Survey's plan is implemented, the deficit would be only \$37 billion in 2000. If all the savings recommendations are phased in, the cumulative savings through the year 2000 would be \$10,532,000,000,000--\$10.5 trillion--taking into account inflation and compound interest. That would be \$130,000 per current taxpayer.

A key portion of the report lists the equivalent number of median income families that it would take to pay equivalent taxes to cover the Private Sector Survey savings. The \$424 billion in savings and revenue enhancements of the Survey is equal to the taxes over three years paid by 63,773,820 median income families.

"These projections," Mr. Grace will point out to President Reagan, "are the result of very careful study and drove us to seek out every possible savings opportunity, 'like tireless bloodhounds,' as you requested." The report, supported by 1.8 million pages of back-up, highlights findings from the original 36 task force reports on federal departments, agencies and functions that cross-cut the entire government, in addition to 11 special studies on other important issues. In addition to the \$424 billion of savings and revenue enhancements, the Survey identified cash accelerations of \$66 billion with concomitant interest cost savings.

An implementation and review process has been in place within the White House for five months. Each Private Sector Survey recommendation has been placed on a computer sheet for review by departments, agencies, OMB, and White House and Survey representatives.

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System failures (\$160.9 billion) and personnel mismanagement (\$90.9 billion) together comprise well over one-half of the total savings possibilities, the report will say, and "they are at the foundation of inefficiencies in the Federal Government. Program waste (\$151.3 billion), which accounts for 37.9 percent of the savings recommendations, would also be substantially eliminated if proper systems and personnel management were in place," Mr. Grace says in a letter to President Reagan. "This underscores one of our most important recommendations, which is the establishment of an Office of Federal Management in the Executive Office of the President," he adds. "This Federal Government top management office would include Office of Management and Budget, General Services Administration and Office of Personnel Management and have government-wide responsibility for establishing, modernizing and monitoring management systems. If it is set up and staffed properly, it could go a long way to avoid in the future the thousands of deficiencies and examples of waste that we have identified," Mr. Grace says.

Mr. Grace, who is chairman and chief executive officer of W. R. Grace & Co., also will urge the President, "to resist attempts to balance the budget by increasing taxes. Median family income taxes have increased from \$9 in 1948 to \$2,218 in 1983 or by 246 times." Mr. Grace warned: "This is runaway taxation at its worst."

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The commission found that: one third of all income taxes is consumed by waste and inefficiency; one third is not collected due to the underground economy; and 100 percent of all income taxes are absorbed by interest plus government contributions to transfer payments.

Of the \$424 billion of savings and revenue enhancements, some \$94 billion are from defense-related areas. The Survey studied the small as well as the major items of cost savings, items of broad national impact as well as those of a more localized nature. A few random examples are:

In the Northwest, the Federal Power Marketing Administration is selling subsidized power at one-third of market rates. If the Federal power were priced at market, there would be a three-year increase in revenues of \$4.5 billion, which equates to the three-year personal income taxes of 676,000 median income American families who are thus subsidizing a discrete group in one part of the country.

The Civil Service and Military Retirement Systems provide to participants three times and six times the benefits, respectively, of the best private sector plans. The government's civilian and military employees retire at an earlier age, typically age 55 and 40, respectively, versus 63 to 64 in the private sector, with substantially more liberal benefit formulas than their private sector counterparts. In addition, the pensions of Federal retirees are fully indexed for inflation--a rarity in the private sector. Modifying major

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Federal pensions to provide benefits comparable to those of the best private sector plans, slightly better in the case of military pensions, would result in three-year savings of \$60.9 billion, equivalent to the three-year income taxes of 9.2 million median income families.

A relatively small item in the overall, but representative of many, is the prohibition of competitive bidding on the movement of military employees' household goods to/from Alaska and Hawaii, despite a Department of Defense test showing that competitive bidding would reduce costs by as much as 26 percent. Elimination of this provision would save \$69.5 million in three years, equivalent to the three-year income taxes of 10,400 median income families.

The Survey found Congressional interference to be a major problem. For example, because Congress obstructs the closing of bases that the military wants to close, the three-year waste is \$367 million. In total, PPSS recommends three-year savings of \$3.1 billion by closing excess military bases, equivalent to the three-year income taxes of 466,000 median income families.

Other major findings of the Survey include:

Federal automated data processing activities were found to be disorganized and inefficient; the Survey believes that certain government activities and functions that are similar to commercial businesses should have user charges levied and be conducted in a business-like manner rather than favoring discrete segments of the population; numerous functions and services currently performed by the federal government could

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more efficiently and cost-effectively be performed outside; the Private Sector Survey notes that benefits to individuals appear to be misdirected and are not being received by intended recipients.

The Presidential commission has been in operation since June of 1982. The 161 top executives were recruited from private business and other organizations to chair and staff 30 task forces with more than 2,000 of their professionals. In addition 11 studies of important issues such as subsidies and retirement were also completed. More than 850 companies and individuals donated people, money and/or services and equipment with a value totalling more than \$75 million. Not one cent came from the federal government.

The recommendations of the Survey can be implemented by Presidential authority (27 percent) with the balance (73 percent) requiring Congressional authority. Mr. Grace notes, "the project was structured and staffed to effect enduring improvement so that our children and grandchildren would not inherit a situation that would be devastating to them and to the values of our economic and social system."



THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

January 12, 1984

The Honorable Ronald Reagan
President of the United States
The White House
Washington, D.C.

Dear Mr. President,

Following your directive to identify and suggest remedies for waste and abuse in the Federal Government, the President's Private Sector Survey (PPSS) offers recommendations which would save:

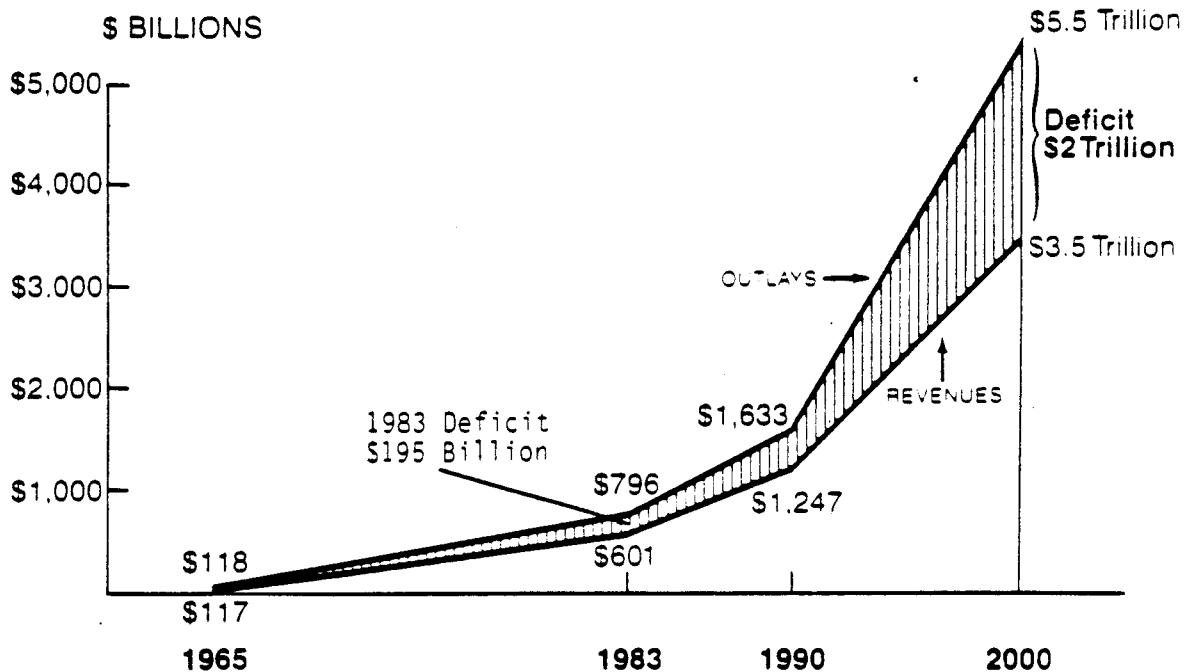
- o \$424 billion in three years, rising to
- o \$1.9 trillion per year by the year 2000.

These proposals would transform the Federal debt situation as follows:

	<u>Federal Debt</u> (\$ trillions)		<u>Annual Interest</u> <u>on Federal Debt</u> (\$ billions)	
	<u>Without PPSS</u>	<u>With PPSS</u>	<u>Without PPSS</u>	<u>With PPSS</u>
1990	\$ 3.2	\$ 2.0	\$ 252.3	\$ 89.2
1995	6.2	2.2	540.9	62.3
2000	13.0	2.5	1,520.7	75.1

You asked the American people to help you get the Government "off their backs." If the American people realized how rapidly Federal Government spending is likely to grow under existing legislated programs, I am convinced they would compel their elected representatives to "get the Government off their backs." In our survey to search out ways to cut costs in the Government, great emphasis was placed on the spending outlook, which is as follows:

Federal Revenues, Outlays and Deficits



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).

Mr. President, these projections are the result of a joint effort between PPSS and a leading U.S. economic forecasting firm. They are the result of very careful study and drove us to seek out every possible savings opportunity, "like tireless bloodhounds," as you requested.

In the course of the search by our 36 Task Forces, chaired by 161 top executives from around the country and staffed by over 2,000 volunteers that they provided, 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 alternative deficit of \$10.2 trillion in the decade of the 1990's if no action is taken.

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 build-up, and without in any way harming necessary social welfare programs.

Because we are starting from a deficit of \$195 billion, every dollar we can stop spending is a dollar that the Government does not have to borrow. With future Government borrowing costs at 11 percent (versus 10.75 percent now and 14.5 percent when you took office) and inflation taken at 6 percent per year over the longer run, these savings compound quickly.

Applying these interest and inflation rates, the result is that a dollar saved today accumulates to \$32 over 12 years and \$71 over 17 years. Thus, any potential saving made, as compared to not making the saving, translates into a difference in cumulative spending of 32 times that amount through 1995 and 71 times that amount through the end of the century.

Therefore, \$100 billion in reduced Government spending in year one equates cumulatively to \$7.1 trillion in the year 2000. And since borrowings are decreased by this amount, so will the national debt decrease.

This is, of course, a horrendous prospect. If the American people understood the gravity of the outlook, they would not, I believe, support representatives who might let it happen.

Mr. President, you have been so correct in resisting attempts to balance the budget by increasing taxes. The tax load on the average American family is already at counterproductive levels with the underground economy having now grown to an estimated \$500 billion per year, costing about \$100 billion in lost Federal tax revenues per year.

The size of the underground economy is understandable when one considers that median family income taxes have increased from \$9 in 1948 to \$2,218 in 1983, or by 246 times. This is runaway taxation at its worst.

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 enterprise, would only be sufficient to run the Government for seven days.

Resistance to additional income taxes would be even more widespread if people were aware that:

- o One-third of all their taxes is consumed by waste and inefficiency in the Federal Government as we identified in our survey.
- o Another one-third of all their taxes escapes collection from others as the underground economy blossoms in direct proportion to tax increases and places even more pressure on law abiding taxpayers, promoting still more underground economy -- a vicious circle that must be broken.
- o With two-thirds of everyone's personal income taxes wasted or not collected, 100 percent of what is collected is absorbed solely by interest on the Federal debt and by Federal Government contributions to transfer payments. In other words, all individual income tax revenues are gone before one nickel is spent on the services which taxpayers expect from their Government.

Our survey studied the small as well as the major items of cost savings, items of broad national impact as well as those of a more localized nature. I believe you will be interested in a few random examples of what we found:

- o In the Northwest, the Federal Power Marketing Administration is selling subsidized power at one-third of market rates. If the Federal power were priced at market, there would be a three-year

increase in revenues of \$4.5 billion, which equates to the three-year personal income taxes of 676,000 median income American families who are thus subsidizing a discrete group in one part of the country.

- o The Civil Service and Military Retirement Systems provide to participants three times and six times the benefits, respectively, of the best private sector plans. The Government's civilian and military employees retire at an earlier age, typically age 55 and 40, respectively, versus 63 to 64 in the private sector, with substantially more liberal benefit formulas than their private sector counterparts. In addition, the pensions of Federal retirees are fully indexed for inflation -- a rarity in the private sector. Modifying major Federal pensions to provide benefits comparable to those of the best private sector plans, slightly better in the case of military pensions, would result in three-year savings of \$60.9 billion, equivalent to the three-year income taxes of 9.2 million median income families.
- o A relatively small item in the overall, but representative of many, is the prohibition of competitive bidding on the movement of military personnel household goods to and from Alaska and Hawaii, despite a DOD test showing that competitive bidding would reduce costs by as much as 26 percent. Elimination of this provision would save \$69.5 million in three years, equivalent to the three-year income taxes of 10,400 median income families.
- o We found Congressional interference to be a major problem. For example, because Congress obstructs the closing of bases that the military wants to close, the three-year waste is \$367 million. In total, PPSS recommends three-year savings of \$3.1 billion by closing excess military bases, equivalent to the three-year income taxes of 466,000 median income families.

Mr. President, these are just a few of the absurd situations that we found throughout the Government that add up to billions of dollars per year and where the opportunities for savings are clearly available.

Some of the recommendations made by PPSS have been made before. Others are entirely new. Regardless of their origins, the focus must now be on implementation. The current economic trends are simply too serious to delay action any longer.

PPSS has submitted 36 major Task Force reports and 11 studies on special subjects such as subsidies and retirement. In total, these reports substantiate three-year ongoing savings of \$424.4 billion, plus cash accelerations of \$66 billion. These are all analyzed and supported in great detail. Capsuled in terms of the functional problems to which they relate, the savings are as follows:

PPSS Savings Recommendations

	<u>\$ Billions</u>	<u>% of Total</u>
Program Waste	\$ 160.9	37.9%
System Failures	151.3	35.7
Personnel Mismanagement	90.9	21.4
Structural Deficiencies	12.7	3.0
Other Opportunities	8.6	2.0
Total	<u>\$ 424.4</u>	<u>100.0%</u>

These data confirm our findings that system failures and personnel mismanagement together comprise well over one-half, 57.1 percent, of the total savings possibilities. They are at the foundation of inefficiencies in the Federal Government. Program waste, which accounts for 37.9 percent of the savings recommendations, would also be substantially eliminated if proper systems and personnel management were in place.

The above underscores one of our most important recommendations, which is the establishment of an Office of Federal Management in the Executive Office of the