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GRACE COMMISSION RECOMMENDATIONS

HEARING

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

FEBRUARY 8, 1984

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GRACE COMMISSION RECOMMENDATIONS

WEDNESDAY, FEBRUARY 8, 1984

SENATE FINANCE COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:01 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Robert J. Dole (chairman) presiding.

Present: Senators Dole, Roth, Chafee, Symms, Long, Bentsen, Baucus, and Bradley.

[The press release announcing the hearing and the prepared statements of Senators Dole, Grassley, Baucus, and the report by the Joint Committee on Taxation follow:]

[U.S. Senate Committee on Finance Press Release, Jan 16, 1984]

FINANCE COMMITTEE SETS HEARING ON GRACE COMMISSION RECOMMENDATIONS

Senator Robert J. Dole, Chairman of the Senate Committee on Finance, announced today that the Committee would conduct a public hearing at 10:00 a.m., Wednesday, February 8, 1984, on the proposals of the President's Private Sector Survey on Cost Control.

J. Peter Grace, chief executive officer of W. R. Grace & Co. and chairman of the Private Sector Survey on Cost Control, will testify at the hearing. Also testifying at the hearing will be a representative of the Administration.

The Private Sector Survey on Cost Control, commonly referred to as the Grace Commission, unveiled 2,478 recommendations on January 10 to cut $424 billion from Federal deficits over three years.

"Recommendations saving $115 billion could be implemented immediately by the Administration, while the remaining $309 billion in savings requires Congressional action," Senator Dole said. "With yearly Federal deficits projected at $200 billion for the next several years, both Congress and the Administration owe it to the American taxpayer to give the Grace Commission's report serious attention."

The Finance Committee Chairman said, "The Grace Commission recommendations would have a significant impact on programs under the jurisdiction of the Committee. They include placing a cap on Federal spending for health care, means-testing all welfare programs by making benefits subject to income taxation, and combining the administration of welfare programs. The Grace Report also contains many other proposals much more technical in nature."

"The Committee on Finance welcomes the opportunity to hear from Mr. Grace and other members of the Private Sector Survey on Cost Control. We are also anxious to hear from Administration officials on their response to the proposals of the Grace Commission," Senator Dole said.

OPENING STATEMENT OF SENATOR DOLE

Today we welcome J. Peter Grace, Chairman of the President's Private Sector Survey on Cost Control, to the Finance Committee. Last month, after nearly two years of study, the Grace Commission, as it has come to be known, issued its final report. Consisting of 36 task forces and 11 special studies, the report offers 2,478 suggestions on how to slice an estimated $424 billion from federal budget deficits over three years. Our focus today will be on those proposals for Finance Committee programs that generate what we estimate is approximately $120 billion of that total.

Cutting waste and inefficiency in government should always be a priority of Congress and the Administration. We cannot justify raising taxes or cutting worthwhile spending programs until we are first certain that everything possible is being done to spend the taxpayer's dollar wisely. A thorough review of Federal management practices would have been a good idea even if the budget were in balance. But trimming unnecessary outlays takes on a special urgency when we expect to add some $1 trillion to the public debt between now and 1989.

It is hardly surprising that a report that proposes to shave the government's budget by some $400 billion over three years should generate some controversy. In recent days, media attention has focused on proposals that would cut back Federal retirement benefits, eliminate federally subsidized power, subject transfer payments to income taxation, and cap medicare and medicaid payments, to name just a few. The implication is that since such proposals are unlikely to be enacted, the entire report can be ignored.

But it seems to me that dismissing the Grace Commission report on the basis of a handful of the Commission's proposals is unfair. If those who criticize the Commission would study the entire report, I am sure even they would find a number of proposals that make good sense. The Federal Government will spend $925 billion in fiscal year 1985. Could anyone seriously argue that we cannot cut spending, even a little, without endangering the national welfare? I don't believe it.

Unfortunately, there has been little mention about recommendations such as those that seek to improve collection of delinquent taxes, manage cash flow better, require competitive bidding for government contracts, or improve computer operations. These are just a few of the less-exciting, more technical proposals that fill most of the 47 volumes.

Part of the problem is that, because the report is so long and detailed, few have read the report in its entirety. It is difficult to obtain the full set of reports. I am hopeful that as the report is more widely distributed, more people will have an opportunity to make a serious study of its contents.

It would be a terrible wasted opportunity if we allow the Grace Commission report to gather dust, simply because we may not agree with its every provision. The job of the Commission was not to prepare a legislative package that they thought Congress would enact. Rather, it was to identify as many suggestions for efficiency savings as possible, even if some are controversial. We should not criticize the Commission for offering bold suggestions. Our budget problems will require new ideas and solutions.

Congress and the Administration have the task of implementing those suggestions which are most promising. Of course, many of the proposals require only Administrative action. What is needed is a way to get a handle on the Report and its nearly 2,500 recommendations. We hope that today's hearing will be a first step toward that end.

Prepared Statement of Senator Grassley

Mr. Chairman, I am anxious to hear the testimony of the distinguished chairman of the President's Private Sector Survey on Cost Control. The amount of time the various task forces devoted to developing ways to improve managerial accountability and administration of federal programs is most welcome. I would also like to commend Mr. Grace for finally articulating some specific details on the here-to-fore murky budget category commonly known as "budget savings".

It is obvious through the work you have done, that Congress has not been a careful guardian of the taxpayer's money. While I could not support every recommendation in the many volumes developed by the Commission, Congress can clearly benefit from many of your suggestions. I would hope a good number of your recommendations would be implemented, particularly those in the area of eliminating program waste and mismanagement.

The sheer volume of the government programs we have in place is overwhelming. Nearly every individual in this nation is touched by some spending program. As worthwhile and popular as these programs are, too often we forget that these same programs are paid for with hard-earned tax dollars. We in Congress have a firm responsibility to see that those dollars are spent wisely. We cannot contemplate tax increases to pay for additional spending until the programs currently in place are carefully scrutinized.

As Chairman of the Subcommittee on Oversight of the Internal Revenue Service, I have found the President's Private Sector Survey very helpful. As my colleagues know, my subcommittee has been keenly interested in the issue of tax compliance. During the drafting of TEFRA, we focused on the need to add more enforcement personnel and upgrade the computer system. The recommendations of the PPSS are useful to us in assessing if we added sufficient personnel. The PPSS recommends additional hiring because filings have increased 17 percent while personnel has increased only 5 percent. They suggest that two existing service centers should be closed, which will save the Treasury funds on purchasing new computers for them. While generally approving of the Commissioner's choice in new computer system and underscoring the chronic need for new equipment, the PPSS points out that a comprehensive plan for future acquisitions of automated data processing equipment needs to be implemented and this responsibility should be lodged with the Associate Commissioner for Data Services.

The PPSS stresses the need for improved personnel management in the collection of taxes and the appeals process. Some of their suggestions on ways to fight the Tax Court backlog will also be of great benefit to my Commitee.

I was particularly impressed by the PPSS's suggestion to staff the Taxpayer Service offices with retired CPAs, IRS personnel and other tax practitioners. Clearly, we have overlooked a wealth of talent which could benefit both the taxpayer and the government.

In summary, I would like to once again thank our witness for his efforts, and those of the PPSS for giving Congress some fresh ideas on how to reduce the federal deficit. I look forward to hearing his remarks.

Statement of Senator Max Baucus

Mr. Chairman, the number one task, for this Committee and for this Congress, is reducing the federal deficit.

That deficit is so huge, we need all the help we can get.

And the Grace Commission Report certainly will help.

If each and every recommendation were adopted, it would cut the deficit by half.

But let's keep the Report in perspective.

As I understand it, one quarter of the recommendations require Administrative action. I hope our Chairman will encourage the Administration to submit to us a list of the Administrative recommendations that it plans to implement. It would be helpful to have such a list in the next several weeks.

With regard to the other recommendations, the ones that require Congressional action, we should quickly review the non-controversial management recommendations, such as the ones relating to IRS personnel and the Tax Court backlog, and try to enact many of them as part of our deficit reduction package.

Of course, some Commission recommendations are not based on non-controversial management decisions. They are based on highly controversial public policy decisions. These recommendations, of course, will require more debate and will be much more difficult to enact.

Nevertheless, we should not disregard the entire Report just because we disagree with part of it.

We should accept what's plainly constructive, and put it to good use. We can't afford not to.

For this reason, I commend Mr. Grace and the work of the Commission and thank him for joining us this morning.

LEGISLATIVE RECOMMENDATIONS OF THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL WITHIN THE TAX WRITING JURISDICTION OF THE COMMITTEE ON FINANCE

SCHEDULED FOR A HEARING

BEFORE THE

SENATE COMMITTEE ON FINANCE

ON FEBRUARY 8, 1984

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on February 8, 1984, on the proposals of the President's Private Sector Survey on Cost Control (the "Survey"). The hearing will focus on those Survey recommendations within the Finance Committee's jurisdiction.

This pamphlet, prepared by the staff of the Joint Committee on Taxation, provides a summary of the legislative recommendations made by the Survey relating to the revenue laws. The pamphlet does not cover recommendations relating to administrative changes. Similarly, recommendations that have been enacted since the Survey was drafted are not described.

The first part of the pamphlet provides a brief summary background on the Survey and its study. The second part is a summary of the legislative recommendations affecting the revenue laws, including substantive revenue changes, administration of the tax laws, Pension Benefit Guaranty Corporation (PBGC) provisions, and Railroad Retirement revenue provisions. Each recommendation discussed in this pamphlet includes background, prior Congressional action (if any) on the topic, and a statement concerning the impact (cost analysis) of the recommendation. The impact discussion is derived generally from the respective Survey report materials.

I. BACKGROUND ON THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

On June 30, 1982, the President signed an Executive Order which established the President's Private Sector Survey on Cost Control (the "Survey"). An executive committee was named that consisted of 161 volunteers from major private sector business enterprises. Under their leadership, 2,000 additional volunteers from the private sector looked at all aspects of Federal Government activity and prepared 47 reports containing detailed analyses and recommendations. The value of their services plus donated material and equipment is estimated by the executive branch as more than $75 million, and over $3.3 million was donated in cash.

A broad range of private sector activities was represented on the executive committee. A summary classification of the affiliations of the executive committee is:

62 maufacturing and transportation
46 banking, finance and insurance
12 retail operations and other consumer services
7 accounting and law firms
34 all others.

The manufacturing group included producers of heavy durable goods made for other producers as well as manufacturers of consumer products and transportation equipment as well as precision scientific instruments. The other groups include several firms whose activities were not known to the staff and several nonbusiness private activities, such as, education, labor and foundations.

When the President established the Survey, he asked participants to:

(1) identify opportunities for increased efficiency and reduced costs that could be achieved by executive or legislative action;

(2) determine areas in which managerial accountability could be enhanced and administrative controls improved;

(3) suggest short-term and long-term managerial operating improvements;

(4) specify areas in which further study could be justified by potential savings; and

(5) provide information and data relating to governmental expenditures, indebtedness, and personnel management.

Thirty-six task forces were named, twenty-two of which were assigned to study specific departments and agencies. The other fourteen studied functions cutting across government, such as personnel, data processing and procurement.

In each task force report, there is reported an estimate of cost savings, and revenue or cash acceleration opportunities. Because there was some degree of overlapping in the assigned areas of the task forces, the Survey plans to net out the duplications in the preparation of its Final Summary Report of the President. The estimated savings are presented in three-year projections that were based on the first-, second-, and third-year in which partial or full implementation would occur, rather than in terms of specific fiscal years. The savings estimates also include estimates of 10-percent inflation in the second and third years of a projection. Therefore, it would be mistaken to expect the net sum of all first year savings to occur in the same fiscal year. Furthermore, estimated savings or revenue opportunities are described as being of a "planning" quality and not of a "budget" quality. That is, the estimates describe the order of magnitude of savings, including their indirect effects. They do not attempt to state an impact on budget receipts or expenditures with respect to particular years or to use the same assumption as would the Office of Management and Budget or the Congressional Budget Office. Therefore, readers of the task force reports have been advised to avoid drawing conclusions or making dollar projections based on the estimates contained in the reports.

The three-year projections of cost savings and revenues include an estimated interest savings of 10 percent annually when revenue and cost acceleration were involved. Inflation also was assumed to continue at an annual 10-percent rate of increase. The Survey has stated that these rates reflected generally prevailing rates at the time the task force reports were prepared, generally the second half of 1982 and the first half of 1983, but the rates may be adjusted, as necessary, in the Final Summary Report to the President.

Several terms have been used throughout the reports with consistent meanings. They are summarized in the following discussion.

Cost savings include both *cost reduction* and *cost avoidance*. *Cost reduction* refers to reduction of budget expenditures in continuing programs. *Cost avoidance* also applies to continuing programs but refers to avoiding some anticipated costs that could be incurred in the future when expenditures would be budgeted.

Revenues include *revenue enhancement* and *revenue acceleration*. *Revenue enhancement* refers to "increased receipt of existing or new revenues," which generally are ongoing (i.e., permanent provisions). *Revenue acceleration* describes the one-time receipts from activities such as the sale of a fixed asset.

Cash acceleration includes improvement of the cash flow, generally through the acceleration of cash inflows and/or deceleration of cash outflows of continuing programs. Some cash acceleration might be simply a one-time event.

II. LEGISLATIVE RECOMMENDATION AFFECTING THE TAX LAWS

A. Substantive Revenue Changes

1. Tax status of credit unions

Recommendation

"The tax exemption enjoyed by credit unions should be reevaluated by Congress because of the many changes made from their original limited charter." (Task Force on Boards/Commissions—Banking, Recommendation 23-1.)

Background

Under present law, credit unions are exempt from Federal income tax regardless of whether their income is distributed as dividends (sec. 501(c)(14)). Dividends (interest on deposits) paid are includible in the income of the credit union members.

Originally, credit unions were exempted from tax along with savings and loan associations because both credit unions and savings and loan associations operated on a "mutual" basis (i.e., on behalf of and for the benefit of their members), and not as separate profit-seeking entities. In addition, credit unions were generally small, unsophisticated financial institutions, operated by volunteers.

Today, however, there are many large credit unions and credit unions offer services to depositors that are not always distinguishable from those offered by banks and savings and loan associations. Other types of mutual financial institutions, which compete with credit unions, are subject to tax on income not paid out to member-depositors as dividends. Furthermore, the general financial stability of credit unions has been improved in recent years by the advent of central credit unions and the U.S. Central Credit Union, the creation by Congress in 1970 of an insurance fund (NCUSIF), and the creation by Congress in 1978 of a central liquidity fund (CLF). It can be argued that credit unions are in many respects similar to other financial institutions that are not tax-exempt and, thus, that the exemption for credit unions is no longer appropriate.

Prior Congressional Action

The Senate Committee on Finance held a hearing on the Taxation of Banks and Thrift Institutions on March 11, 1983.

Impact

The Survey estimated that the taxation of credit unions would increase revenue by $115 million in 1983, $126 million in 1984, and $138 million in 1985—a total revenue increase of $379 million over the 3-year period.

2. Taxation of the Federal Home Loan Mortgage Corporation

Recommendation

"Congress should amend 12 U.S.C. 1452(a), the Federal Home Loan Act of 1970, to remove the tax exemption." (Task Force on Boards/Commissions—Banking, Recommendation 34-1.)

Background

Under present law, the Federal Home Loan Mortgage Corporation (FHLMC) is exempt from Federal income tax (12 U.S.C. 1452(a)), and has been exempt since FHLMC was established in 1970. FHLMC is also exempt from State and local taxes (except property tax).

Effectively, FHLMC acts as a mortgage company. To the extent that FHLMC is able to maintain a strong financial position and to expand its services, it can be argued that FHLMC should not be treated differently than other mortgage companies that are not exempt from Federal income tax. It may be appropriate, however, to provide transitional rules if the exemption is repealed.

Prior Congressional Action

Proposed legislation in the 97th Congress (H.R. 4787 and H.R. 6442) would have reorganized and recapitalized FHLMC. Under these bills, the exemption from tax for FHLMC would have been repealed.

Impact

The Survey estimated that revenues would increase by $16.4 million in the first year, $18.0 million in the second year, and $19.8 million in the third year after enactment of a bill to repeal the FHLMC tax exemption.

3. Tax status of Farm Credit System

Recommendation

"Congress should be requested to amend the Farm Credit Act of 1971, sections 1.21 and 2.8, to make Federal Land Banks (FLBs), Federal Land Bank Associations (FLBAs), and Federal Intermediate Credit Banks (FICBs) subject to taxation." (Task Force on Boards/Commissions—Banking Recommendation 38-1.)

Background

Under present law, certain entities of the Farm Credit System are exempt from Federal income tax. The Federal Land Banks and Federal Land Bank Associations are exempt from all taxation under section 1.21 of the Farm Credit Act of 1971, as amended. Up to 50 percent of Federal Land Banks earnings and 10 percent of Federal Land Bank Associations earnings are required to be retained permanently and not made available to stockholders. Section 2.8 of the same Act exempts the Federal Intermediate Credit Banks from tax, except that in years that the Governor of the Farm Credit Administration holds the stock of any Federal Intermediate Credit Bank, it may be subject to a franchise tax on earnings.

The Production Credit Associations are taxed primarily as corporations (a few as cooperatives). The Banks for Cooperatives are subject to tax, but certain patronage dividends are not taken into account by a cooperative organization in determining its taxable income. Thus, such organizations may avoid the tax to the extent they distribute earnings to patrons.

Originally, the Farm Credit System was established to provide a dependable source of credit available nationwide at reasonable rates under all economic circumstances. Farm Credit System entities were exempt from tax because, by their organizational structure and the limitations imposed by statute on their operations, they were essentially similar to other Government-sponsored enterprises.

The Survey concluded that as the Farm Credit System share of total farm debt, especially real estate loans, continues to increase (from 16.5 percent in 1965 to 32.5 percent by 1980), the subsidy implied by the exemption increases. Further, it argued that the statutory requirements for Federal Land Banks and Federal Land Bank Associations to retain earnings widens their competitive advantage over commercial banks and other lenders and that, to the extent the exemption provides a competitive advantage to entities under the Farm Credit System, the exemption from tax no longer serves a public purpose.

Impact

The Survey estimated that the taxation of Federal Land Banks, Federal Land Bank Associations, and Federal Intermediate Credit Banks would increase revenues by $195.8 million in year 1, $215.4 million in year 2, $236.9 million in year 3—a total revenue increase of $648.1 million over a 3-year period.

4. Tax-exempt bonds for private hospitals

Recommendation

"The Administration should propose legislation requiring that tax-exempt hospital bonds be 'general obligation' issues of the governmental unit issuing them rather than revenue bonds," (Health and Human Services—Health Care Financing Administration Task Force, Recommendation 5-3).

Background

State and local bonds include bonds which the State or local government is obligated to repay from general revenues ("general obligation" bonds) and bonds which are repaid from or secured by revenues from specific projects (revenue bonds).

Under present law, interest on State and local government obligations is generally exempt from Federal income tax. Under this rule, State and local governments generally may issue tax-exempt bonds to finance public projects or services or to provide financing for tax-exempt religious, charitable, scientific, or educational organizations. When a State or local government issues bonds to be used in a trade or business by a nonexempt person, and repayment of the bonds is derived from or secured by money or property used in a trade or business, the bonds are tax-exempt only if they satisfy the requirements applicable to industrial development bonds (IDBs).

Because private non-profit hospitals qualify as tax-exempt charitable organizations, interest on State or local bonds used to benefit such hospitals is tax-exempt whether the bonds are structured as general obligation or revenue bonds. Most hospital bonds are currently structured as revenue bonds.

The Survey recommends limitations on tax-exempt financing as part of a program to reduce excess hospital capacity in the United States.

Prior Congressional Action

The House Committee on Ways and Means has reported (H.R. 4170, H.R. Rep. No. 98-432), and the Finance Committee is considering, legislation imposing restrictions on tax-exempt bonds used for private activities. However, the proposals under consideration generally would not restrict the availability of tax-exempt hospital revenue bonds.

Impact

The Survey estimated that this proposal would result in $662 million of increased revenues over a 3-year period.

5. Taxation of Federal subsidy payments

Recommendation

"PPSS suggests that a form, similar to a W-2 Form issued to wage-earners, be issued by each Federal department or agency providing a subsidy to a specific beneficiary, with a copy going to the IRS. . . . A cut-off point should be established below which subsidy payments would not be taxed—with everything above the cut-off point included in total income and taxable as any other income would be at the individual or corporations given tax bracket." (Management Office Report on Federally Subsidized Programs, Recommendation 1-1).

Background

Generally, a variety of laws provide complete or partial tax exemption for an array of Federal payments including social security benefits, welfare payments, veterans benefits, disability benefits, and educational assistance payments. In addition, many programs provide benefits to individuals in the form of low-interest or guaranteed loans.

The Survey recommends imposition of an unspecified consolidated cap on the tax-free receipt of means-tested subsidies from the Federal government.

Prior Congressional Action

In the Social Security Amendments of 1983, the Congress provided for taxation of a portion of the social security and railroad retirement benefits of individuals whose adjusted gross income, plus one-half their benefits, exceeds $25,000 ($32,000 on a joint return). The proceeds from the taxation of benefits, as estimated by the Treasury, are transferred to the appropriate trust funds.

Impact

The Survey did not make a revenue estimate of its proposal. In addition, the Survey expressed the view that while adequate information does not exist, cost savings of $59 billion over three years could be achieved through improved targeting of means-tested benefits.

6. HUD-financed rental housing

Recommendation

"Amend the IRS code so that:

1. Cash-based accounting is the only allowable method where HUD financing or insurance is involved;

2. Depreciation benefits clearly cease upon HUD's initiating foreclosure proceedings; and

3. Upon completion of foreclosure, any recapture is retroactive to the date the foreclosure action was filed.

HUD should continue its present program of advising the IRS of its foreclosure activity." (HUD Task Force, Recommendation 4-6).

Background

Under present law, there are significant tax-advantages associated with investment in rental housing including, depreciation and interest deductions. When property is taken in foreclosure, the tax Code considers the property to have been sold and requires a recapture of excess depreciation deductions.

The Survey task force concluded that investors resist HUD disclosures because they wish to continue accruing deductions for interest and taxes and to avoid depreciation recapture as long as possible. In addition, delays may arise from a desire to secure alternative tax shelters before recognizing ordinary income through recapture.

Impact

The Survey estimated that recommended changes would increase revenue collections by $4-$5 million per year.

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7. Inland waterways user fees

Recommendations

"The Administration should propose . . . legislation to obtain full cost recovery phased in over a five-year period for COE and TVA expenditures for the operation and maintenance as well as the construction on the nation's inland waterways system." (Report on User Charges, Recommendation 20-1.)

"The COE and TVA should be assigned the principal task of implementing the law using existing information and data collection systems, including IRS." (Report on User Charges, Recommendation 20-2.)

Background

The inland waterways basically are comprised of all U.S. waterways (other than the intercoastal waterways and the Great Lakes waterways) which are part of the navigable rivers, lakes, and canals of the United States.

The U.S. Army Corps of Engineers has primary responsibility for the operation, maintenance, and improvement of the inland waterways system. The Corps of Engineers has developed this system by using locks and dam structures, dredging, and other methods to control the flow of existing rivers in a navigable waterway network.

Prior to 1978, there were no waterway user charges on commercial cargo traffic on the inland waterways system.

Prior Congressional Action

The Inland Waterways Revenue Act of 1978 (P.L. 95-502) imposed a Federal retailers excise tax on diesel and other liquid fuels used by commercial cargo vessels on 26 designated inland or intracoastal waterways of the United States. These waterways include the Mississippi River upstream from Baton Rouge, the Mississippi's tributaries, and the Gulf and Atlantic Intracoastal Waterways. The tax does not apply to fuel used by deep-draft ocean-going vessels, recreational vessels, or noncargo vessels such as passenger vessels and fishing boats.

The present tax rate is 8 cents per gallon. On October 1, 1985, the rate is scheduled to increase to 10 cents per gallon.

Revenues from the inland waterways fuel excise tax are transferred periodically to the Inland Waterways Trust Fund. Amounts in the Trust Fund are available, as provided by authorization and appropriation acts, for making construction and rehabilitation expenditures for navigation on the specified waterways the commercial use of which is subject to the fuel excise tax.

Impact

The Survey estimated that its inland waterway proposals would recover receipts (net of implementation costs) of $91.3 million in the first year of the five-year phase-in period, $196.1 million in the second year, and $313.3 million in the third year.

B. Administration of the Tax Laws

1. FICA tax deposits by State and local governments

Recommendation

"It is recommended that SSA, with corroborating studies from IRS, sponsor legislation through the Office of Management and Budget (OMB) to require State and local governments to remit FICA payments with the same frequency as private industry. Furthermore, it is recommended that Congress pass such legislation or remove the statutory requirement now imposed for making such changes." (Report on Financial Asset Management, Recommendation 2-1).

Background

In general, employers that have $500 or more of undeposited FICA and withholding taxes at the end of any month must deposit those taxes within 15 days after the end of that month. However, employers that have $3,000 or more of undeposited taxes at the end of any eighth-monthly period must deposit those taxes within 3 days after the close of the eighth-monthly period.

Prior Congressional Action

Under the Social Security Amendment of 1983, State and local governments must deposit withheld social security taxes on a bi-weekly basis rather than on a monthly basis as under prior law.

Impact

The Survey estimated a one-time acceleration of revenues of $1.25 billion and interest cost savings of $413.7 million over three years.

2. Electronic funds transfers for alcohol and tobacco excise tax payments

Recommendation

"It is recommended that Treasury urge Congress to rescind H.R. 4121 so that collections of alcohol and tobacco excise taxes can be received more efficiently through EFT (Electronic Funds Transfer)." (Report on Financial Asset Management, Recommendation 3-3).

Background

Present law requires returns of alcohol and tobacco excise taxes on a semimonthly basis. The returns are due a specified number of days after the conclusion of the relevant semimonthly period (30 days for distilled spirits, 15 days for beer and wine, and 25 days for tobacco taxes). If a bond is posted with the Treasury, payment of the taxes may be deferred until the due date of the return.

Regulations proposed by the Treasury Department, Bureau of Alcohol, Tobacco and Firearms in January, 1981, would have required electronic funds transfers of alcohol and tobacco taxes by taxpayers paying $5 million or more of tax in the previous year. However, Congress, starting in 1981, has prohibited the expenditure of funds to change the method of collection of alcohol and tobacco taxes.

In addition to electronic transfers, the Survey recommends that the existing deferral periods for payment of alcohol and tobacco taxes be repealed.

The Survey found that the majority of alcohol and tobacco excise taxes are collected from fewer than 1,000 distillers and importers of alcohol and fewer than 200 cigarette manufacturers.

Prior Congressional Action

Congress has prohibited implementation of electronic funds transfers for alcohol and tobacco taxes.

Impact

The Survey estimated that these proposals would result in a one-time increase in budget receipts of $911 million over a 3-year period, plus an additional $88.1 million in annual interest savings.

3. Tax Court backlog

Recommendation

"Propose legislation to establish a decentralized appellate tax board, consisting of about 75 administrative law judges resident in appropriate cities around the nation." (Treasury Task Force, Recommendation 3-1).

Background

In 1979, the Tax Court received 17,295 cases, resolved 13,098 cases, and ended the year with an inventory of 27,910 cases. In 1982, the receipts rose to 31,119 cases while dispositions were increased to 23,926 cases and the backlog of pending cases grew to 53,440. Thus, although the number of dispositions has almost doubled in five years, so has the backlog of pending Tax Court cases. At the same time, examination coverage has declined from 2.24 percent of all income, estate, and gift tax returns in 1979 to 1.63 percent in 1982.

Present law permits taxpayers to elect to have a case involving $5,000 or less to have the case tried under a small case proceeding the results of which cannot be appealed. These proceedings generally are less formal and more expeditious than regular Tax Court trials.

The Survey's recommendation would create a mandatory small tax case proceeding for cases of $10,000 or less. Under this process, a taxpayer's case would have to be decided by an administrative law judge before it could be appealed to the Tax Court. Thus, the Tax Court's jurisdiction would be effectively narrowed to hearing cases involving more than $10,000 (approximately 30 percent of its current case load) and appeals of decisions by administrative law judges.

Prior Congressional Action

The Congress has taken several steps in recent years to reduce the Tax Court's backlog. In 1980, the number of judges on the Tax Court was increased (effective on February 1, 1981) from 16 to 19. In 1981 and 1982, the interest rate on underpayments and overpayments was increased substantially to discourage unwarranted delays in settling cases. In addition, penalties for valuation overstatements, substantial understatements, frivolous returns, and tax shelter promotions were adopted to reduce the growth in new cases. Finally, the penalties for negligence, fraud, and frivolous Tax Court proceedings were strengthened.

An increase in the current $5,000 limitation on the small tax case procedure has been reported by both the Senate Committee on

Finance (S. 2062, S. Rep. No. 98-300) and the House Committee on Ways and Means (H.R. 4170, H.R. Rep. No. 98-432).

Impact

The Survey estimated net cost and interest savings of $645 million over three years. These savings would be attributable to interest expense saved through an acceleration of revenue collections. The estimate does not take into account the downward effect on revenues in later years that results from acceleration of collections to the earlier years.

4. Collections offsets

Recommendations

"Legislation authorizing IRS to offset nontax debts from Federal tax refunds should be considered and introduced with a strong effort to have it enacted. As GAO and OMB have cautioned, the recommended necessary safeguards to protect debtors against arbitrary offset actions can and must be instituted." (Report on Financial Asset Management, Recommendation 27–1a).

"PPSSCC recommends that the necessary legislation be passed to allow the use of offset on tax refunds and that such a program be phased in as quickly as possible." (Report on Finance Management in the Federal Government, Recommendation 4–5).

Background

Under present law, the Secretary may credit the amount of any overpayment of tax in one year (including any interest thereon) against any liability in respect of an internal revenue tax for the same taxpayer for another year. Overpayments of income taxes can be credited against any taxes due from the taxpayer, including stamp, excise or employment tax, and any interest, additional amount, addition to the tax or assessable penalty. When a debt to the United States has been reduced to judgement, or when a taxpayer is in bankruptcy, the IRS may offset the taxpayer's refund by the amount of the debt. There is, however, no clear authority to administratively offset refunds prior to when the taxpayer's obligation has not been adjudicated.

Beginning with tax returns filed in 1982, tax refunds due taxpayers who are delinquent in making child and spousal support payments must be applied against past-due support obligations if (1) the person designated to receive the support is receiving Aid to Families with Dependent Children from a State welfare agency and the State has received that person's assignment of the support obligation; (2) the State has made a reasonable effort to collect the support; (3) the amount of past-due support is at least $150; (4) the support has been delinquent for at least 3 months; and (5) none of the past-due support has been received by the IRS through the State agency's notification to the Department of Health and Human Services.

Impact

The Survey estimated that use of refunds to offset nontax debts would, over 3 years, increase collections by $1.9 billion and reduce interest costs by $.4 billion, for a total deficit reduction of $2.3 billion over a 3-year period.

5. Private credit bureaus and collection agencies

Recommendations

"The Government should utilize the services of credit bureaus to report information on delinquent debtors." (Report on Financial Asset Management, Recommendation 28-1).

"The Government should utilize the services of private sector collection agencies, with the ultimate authority for overseeing the effective collection of bad debts remaining with each Government agency. These services should be used only after all other means of collection have been exhausted." (Report on Financial Asset Management, Recommendation 28-2).

"Amend the Tax Reform Act of 1976 to permit disclosure of (a) wage data maintained by SSA and (b) the IRS/IRP file on Unearned Income." (Low Income Standards and Benefits Task Force, Recommendation 4-2).

Background

Because the IRS has more information about more people than any other Federal or State agency, other agencies needing information about U.S. citizens tend to seek it from the IRS. Before the enactment of the Tax Reform Act of 1976, disclosure of tax returns and tax information, and any rules of confidentiality, was largely a matter of executive and administrative practice.

In general, now, returns and return information are confidential and are not subject to disclosure to Federal or State agencies or employees except as specifically provided in Code section 6103. For these purposes, a "return" means any tax return, information return, declaration of estimated tax, or claim for refund (including any amendment, supplement, supporting schedule or attachment) filed under the Code on behalf of or with respect to any person. "Return information" means (1) the taxpayer's identity; (2) the nature, source or amount of income, payments, receipts, deductions, net worth, tax liability, deficiencies and the like; (3) data received or prepared by the IRS regarding a return, deficiency, penalty, interest, offense and the like; (4) information regarding actual or possible investigation of a return; and (5) any part of an IRS written determination or background file document not open to public inspection.

The persons to whom returns and return information may be disclosed (with certain restrictions on how the information may be used), generally, are: (1) a designee of the taxpayer; (2) State tax officials; (3) persons having a material interest; (4) Congressional tax-writing committees; (5) the White House and Federal agencies; (6) the Treasury Department and Justice Department in civil and criminal tax cases; (7) Federal agencies in nontax criminal cases;

(8) the General Accounting Office; and (9) certain agencies for nontax administration. Agencies that may obtain tax return information include, the Social Security Administration and Railroad Retirement Board, the Department of Labor and Pension Benefit Guarantee Corporation, Federal, State and Local Child Support enforcement agencies, the Department of Agriculture and the State Food Stamp agencies.

Under present law, disclosure of tax return information to private credit bureaus and collection agencies would not be allowed.

Prior Congressional Action

The Tax Reform Act of 1976 (P.L. 94-455) contained a comprehensive amendment of the law regarding confidentiality and disclosure of returns and return information, effective January 1, 1977.

Impact

The Survey estimated that disclosure of taxpayer information to and use of private collection agencies would, over 3 years, increase revenues through reduced delinquent debt by $1.5 billion and reduce interest costs by $.3 billion, for a total deficit reduction of $1.8 billion over 3 years.

Also, the Survey estimated that more effective use of tax return information would reduce overpayment in benefit programs (i.e., food stamp, supplemental security income, sec. 8 Housing, and Medicaid) by $4.1 billion resulting in a Federal savings share of $3.1 billion.

6. Delinquent tax collections

Recommendation

"Request legislation to require banks to accept levies by mail—this recommendation would reduce the time that the RO (Revenue Officer) spends serving bank levies." (Treasury Task Force, Recommendation 1-4.)

Background

If any person liable to pay any tax neglects or refuses to pay the tax within 10 days after notice and demand, the district director to whom the assessment is charged may proceed to collect the tax by levy. The district director may levy on any property, or rights to property, whether real or personal, tangible or intangible, belonging to the taxpayer.

Levy may be made by serving a notice of levy on any person in possession of, or obligated with respect to, property or rights to property subject to levy, including receivables, bank accounts, evidences of debt, securities and salaries, wages, commissions, or other compensation.

A notice of levy may be served by mailing the notice to the person subject to service. In such a case the date and time the notice is delivered to the person to be served is the date and time the levy is made. If notice is sent by certified mail, return-receipt-requested, the date of delivery on the receipt is treated as the date the levy is made. Apparently, the obligation on the part of the person served to accept the notice of levy by mail is not settled under present law.

Impact

The Survey estimated that improved collection techniques, of which mandatory acceptance of service by mail by banks is one part, would increase revenues over three years, because of accelerated revenue receipts and reduced interest costs, by $300 million.

C. The Pension Benefit Guarantee Corporation (PBGC)

1. Single-employer plan premium increase

Recommendations

"We believe that a conservative posture is appropriate for PBGC at this point and that the preponderance of evidence supports its position on the question of the level of premiums currently necessary. Accordingly, we recommend that the $6 premium be authorized and implemented by Congress at the earliest possible time." (Task Force on Boards/Commissions—Banking, Recommendation 1-1.)

"We recommend that the $6 premium be given a three-year life and that PBGC be required to submit to Congress a plan for implementation of a risk-related premium or reasonable alternative within that period." (Task Force on Boards/Commissions—Banking, Recommendation 1-2.)

Background

The annual, per-employee premium for insurance of benefits under a single-employer defined benefit pension plan was initially set by ERISA at $1.00 in 1974. In 1978, the premium was raised to $2.60. PBGC has determined that a $6.00 premium is required and GAO has concurred with this finding.

Prior Congressional Action

Pending legislation (S. 1227 and H.R. 3930) would increase the premium to $6.00 and would make structural changes in the insurance program designed to prevent abuse. S. 1227 was referred to the Senate Committee on Finance and to the Senate Committee on Labor and Human Resources. H.R. 3930 was referred to the House Committee on Ways and Means and to the House Committee on Education and Labor (the Subcommittee on Labor-Management Relations has forwarded the bill to the full Committee on Education and Labor).

Impact

The proposed premium increase is estimated by the Survey to increase aggregate single-employer insurance premiums by approximately $100 million annually.

2. Risk-related premium

Recommendation

"The PBGC should develop an improved premium structure that is more equitable for the premium payers so that incentives are provided to plan sponsors to achieve and maintain adequate funding levels." (Task Force on Boards/Commissions—Banking, Recommendation 5-1.)

Background

PBGC is required to establish separate uniform premium rates for single-employer and multiemployer defined benefit pension plans. Under present law, PBGC has limited authority to set a risk-related premium rate.

Prior Congressional Action

The PBGC has not requested, nor has Congress otherwise considered, a risk-related premium rate.

Impact

The recommendation proposes that a risk-related premium rate be structured in a manner that collects premium income equivalent to the per capita premium rate and, thus, the recommendation would not generate a revenue increase. The recommendation is estimated to result, however, in the ultimate improvement of the equity and merits of the mandatory insurance system.

3. Special assessments for underfunded programs

Recommendation

"The PBGC should consider special assessments to sponsors who underfund their own vested benefit programs and thereby jeopardize the entire benefit insurance system." (Task Force on Boards/Commissions—Banking, Recommendation 5-2).

Background

PBGC is required under present law to establish separate uniform premium rates for single-employer and multiemployer defined benefit pension plans. Under present law, PBGC has limited authority to set a risk-related premium rate. The corporation does not have the authority to impose special premium assessments on substantially underfunded plans or to exempt fully funded plans from premium increases.

Prior Congressional Action

The PBGC has not requested, nor has Congress otherwise considered, a premium rate structure that would impose special assessments on underfunded plans.

Impact

The Survey estimated that implementation of the proposal could result in revenue increases of at least $3.2 billion over three years.

4. Premium for transferred risks

Recommendation

"Congress should pass S. 1541 as quickly as practical. We recommend the Administration's active support and the combination of this issue with the $6.00 premium bill for passage as soon as possible." (Task Force on Boards/Commissions—Banking, Recommendation 2-1.)

Background

The PBGC and premium payers are concerned that present law does not prevent employers from inappropriately transferring pension liabilities to the PBGC. GAO has recommended that the Congress consider further abuse controls.

Prior Congressional Action

Pending legislation (S. 1227 and H.R. 3930) would increase the premium to $6.00 and would make structural changes in the insurance program designed to prevent abuse. The bills would impose liability (for a limited period) on a plan sponsor that transfers pension liability to a financially weak employer and would make liquidation of the employer the insurable event.

S. 1227 was referred to the Senate Committee on Finance and to the Senate Committee on Labor and Human Resources. H.R. 3930 was referred to the House Committee on Ways and Means and to the House Committee on Education and Labor (the Subcommittee on Labor-Management Relations has forwarded the bill to the full Committee on Education and Labor).

Impact

The Survey estimated that recommendation with respect to abuse control would save between $6 and $7 million annually but indicates that the true impact cannot be determined. In addition, the Survey estimated that the recommendation with respect to the insurable event would save annual administrative costs of $2.6 million.

D. Railroad Retirement Provisions

1. Privatization of Railroad Retirement System

Recommendations

"All railroad workers and retirees should be brought into the social security system. The administration of the social security equivalent portion of railroad retirement should be turned over to SSA." (Task Force on Boards/Commissions—Banking, Recommendation 10-1).

"The industry pension portion of railroad retirement should be turned into a private multi-employer pension plan (hereafter referred to as the Railroad Retirement Pension Fund)." (Task Force on Boards/Commissions—Banking, Recommendation 10-2).

"The Federal Government should provide financial security for the private pension fund without Federal subsidies or undue financial strain on the industry by enacting a payroll tax on railroads equal to the collectively bargained pension contributions, a tax which would be 100 percent offset by contributions to the railroad pension fund; and by exempting the present level of benefits from ERISA requirements (although benefit increases should be subject to ERISA funding requirements)." (Task Force on Boards/Commissions—Banking, Recommendation 10-3).

"The Railroad Unemployment and Sickness Insurance program should be administered by the new, private multi-employer pension plan created by [Recommendation 10-2] above." (Task Force on Boards/Commissions—Banking, Recommendation 10-4).

"The Federal Government should provide financial security for the Railroad Unemployment and Sickness Insurance program by enacting a payroll tax on railroads equal to the collectively bargained unemployment and sickness insurance contributions, a tax which would be 100 percent offset by contributions to the RUSI fund." (Task Force on Boards/Commissions—Banking, Recommendation 10-5).

"The tax-free status of the industry pension benefits should be changed. The benefits should be taxed on the same basis as all over private pension systems." (Task Force on Boards/Commissions—Banking, Recommendation 10-6).

Background

The railroad retirement system is established under Federal law to provide retirement benefits to employees of the railroad industry. The system is funded by special taxes on rail employees and employers. Similarly, unemployment benefits are provided to rail employees through a specially funded system administered by the Railroad Retirement Board. Rail employment is not covered by or taxed under either social security or the regular State systems of unemployment insurance.

There are two basic railroad retirement benefits and two additional types of benefits for which some retirees are eligible. The basic "Tier I" benefit is designed to provide retirees the equivalent of social security benefits. The "Tier II" benefit is the equivalent of industry pension benefits for railroad workers. In addition, a modest supplemental annuity benefit is available to career railroad employees who retire with at least 25 years service; and a so-called "windfall" or dual benefit is available to workers who earned both railroad retirement benefits under railroad employment and social security benefits under non-railroad employment.

A similar set of proposals was included in the Administration's budget for fiscal year 1983.

Prior Congressional Action

The substance of the sixth recommendation was included in the Railroad Retirement Solvency Act (P.L. 98-76), effective in 1984.

Impact

The Survey expects that privatization would reduce the probability of increased subsidies, which it expects could reach $100 million per year. It also expects administrative savings of about $56 million per year and program-related savings totaling between $350 and $400 million.

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2. Railroad unemployment and sickness insurance financing

Recommendation

"An experience rating system of taxes should be developed to provide a more equitable application of the system within the industry and to provide incentives to reduce the overall system cost." (Task Force on Boards/Commissions—Banking, Recommendation 13-2).

Background

Benefits under the Railroad Unemployment and Sickness Insurance System are financed with a flat tax which does not vary with the experience of each employer. Under the regular State unemployment insurance programs, financing generally is experience rated.

The Administration proposes, in its fiscal year 1985 Budget, to extend regular Federal and State unemployment insurance coverage to rail employees. This would have the effect of financing the benefits of railroad employees under the experience-rated State systems and making various changes in unemployment benefits.

Prior Congressional Action

P.L. 98-76 establishes a Railroad Unemployment Compensation Committee to review all aspects of the railroad unemployment program and to report to Congress by April 1, 1984.

Impact

No deficit reduction estimate is provided for this recommendation.

Senator DOLE. Today we welcome J. Peter Grace, the Chairman of the President's Private Sector Survey on Cost Control, to the Finance Committee.

Last month—after nearly 2 years of study—the Grace Commission—as it has come to be known—issued its final report consisting of 36 task forces and 11 special studies, with 2,478 suggestions on how to slice an estimated $424 billion from the Federal budget deficit over 3 years.

Now, our focus today—as you understand, Mr. Grace—will be on areas that we have jurisdiction of in our committee, which we estimate to be approximately $120 billion of that 3-year total of $424 billion. So, a substantial part of that is before our committee.

I have a statement which I will ask be made a part of the record. I would say that in recent days media attention has focused on controversial proposals that would cut back Federal retirement benefits, eliminate federally subsidized power, subject transfer payments to income tax, and cap medicare and medicaid payments—to name just a few.

The implication is that, since such proposals are unlikely to be enacted, the entire report can be ignored. But it seems to me that dismissing the Grace Commission Report on the basis of a handful of the Commission's proposals is unfair. If those who criticize the Commission would study the entire report, I am certain that they would find that a number of the proposals make good sense. The Federal Government will spend $925 billion in fiscal year 1985, and I think, everybody who is serious believes we can reduce that amount. But we haven't had much discussion about recommendations, such as those that seek to improve collection of delinquent taxes, manage cash flow better, require competitive bidding for Government contracts, improve computer operations. Now, these are less exciting, but they do fill up most of the pages in the 47-volume work.

So, we are just pleased to have you here today, and I know that some of the members will have questions about a number of the specific recommendations. We are hopeful that we can act on some of your suggestions. The point is that we are here to listen to you and ask questions about some of the specific recommendations.

Senator Long, do you have any questions?

Senator LONG. No questions at this point.

Senator DOLE. Mr. Bentsen?

Senator BENTSEN. No.

Senator DOLE. Senator Roth?

Senator ROTH. Mr. Chairman, I would just like to add my congratulations to the Grace Commission for the outstanding work they have done on a volunteer basis for the American people. I have been a little bit concerned that there has been a major effort to debunk what you people have done, to try to attack it by the special interests, to charge that your savings are unrealistic, that there isn't that much waste in Government.

I was a little bit shocked, Mr. Grace, with the recent statement by Dave Stockman that there are no more major cuts that can be made in spending. I find that in conflict with what you and your Commission brought out in your study.

I think it is awfully important that all of your recommendations be carefully considered by this Congress, that it be used as a working document from which to try to do something about deficits. I have frankly been very concerned that the principal thrust from the Hill and elsewhere has been to increase taxes—as though that was the way to do something about the deficit.

It seems to me that the first order of business is to make some of the hard political decisions. I just want you to know that I, for one, appreciate what you and your group did on behalf of this nation.

Mr. GRACE. Thank you, Senator.

Senator DOLE. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman. I would like to echo those sentiments that Senator Roth expressed. I think that Mr. Grace and his group—all of who served on a volunteer basis—deserve great thanks and commendation from all of us, and there is some suggestion that these are unrealistic because the country doesn't have the political courage to do A, B, or C, or whatever the suggestions are.

But we are in a real jam around here. We are spending $200 billion more than we take in, and there is no suggestion in the world that an increased prosperity or the improved economic situation is going to substantially reduce those deficits. So, we have got to look everywhere, including into some of these areas where people say you can't cut that. So, therefore, I look forward to hearing Mr. Grace's report and his thoughts, and we are all grateful for what you did.

Mr. GRACE. Thank you very much, Senator.

Senator DOLE. Mr. Grace, you may proceed in any way you wish. You have ample time.

[The prepared statement of J. Peter Grace follows, the complete report is in the official committee files:]

TESTIMONY OF MR. J. PETER GRACE
BEFORE THE SENATE FINANCE COMMITTEE
FEBRUARY 8, 1984
DIRKSON SENATE OFFICE BUILDING - ROOM 215

Mr. Chairman, I am pleased to accept your invitation to address the work of the President's Private Sector Survey on Cost Control (PPSS) and to identify some of the major recommendations of our various Task Forces.

My name is Peter Grace and I am Chairman of the PPSS and Chairman and Chief Executive Officer of W. R. Grace & Co. With me is Mr. J. P. Bolduc, Chief Operating Officer of the Survey.

I am here today particularly to suggest and to discuss possibilities for near term reductions in projected Federal budget deficits. The PPSS recommendations would result in savings of $424.4 billion over three years when fully implemented. Our report makes clear that those three years are not a particular three years and certainly not the next three. Some of the recommendations, such as civil service retirement, would not become effective until the end of the century. For earliest realization, specifically within the next three fiscal years, I have identified $59 billion of the total PPSS recommended savings that I believe can be realized with minimal political resistance, as brought out further on.

President Reagan decided in February 1982 that it would be useful to have a study of the Executive Branch of the Government by members of the private sector, and he invited me to become Chairman of this effort. He felt a survey patterned after the Private Sector Study he instituted when he was Governor of California would be useful in identifying inefficiencies, overlap and waste in the operation of the executive departments and agencies. The President is very concerned about the tremendous increase in the cost of operating the Federal Government which has gone up almost eightfold since 1965, from $118 billion to $926 billion budgeted for 1985. I share his concern.

In July, 1982, the President's Executive Order was issued establishing the PPSS, and we started to organize the 161 executives who had been recruited from the private sector into Co-Chairmen of 36 different Task Forces. Each Task Force was assigned to examine one or more of the departments or agencies in the Government or some functional area cutting across Government such as procurement and asset management. In addition, 11 special reports were prepared by the PPSS Management Office to examine areas of special interest that were identified but not fully developed by the Task Forces.

In organizing this effort, the private sector was requested by the President to finance the entire survey. Accordingly, we recruited more than 2,000 volunteers from the companies of the Executive Committee members and others, and we raised some $3 million from the private sector to pay for the central administrative expenses of the project. We created a special Foundation to handle the financing of these administrative costs. In total, the private sector spent more than $75 million on the survey.

The 47 Task Force and Management Office Reports have all been submitted, including 2,478 recommendations that constitute the $424.4 billion in three-year savings.

(Chart Follows)

Federal Cost Control Survey

Recommended Savings
Over a 3-Year Period

$424 Billion

The areas of Program Waste and Inefficiency and Systems Failures account for $312.2 billion or almost three-quarters of the $424.4 billion total savings, as summarized in the next chart.

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL (PPSS)

RECOMMENDED SAVINGS
OVER A 3-YEAR PERIOD
$424.4 BILLION

		($ Billions)
Program Waste (443 Recommendations)		$ 160.9
- Subsidy Program Expenditures		
- Lending Programs and Debt Collection Activities		
System Failures (1,152 Recommendations)		151.3
- The Information Gap		
- Government Finances		
Personnel Mismanagement (422 Recommendations)		90.9
- Compensation		
- Retirement Plans		
Structural Deficiencies (211 Recommendations)		12.7
- Central Financial and Administrative Management		
- Management Tenure in Key Positions		
Other Opportunities (250 Recommendations)		8.6
Total	2,478 Recommendations	$ 424.4

In reality almost all the waste and inefficiency we found in the Federal government can be traced to systems failures and restraints put on the management of the Executive Branch by the Congress. There is hardly anything basic in the management of government operations that doesn't require Congressional approval, be it closing obsolete facilities, buying new computers, the wage scale on Federal construction projects, or just about anything that might result in greater efficiency.

As a check on our own estimates, we employed a leading economic forecasting firm to project the Federal deficit situation with and without the PPSS recommended savings and they came up with the following for the year 2000.

Federal Cost Control Survey

PROJECTED DEFICIT IN YEAR 2000

WITHOUT the Survey's Recommendations	**$1.966 Billion**
WITH the Survey's Recommendations	**$ 37 Billion**
SAVINGS to Taxpayers	**$1,929 Billion**

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 16 years from now.

The cumulative impact of PPSS recommendations out to the year 2000 would be $10.5 trillion, or a savings of $130,000 per taxpayer.

Federal Cost Control Survey

CUMULATIVE SAVINGS THROUGH YEAR 2000

Total	**$10.5 Trillion**
Per Taxpayer	**$130,000**

The different recommendations have different degrees of documentation and the savings, of course, are estimates of a planning quality rather than a budget quality. In accordance with our mandate from the President we conducted a survey, not a detailed, in-depth audit. I am, however, personally convinced that without significant changes in Federal spending patterns we will confront ruinous deficits in line with those projected.

In addition, it should be noted that our savings estimates were based on:

(a) The use of an assumed 10% inflation rate, and

(b) The use of an assumed 10% interest rate.

In June 1982 when we initiated PPSS, the rate of inflation was 13.8% and the interest rate was running 14.75%.

Our assumptions at that time were conservative and may yet prove to be conservative estimates of future inflation and interest rates.

Our mandate was to examine the numerous operations of the Government as businessmen.

We used the same techniques and methods of analysis that businessmen use when they investigate an acquisition, particularly the acquisition of a failing business. In such cases, we try to identify the changes we would institute to make the business viable. We would try to identify waste that should be eliminated. What inefficiencies would we eliminate? What duplication or overlap would we correct? This was the approach we took in examining the Government. We did not examine major policy issues directly. For example, we did not study the merits of proposals to eliminate the Department of Energy or the Department of Education. We did not feel qualified to form an opinion on military strategy or the weapons systems and, hence, we did not study these policies that were the basis of such procedures.

One might ask, as we have been, as to what experience businessmen have that qualifies them to examine the Federal government. Following is an array of similarities in the operations of government and business, with specific opportunities identified to improve government.

(Chart Follows)

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(1)	Lending Money	$764.6 Bil. loans outstanding	$1,500.0 Bil. loans outstanding	HUD makes only 3 attempts to collect loans versus 24 to 36 tries in the private sector; 41% delinquency rate on current Federal receivables.
(2)	Timberland Management	105 Million acres	347 Million acres	The U.S. Forest Service gave away $235 million of firewood in 1981, 24.5% of total commercial timber harvested.
(3)	Grazing Land Management	163 Million acres	587 Million acres	Federal grazing program collected $15 million in grazing fees while providing $41 million in services, recovering only 36.6% of costs.
(4)	Hospital Management	177,000 beds	1,481,000 beds	VA hospital in the Bronx cost $191,300 per bed, about double the $97,400 per bed spent constructing the comparable Duke University Hospital.
(5)	Nursing Home Management	71,000 beds	1,029,000 beds	The VA spends $61,250 per bed to construct nursing homes -- almost 4X the $16,000 per bed cost of a major private sector nursing home operator.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(6)	Automated Data Processing	250,000 ADP employees	2,000,000+ ADP employees	Half the government's computers are so old that manufacturers no longer service them. Additional personnel expenses amount to $600 million annually.
(7)	Inventory Management	$41 Billion (over 99% in DOD)	$806 Billion	Private sector inventory replenishment techniques would save the government $4.5 billion over three years.
(8)	Electric Power	244.0 Billion KWH	2,019.0 Billion KWH	Government subsidized power, sold at one-third market rates, costs industrial users only 2.45¢ per kwh in the Northwest compared to 12.09¢ per kwh paid in San Diego for power generated by the private sector.
(9)	Borrowing Money	$1,381.9 Billion national debt	$420 Billion corporate bonds outstanding	Federal borrowing from the public of $135.0 billion in 1982 was 33.0% of the $408.7 billion raised in U.S. credit markets.
(10)	R&D Funding	$38.5 Billion	$36.1 Billion	Government R&D bureaucracy requires that Oak Ridge researchers consult 114 DOE offices for funding approval.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(11)	Transportation of Persons	$5.2 Billion	$20.4 Billion (non-user operated transportation)	Since 1955 the government has been prohibited from using private sector travel agents and benefitting from their expertise; a 1980 DOD plan for a professional travel service was rejected by Congress. The government did not issue credit cards for travelers until we recommended it.
(12)	Payroll	$61.8 Billion civilian payroll	$1,090.0 Billion payroll	It costs the Army $4.20 to process a payroll check vs. $1.00 average in the private sector.
(13)	Freight Handling	$5 Billion	$30 Billion	The Federal government does not negotiate volume discounts on its enormous freight charges.
(14)	Building Maintenance	2.6 Billion square feet	10+ Billion square feet	The General Services Administration employs 17X as many people and spends almost 14X as much on total management costs as a comparable private sector firm.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(15)	Pension Benefits	$19.5 Billion Civil Service (CSRS)	$300 Billion	Pension benefits for the CSRS are 3 times those in the private sector.
(16)	Pension Fund Assets	$96.1 Billion Civil Service (CSRS)	$481.1 Billion	CSRS rate of return in 1980 was 7.4% compared to 14% and over for a majority of private sector plans.
(17)	Vehicles Managed	436,338 non-military	155,900,000 motor vehicles privately and commercially owned	Average utilization of Federal vehicles (excluding USPS) is 9,000 miles per year, which is 64% less than the 25,000 miles per year that private rental firms consider to be effective utilization. Failure to recondition vehicles prior to resale, as is common in the private sector, lowers the government's resale revenues by $15.8 million over three years.
(18)	Procurement	$159 Billion	$2 Trillion	Lack of competition or control in Federal contracts results in the Pentagon paying $91 for a 3¢ screw, etc., etc.
(19)	Foreign Exchange	$10 Billion	$181 Billion	Hedging against foreign currency changes versus other industrial countries could save the government $438 million over three years.

At the beginning of this presentation I indicated possible near term savings of $59 billion which could result from the implementation of PPSS recommendations. These possible savings, achievable over three years, are in the areas of:

		Three-Year Savings ($ Billions)
(1)	Inventory Management	$13.404
(2)	Loan Management	11.080
(3)	Tax Collections	10.746
(4)	General Management	8.048
(5)	Cash Management	6.389
(6)	Reduced Error Rates	5.852
(7)	User Charges	3.187
(8)	Total	$58.706

Under Inventory Management, more than $7 billion could be saved over three years by more selective use of military specifications in the procurement of commercially available hardware. More than $6 billion in additional savings would result from inventory reductions reflecting improved management techniques. These are described in the following two issue summaries from our Office of the Secretary of Defense (OSD) Task Force report.

(Issue Summaries Follow)

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OSD 20

Common Parts And Standards

Three-Year Savings/Revenue Enhancements - $7.330 billion

Percent of $44.757 Billion Total - 16.4%

Implementation Authority - Congressional

Recommendations Summary

The Department of Defense (DOD) should mandate the use, where possible, by all services of common hardware components, subsystems, equipment, and other parts in order to minimize initial acquisition and life-cycle costs. The benefits of applying standardization of component parts are of two types: economies of scale obtained by larger volume purchases and economies of scale in maintenance and modification.

The use of military standards and specifications (MILSPECs) should be decreased, and not all components included in the end item being procured should be subject to special military standards and specifications. Procurement officials are not sufficiently selective in choosing only the particular military specifications that are truly needed in relation to the end item being procured. The high cost of applying unnecessary military standards and specifications consists of two parts. One is the cost of verifying that standards are being accurately applied. Another is the excessive acquisition cost when a standard specifies qualities not needed in the specific equipment being acquired.

1. The Department of Defense (DOD) should link military or commercial hardware standard utilization planning directly to the weapons system cost, performance, reliability and field maintainability objectives for each program.

2. DOD should provide seed money to carry out cross-service military hardware design standardization studies and to initiate joint-service development of military hardware and software.

3. DOD should consider only MILSPECs related to the item being procured.

4. DOD should authorize the use of financial incentives to encourage contractors to challenge unimportant or irrelevant "standard" data requirements. ($7.330 billion based on 3.3% of annual weapons acquisition expenditures through increased use of common subsystems among services and 1.5% through decreased use of military specifications)

OSD 2

Improved Inventory Management

Three-Year Savings/Pevenue Enhancements - $6.074 billion

Percent of $44.757 Billion Total - 13.6%

Implementation Authority - Congressional

Recommendations Summary

In order to improve its inventory management capabilities, the Department of Defense (DOD) should prioritize a program to upgrade existing inventory data systems. This will require modernization of automated data processing (ADP) hardware and software. Additionally, an Office of the Secretary of Defense (OSD)-level group should be assigned the responsibility for policy and review functions relating to ADP logistics.

The outdated ADP systems force artificial constraints on inventory management in general. For example, using the current ADP systems, economic order quantities for inventory items are limited to a minimum order period of six months and a maximum of three years. Purchases of many items in monthly lot sizes could reduce average inventory by 2.5 months for these items.

The outdated ADP systems also create the following problems: The equipment experiences frequent downtime, resulting in late reports with data updates sometimes omitted. Equipment is running at or near capacity to handle basic operating needs. Obsolete equipment prevents the use of modern and efficient magnetic tape and disks. Limitations in power and memory preclude the possibility of expanding the systems.

Improved inventory management systems could increase weapons availability by 5 to 15 percent. For example, the Air Force has estimated that with improved inventory management, it could field an additional 40 to 60 aircraft at all times.

1. DOD should initiate a program to substantially modernize its ADP logistics systems for inventory management and control: replace obsolete ADP hardware and software; train ADP personnel in state-of-the-art techniques; improve systems planning; and centralize ADP planning and review.

   Savings of $6.074 billion based on a one time inventory reduction of approximately 10.9% ($4.312 billion) and three-year recurring savings of $3.162 billion less $1.4 billion in implementation costs.

The $11 billion in three-year savings from improved Loan Management result from the assessment of interest charges on delinquent loans, initiation of or increases in origination fees, improved debt collection efforts, both "in-house" and by the use of private sector collection agencies, and by an accelerated transition from direct government lending to government guarantees of loans as shown in the following Issues from our Financial Asset Management, Education, Agriculture and Justice Task Forces.

(Issue Summaries Follow)

ASSET 11

Charge For Loan Origination, Servicing and Delinquency

Three-Year Savings/Revenue Enhancements - $2.887 billion

Percent of $23.503 Billion Total - 12.3%

Implementation Authority - Agency/Administration

Recommendations Summary

There is little standardization across agencies with regard to whether loan fees are charged and with regard to the amounts charged. HUD charges $1-$5 per $1,000 of mortgage principal; the student loan program charges 5% of principal as points for origination; and most USDA programs have no application or origination fee. Furthermore, Treasury requires that all delinquent loan payments be assessed an additional interest fee equal to the cost of Treasury borrowings. Less than 1% of delinquent loans are charged this fee, and no penalty fees for late payments are prescribed.

1. Treasury's requirements for charging interest on all late loan payments should be enforced.

2. A late penalty charge should be established for all government loan payments.

3. The delinquency term should be decreased from 30 days to 15 days.

4. A non-refundable application or origination fee should be assessed for all loans, based on full allocation of all operating costs involved to initiate and service the loan.

Asset 18

Private Sector Financing For Some Government Loans

Three-Year Savings/Revenue Enhancements - $1.826 billion

Percent of $23.503 Billion Total - 7.8%

Implementation Authority - Congressional

Recommendations Summary

Because private-sector lenders are better suited to administer loans, all direct loans by the Farmers Home Administration and all direct loans by the Small Business Administration under its 7(a) program -- i.e., loans for plant and equipment -- should be phased out and replaced by guaranteed loan programs.

ASSET 26

Improve Debt Collection Efforts

Three-Year Savings/Revenue Enhancements - $1.191 billion

Percent of $23.503 Billion Total - 5.1%

Implementation Authority - Agency/Administration

Recommendations Summary

Delinquent receivables other than to the Internal Revenue Service have increased from $11.0 billion as of September 30, 1979 to $14.3 billion as of June 30, 1982. Total debt (other than IRS) owed the Federal government has increased 25 percent during the same period.

1. Develop uniform definitions for terms such as debt, delinquent debt, allowance for doubtful accounts, and write-off. Establish allowances for potentially uncollectable accounts and write-off accounts that are determined to be uncollectable.

2. Coordinate debt collection efforts and establish uniform procedures among government agencies. Establish separate credit departments in each agency.

3. Identify loans due by degree of collectability, segregating accounts that are virtually uncollectable from those that could be collected through vigorous collection efforts. This will require computerizing current manual records and updating computer equipment.

4. Establish incentives for debt collection, tied to both individual and agency performance. Give agencies part of the money they collect, rather than returning all collections to the Treasury.

ASSET 29

Charge Interest and Penalties on Delinquent Debt

Three-Year Savings/Revenue Enhancements - $1.085 billion

Percent of $23.503 Billion Total - 4.6%

Implementation Authority - Congressional

Recommendations Summary

Except for the Internal Revenue Service, agencies historically have not assessed interest and penalties on delinquent debt, or they have charged a rate that is considerably below market. As of June 30, 1982, 90% of delinquent accounts were not accruing interest.

1. Agencies should charge uniform interest and penalties on delinquent debt. Standards should be set either through legislation or Executive Order.

2. Accounts currently contracted out to collection agencies and delinquent debts assigned to the Department of Justice should have uniform interest and penalty charges added.

3. Agencies should develop accounting systems for charging interest and penalty charges.

ASSET 12

Improve The Loan Process Regarding Direct Loans

Three-Year Savings/Revenue Enhancements - $1.011 billion

Percent of $23.503 Billion Total - 4.3%

Implementation Authority - Agency/Administration

Recommendations Summary

Paperwork processing and turnaround times for government loan approvals are longer than warranted. For example, in HUD Section 312 and Section 202 loan programs, at least one month elapses between application and approval. In private practice, one to two weeks is normal.

Furthermore, information is neither timely nor accurate. Management Information Systems (MIS) are insufficient to support current credit requirements.

1. Review private sector loan models of the credit decision-making process to determine if they can be used by the Federal government.

2. Establish centralized credit departments in each agency/department.

3. Upgrade the technical skills of all lending, credit review, and credit servicing personnel. Introduce performance incentives in each agency, including management-by-objectives (MBO), and annual evaluations.

4. Adopt uniform credit definitions and MIS reporting requirements. Review MIS generated reports to pinpoint unwarranted, inaccurate, or duplicated information.

5. Automate area offices to obtain timely data.

6. Enforce standard operating procedures requiring borrowers to submit financial statements.

ED 1

Loan Program Consolidation

Three-Year Savings/Revenue Enhancements - $1.186 million

Percent of $2.828 Billion Total - 41.9%

Implementation Authority - Congressional

Recommendations Summary

The Federal Government oversees four major student loan programs:

I - National Direct Student Loan Program (NDSL)
II - Federally Insured Student Loan Program
III - The PLUS programs -- the generic term for a set of programs created under the Educational Amendments of 1980 and the Postsecondary Student Assistance Amendments of 1981
IV - The Guaranteed Student Loan Program (GSL)

All these programs have the same goal -- to allow students to further their education -- and either indirectly, through guarantees, or directly make the Federal government liable for the cost of loans in default.

1. The four student loan programs should be consolidated into the more-efficient GSL program which would allow administrative cost savings. It would also reduce direct Federal lending during a time of major budget deficits.

2. For additional savings, lenders should be required to make multiple disbursements and to eliminate the provision that allows them to charge the Department for interest on loan amounts not yet disbursed.

ED 3

Student Loan Delinquencies and Defaults

Three-Year Savings/Revenue Enhancements - $495 million

Percent of $2.928 Billion Total - 17.5%

Implementation Authority - Agency/Administration

Recommendations Summary

Federally-guaranteed student loans outstanding at end FY 1982 totalled approximately $25 billion of which $2.2 billion, or 8.8%, were already matured and in default, with an additional $300 million anticipated to default -- for a total estimated default rate of 10%. To reduce the default rate on guaranteed student loans the Education Department should:

1. Structure the collection operation as an independent unit with enough prestige to deal effectively with other branches of government -- e.g., the Justice Department -- impacting on collection efforts. Personnel should be trained periodically in the latest collection techniques.

2. Require parental or other cosigners for all student loans. Such a requirement made independently by a savings and loan bank in the Midwest has resulted in a default rate of less than 1% -- i.e., 9 percentage points less than the national average for these loans.

AG 1

Farmers Home Administration (FmHA) - Promote Loan Graduation for Each New FmHA Loan Booked

Three-Year Savings/Revenue Enhancements - $768 million

Percent of $12.844 Billion Total - 6.0%

Implementation Authority - Agency/Administration

Recommendations Summary

1. FmHA loans are made to eligible borrowers who are unable to obtain suitable credit elsewhere, so that they may continue their operations and return (graduate) to private sources of credit as soon as possible. Very limited graduation has taken place to date. This has contributed, in part, to the tremendous growth experienced by the agency. FmHA loans have increased from $6.5 billion in 1970 to $58 billion in 1982.

2. Because insufficient incentives currently exist for graduating FmHA loans, the FmHA Administrator should declare an Agency-wide policy of matching each new loan booked with the graduation of an existing FmHA loan. This would be on a "loan-for-loan" basis, regardless of dollar amount, and should apply to the Farm Ownership, Farm Operating, Emergency Disaster, and Single Family Housing Programs. Eliminating existing loans would reduce borrowing and ultimately reduce interest costs.

3. As of June 30, 1982, there were 1.2 million loans outstanding in these programs. New loan obligations for the four programs are budgeted at $4.6 billion in 1983 for 113,900 loans. Accelerated graduations could offset at least the $4.6 billion budgeted for new loans, with resultant savings of $141 million per year in reduced interest subsidies.

4. In addition, curtailed growth of outstanding loans will allow administrative cost savings of $91 million per year by offsetting 113,900 budgeted new loans with a like number of graduations.

JUSTICE 1

Uncollected Revenues

Three-Year Savings/Revenue Enhancements - $631 million

Percent of $850 Million Total - 74.2%

Implementation Authority - Agency/Administration

Recommendations Summary

The Department of Justice debt receivable balance increased from $501 million at fiscal year end 1978 to $1.04 billion at end 1982 -- an average 19.9% annual increase. The Task Force attributed the increase in Justice's uncollected debt to a lack of uniformity in debt management policies by the agencies that originate debt and to inadequate staffing for receivables collection at the Justice Department. In one case of the latter identified by the Office of Management and Budget (OMB), an office with over 3,000 accounts had a staff of one professional, one clerk and one typist. Because of the lack of staff, OMB estimated that the statute of limitations would run out on about 500 of the cases before the U.S. Attorney would obtain judgments.

1. The Justice Department and its client agencies should adopt a uniform reporting system for Federal claims that necessitate legal action. A Special Assistant U.S. Attorney in charge of debt collection should be charged with coordinating debt collection.

2. Private collection agencies should be used where practical to improve Justice collection efforts even more. In addition to $631.1 million in increased revenue and interest over three-years, $44.2 million in collections will be accelerated.

Perhaps of particular interest to this Committee are our recommendations to improve the efficiency of the Tax Collection process from which $10.746 billion could be saved over three years, summarized as follows.

As of July 31, 1982, 78,000 cases, involving $16 billion, were pending in Tax Court. More than 80% of the total dollars are cases over $1 million which account for only 8% of the total number of cases. More efficient allocation of resources could accelerate the settlement of the large dollar cases and save $4 billion over three years.

As of June 30, 1982, the government was owed $23 billion in delinquent taxes. Increased staffing of the IRS' Collections Department and provision of additional clerical support for Revenue Officers could result in $3.9 billion in additional collections over three years.

IRS data indicate that the tax gap has increased from $32 billion in 1973 to $97 billion in 1981 with an additional increase to $133 billion projected for 1985. The increase in the tax gap has coincided with a decline in the number of returns examined from 2.44% of all returns in 1977 to 1.84% in 1981, down to 1.67% in 1983. Increasing the examination staff could generate $2.9 billion in added tax revenues over three years.

(Issue Summaries Follow)

TREAS 3

IRS Appeals and Tax Court Backlog

Three-Year Savings/Revenue Enhancements - \$3.956 billion

Percent of \$11.506 Billion Total - 34.4%

Implementation Authority - Congressional

Recommendations Summary

Taxpayers have the right to both administrative and judicial review of a tax deficiency proposed as a result of an Internal Revenue Service (IRS) examination. A taxpayer may petition the United States Tax Court to hear the case and make a judicial determination. When the petition has been filed, the case is "docketed" with the Tax Court. On July 31, 1982, 78,000 cases involving \$16 billion of proposed deficiencies and penalties were pending at appeals and/or docketed with the Tax Court. The number of cases pending at appeals and the Tax Court and the dollars they represent have doubled in the last four years, with a steady upward trend. The number of cases has been trending upward for the last ten years, with an accelerating increase over the last four years.

Approximately 50 percent of the cases in inventory, representing less than 1 percent of the total dollars, are cases of \$10,000 or less. Approximately 70 percent of the decisions rendered by the Tax Court in FY 1981 were on cases of \$10,000 or less. Cases over \$1 million represent 8 percent of the inventory and 81 percent of the total dollars. A systematic change is required to speed the resolution of small tax cases.

1. Propose legislation to establish a decentralized appellate tax board, consisting of about 75 administrative law judges resident in appropriate cities around the nation. This number of judges will allow for an anticipated small case docket of 30,000 cases and a case load per judge of 400. The function of this board would be to resolve all tax cases involving deficiencies of \$10,000 or less. Either party would have the right to appeal the board decision, on the basis of the record only, to the Tax Court.

   At an average settlement rate of 35 percent, settling cases six months earlier would yield approximately \$1 billion in accelerated annual assessments, or \$3.310 billion over 3 years. Interest savings, net of implementation costs, would be \$0.646 billion over 3 years.

TREAS 1

Collection of Delinquent Taxes

Three-Year Savings/Revenue Enhancements - $3.893 billion

Percent of $11.506 Billion Total - 33.8%

Implementation Authority - Agency/Administration

Recommendations Summary

As of June 30, 1982, the IRS estimated that its accounts receivable (A/R) backlog of delinquent taxes had grown to a record level of $23.2 billion. This backlog is in addition to the growing "tax gap" (lost revenue to the U.S. Treasury through non-compliance with Federal tax laws, estimated at $97 billion in 1981). The A/R backlog has increased from an estimated $8.3 billion at year-end 1977, an average annual growth rate of 24.2%. Although interest is charged on past due balances when they are collected, accrued interest is not included in the A/R balance. It is estimated that this results in understatement of the June 30, 1982 balance by at least $2 billion.

During the past five years, dollar write-offs have increased 110 percent, totalling $539 million in FY 1981. Projections indicate that write-offs could reach $1 billion by FY 1985. The increasing collections workload (180% increase in A/R dollars, and 103% increase in delinquent cases, September 1977-June 1982), combined with the concurrent reduction in collection staffing (15% decrease, September 1977-June 1982), is the primary reason for the significant growth in the A/R backlog.

1. Authorize staffing of the Collections Department of the IRS based upon projected workload volumes. ($2.721 billion)

2. Provide clerical support to revenue officers (RO) at a ratio of one clerk for each six ROs. ($850 million)

3. Combine the Taxpayer Service activity and the Collection activity under one division, with the primary taxpayer contact position being an Office Service Representative. ($16 million)

4. Implement collection technique enhancements. ($306 million)

Enhanced IRS Enforcement Presence

Three-Year Savings/Revenue Enhancements - $2.897 billion

Percent of $11.506 Billion Total - 25.2%

Implementation Authority - Congressional

Recommendations Summary

Internal Revenue Service (IRS) data indicate that the tax gap tripled from $31.5 billion in 1973 to $97 billion in 1981. Moreover, this figure is expected to increase to an estimated $133 billion in 1985. The growth of the tax gap underscores a decline in taxpayer compliance. A decline in compliance has occurred in all taxpayer classes since the first survey in 1965. The decline in compliance has been accompanied by a decrease in the number of examinations and an even more pronounced decrease in examination coverage. Examinations declined from 2.1 million, or 2.44 percent of all returns filed, in FY 1977 to 1.8 million, or 1.84 percent, in FY 1981. The FY 1983 examination plan anticipates a further decrease to 1.7 million, or 1.67 percent coverage of returns filed. It should be noted that, though the number of examinations per examiner is declining, the dollars of recommended tax and interest recoveries have increased substantially.

IRS generates less than 2 percent of annual revenue directly from enforcement programs. The remaining 98 percent is voluntarily assessed and paid by taxpayers. This suggests that the primary objective of enforcement activities should be to foster increased taxpayer compliance.

1. Request in the first, second and third years, an additional 2,500 examination staff-years each year for a total of 7,500.

2. Reallocate at least $17 million from district examinations to the Information Return Program (IRP), which is more efficient.

3. Revise the IRP paper document input selection criteria to input all documents of exceptionally high value.

4. Request a research effort to study the direct and indirect compliance effect of IRS enforcement programs.

5. Adopt a concept of enhanced enforcement "presence".

The $8 billion in three-year savings from General Management improvements cover a wide range of Federal activities from reductions in the number of government vehicles ($1.5 billion) to more efficient travel arrangements ($984 million) and control of publishing costs ($331 million), all over three years.

One Issue, as an example, is the consolidation of SSA field offices. More than 4,300 SSA field offices could be eliminated without adversely affecting service. Consolidating offices and maximizing the use of telephone and mail contact could save $287 million over three years.

(Issue Summaries Follow)

32-593 O—84——5

PRIVATE 7

Federal Vehicle Fleet Management

Three-Year Savings/Revenue Enhancements - $1.460 billion

Percent of $28.417 Billion Total - 5.1%

Implementation Authority - Agency/Administration

Recommendations Summary

Overall fleet costs could be reduced by paring the Federal motor vehicle fleet so that utilization is increased. Private sector costs per mile decrease 25 percent when utilization increases from 10,000 miles per year to 15,000 miles per year. Private rental firms consider 25,000 miles per year to be effective average utilization. Average Federal utilization is less than 9,000 miles per year. Forty percent of the Federal fleet could be eliminated by reducing the number of vehicles until utilization equals 15,000 miles per vehicle.

Although the Federal government's total average cost per mile, including capital cost, of its owned vehicles cannot be determined with current fleet information, the 20 cents per mile reimbursement for privately owned vehicles (POVs) is less expensive than the cost of most Federal vehicles. The departments should encourage employees to use POVs for required travel.

The Federal vehicle fleet is not centrally controlled or operated. A fleet Management Information System (MIS) must be designed to capture the appropriate information about the vehicle fleet.

GSA is currently cost-effectively contracting out 70 percent of its repair cost to the private sector. It thus seems reasonable for GSA to continue to promote reduction in the number of in-house repair shops. In addition, the more than 100 government repair shops outside of GSA are possible candidates for private sector involvement.

1. The overall size of the Federal fleet should be immediately reduced by 100,000 vehicles from 436,338 to 336,338.

2. By Presidential directive, OMB should immediately initiate programs to develop a fleet MIS in all departments and agencies.

3. Federal managers should improve the operation of the remaining 336,338 vehicles by utilizing all the private sector implementation options possible, including reducing the number of repair shops.

TTM 1

Federal Travel Procurement

Three-Year Savings/Revenue Enhancements - $984 million

Percent of $1.850 Billion Total - 53.2%

Implementation Authority - Congressional

Recommendations Summary

Federal spending on travel and transportation of persons increased by 14.7% in FY 1982 to $4.8 billion, with about $1.3 billion spent on air travel alone. With limited exception, the Government pays for travel on the basis of publicly available rates and does not take advantage of discounts possible since air travel was deregulated.

1. The General Services Administration (GSA) should create a centralized travel service unit to procure travel services -- e.g. air fare and hotels -- at the lowest possible rates available to any private sector company or group. In addition, discounts in lieu of travel agent commissions should be sought when they become permissible after December 31, 1984. Regional offices should also be created to serve defined areas of concentrated Federal employees.

2. Commercial travel agents should be used where Federally-staffed centers are not practicable. However, GSA should attempt to share commissiors with travel agents.

Note: Of the $984 million total savings, $587 are fully substantiated and $397 million are partially substantiated.

PPAV 1

Publication Management

Three-Year Savings/Revenue Enhancements - $331 million

Percent of $1.728 Billion Total - 19.2%

Implementation Authority - Agency/Administration.

Recommendations Summary

Effective publication management is inhibited by decentralized authority over publishing functions in most agencies. Both the 1980 Paperwork Reduction Act and the Office of Management and Budget (OMB) Bulletin 81-16 sought to remedy this problem by mandating designation of one individual to oversee the publication review process. The Act's requirement has not been implemented. OMB 81-16 has been implemented, but the OMB-directed appointment of an administrative manager for publication review falls short of the centralized responsibility for all publishing functions required for effective publication management.

The OMB-mandated publication review process has reduced agencies' publishing and printing costs. The OMB 81-16 review process led to a reduction of 2,000 periodicals in the Government inventory and approximately $46 million in annual publishing and printing costs.

Further economies are possible by extending the coverage of Bulletin 81-16. Agency justifications for periodicals as necessary or required by law were not audited. More important, the scope of Bulletin 81-16 did not cover many agency publications. The printing costs alone of these other publications were almost $480 million in FY 1982, with the total cost of producing them (including printing) estimated at $1 billion.

1. OMB should reissue Bulletin 81-16, expand it to cover all types of publications, and make it a regular OMB circular. ($331 million based on 15% of the variable cost of producing publications)

2. Government agencies should adopt organization structures appropriate to effective publication management.

3. OMB should strengthen agencies' publication management structures by issuing specific guidelines regarding types of publications appropriate for agency publication programs.

4. OMB should develop model accounting procedures to track and report now-hidden publishing costs, such as personnel, postage and overhead.

SSA 7

Consolidation of SSA Offices

Three-Year Savings/Revenue Enhancements - $287 million

Percent of $9.387 Billion - 3.1%

Implementation Authority - Agency/Administration

Recommendations Summary

As of July 31, 1982, the Social Security Administration had 3,415 contact stations from which one or two employees travel to meet claimants in the area. The cost of these visits was estimated at $3.6 million in FY 1981. In addition, there are 640 district offices, 703 branch offices, 61 resident stations, and 33 teleservice centers -- for a total of 4,852 offices -- at which SSA personnel can meet directly with the public. However, a 1981 SSA study found that "74% of current walk-in traffic could conduct their business by telephone/mail."

1. SSA field offices could be reduced to approximately 500 from 4,852 and still handle their responsibilities effectively. Further, such consolidation would allow greater specialization of SSA employees in increasingly complex areas of SSA operations.

PROP 6

Making In-House Maintenance More Productive

Three-Year Savings/Revenue Enhancements - $1.125 billion

Percent of $2.363 Billion Total - 47.6%

Implementation Authority - Agency/Administration

Recommendations Summary

The real property maintenance budget for the Federal government in FY 1983 is $3.5 billion. In the past 30 years, there have been many efforts to use industrial engineering techniques and apply Engineered Performance Standards (EPS) to reduce maintenance costs in government-owned facilities. This activity has been less than optimal -- government-wide productivity in carrying out in-house maintenance still averages only between 40 and 45 percent.

1. A government-wide program to raise the level of maintenance productivity should be introduced. Some of the elements of such a program exist in the EPS system that has been established. The most important new ingredient must be a heightened awareness of the problem within each department or agency and a commitment to solve it.

2. Within each department, an existing central group should be designated to train those who are responsible for maintenance, modifying planning and monitoring systems as necessary, and evaluating their progress.

3. Performance indices for property maintenance should be established, both as a management tool and as performance incentives.

4. Emphasis should be placed on improving job estimates, plans, and detailed scheduling. Standards-and-variance analyses should be used to improve planning and scheduling.

5. Private sector companies and consulting firms with experience in achieving increased productivity should be used.

CONST 13

Use Innovative Methods to Mitigate Highway Noise

Three-Year Savings/Revenue Enhancements - $703 million

Percent of $5.446 Billion Total - 12.9%

Implementation Authority - Agency/Administration

Recommendations Summary

1. As of December 31, 1980, 31 states had constructed 189.5 miles of noise barriers costing $107.1 million. According to a 1981 Federal Highway Administration (FHWA) report, 1,800 miles of existing U.S. highways are still in need of "retrofit" treatment for noise abatement. According to the FHWA, it will cost $742 million to mitigate highway noise and $557 million to retrofit the Interstate highways, a total cost of $1.3 billion.

2. Noise barriers are expensive -- approximately $565,000 per mile in 1980 dollars (189.5 miles costing $107.1 million). There are innovative ways to reduce barrier mass and cost while still maintaining adequate noise reduction. Basically, these innovative steps relate to the use of computer-based optimization designs and the development of a comprehensive set of structural design criteria, based upon less conservative engineering standards.

3. To keep future noise barrier construction and maintenance costs within reasonable bounds, states (especially those receiving Federal aid) should seek and implement innovative ways to reduce barrier costs while reducing highway noise.

HHS-PHS 1

National Institutes of Health (NIH) Research Grants and Contracts

Three-Year Savings/Revenue Enhancements - $554 million

Percent of $13.339 Billion Total - 4.2%

Implementation Authority - Agency/Administration

Recommendations Summary

1. The cost of grants and contracts administration varies among institutes from a low of 2.7 percent to a high of 14.0 percent. There does not appear to be a legitimate reason for this discrepancy, i.e., there is virtually no correlation between the size of grants and the cost of grant administration.

2. NIH should mandate a ceiling on administration costs equivalent to 5.5 percent of the total cost of each award. This figure is approximately the median for all institutes ($66 million).

3. NIH should eliminate funding for equipment in research grants until universities adopt and follow policies to prevent the purchase of duplicative equipment ($256 million)

4. Reduce funding of indirect costs -- i.e., overhead costs -- by 10% ($232 million).

PPAV 4

Mail Management Improvement

Three-Year Savings/Revenue Enhancements - $550 million

Percent of $1.728 Billion Total - 31.8%

Implementation Authority - Agency/Administration

Recommendations Summary

The extent of total Federal postage and mail-related expenditures is not known. However, the total expenditures are probably more than double the $900 million estimated in 1982 for direct postal charges alone. (A 1979 National Archives & Record Service (NARS) report estimated that indirect mailing costs probably exceed direct postal charges.)

Many agencies follow uneconomical mail management practices. For example, the NARS study found that first-class or priority mail service is often used in instances where less expensive classes of mail service would suffice. The Bureau of the Census was found to be sending copies of surveys and publications by first-class mail when third-class would have been sufficient, resulting in unnecessary expenditures in excess of $400,000 per year.

Overall, the NARS study estimated that agencies waste 10 percent of their annual postage and other mail operations costs because of ineffective mail management and uneconomical mailing practices.

1. The General Services Administration (GSA) Automated Data and Telecommunication Service (ADTS), the successor to NARS, should work with the U.S. Postal Service to improve measurement of agencies' actual postage costs.

2. The Office of Management and Budget (OMB), after consultation with ADTS, should issue a directive to all agencies to evaluate their mail operations, to identify and eliminate practices resulting in excessive postage and other mailing costs. ($550 million savings based on 10% of annual non-Congressional mailing costs)

3. ADTS should continue to provide technical assistance to agencies on an expanded scale, in improving their mail management.

PROP 7

Energy Management

Three-Year Savings/Revenue Enhancements - $385 million

Percent of $2.363 Billion Total - 16.3%

Implementation Authority - Congressional

Recommendations Summary

During FY 1983, The General Services Administration (GSA) expects to pay out approximately $300 million in utility and fuel bills, of which roughly $225 million will be in direct payments from its own budget and the rest will be reimbursed by its "tenants". Despite the magnitude of GSA's fuel bills, little has been done to implement an Energy Management Control System (EMCS) which has proved highly successful in the private sector. An EMCS is an electronic data processing system that provides automated energy management capability for a building or complex of buildings, typically turning heating and cooling units on and off automatically.

1. GSA should take immediate steps to utilize high-quality, commercially-available EMCS equipment in all Federal buildings where it is technically feasible and economically helpful to do so. GSA should assess each of its Federal "tenants" for actual consumption of energy in the space under GSA's control.

2. The military services should put priority on getting existing EMCS equipment and those on order into full operation quickly and reorienting them to dollar savings. In addition, DOD should renew its investigation of installing gas and electric meters in military family housing units.

PPAV 6

Improving the Management of Copying And Duplicating Resources

Three-Year Savings/Revenue Enhancements - $328 million

Percent of $1.728 Billion Total - 19.0%

Implementation Authority - Agency/Administration

Recommendations Summary

In 1979, the Joint Committee on Printing (JCP) estimated annual costs of Government copying and duplicating centers at $450 million. Today, the figure may be as high as $658 million, although no system is in place for reporting the cost or volume involved. A 1978 survey performed by the General Services Administration (GSA) estimated that there were approximately 60,000 copiers in service in the Government that year producing an estimated 8 billion copies per year and 4,000 duplicators producing an estimated 6 million copies per year.

The Government does not collect or maintain information related to copying and duplicating equipment, volume of production, or costs. Because of the decentralized and fragmented nature of the current management of this activity, there is no comprehensive information regularly collected by a central source.

1. The GSA should provide the needed technical support services and management guidelines regarding copier and duplicator management to the agencies. The implementation of uniform, consistent policies and procedures should be a priority.

2. The Office of Management and Budget (OMB) should provide centralized direction and budgetary control of the management of copying and duplicating, consistent with the guidelines developed by GSA.

3. Within Executive Branch departments and agencies, copying and duplicating management should be centralized at the "headquarters" level under the Information Resources Manager (IRM).

4. Controls and procedures, such as those used in the Navy and Justice Departments, should be implemented for managing copying and duplicating services. ($328 million)

BUS-USPS 9

Presort Programs

Three-Year Savings/Revenue Enhancements - $280 million

Percent of $3.296 Billion Total - 8.5%

Implementation Authority - Agency/Administration

Recommendations Summary

The net savings to the Postal Service from its presort programs average 2.837 cents per piece of first class mail and 1.946 cents per piece of third class mail. Under the presort programs mailers sort, package, and bundle mail as required by USPS regulations to obtain a discount on mailing costs. Although the programs have proved a financial success overall, a 1982 GAO study found that 65% to 76% of mailings accepted as presorted did not meet specifications and required costly sorting by USPS later on.

1. USPS should aggressively promote its presort programs, increase cooperation with mailers, and revise its regulations to be less confusing and more compatible with mailers' needs. At the same time, USPS should increase efforts to ensure that mailers are doing the work for which they receive reduced rates, and to ensure discounts given for presort do not exceed savings.

BUS-USPS 17

Replacing Post Offices With Alternative Services

Three-Year Savings/Revenue Enhancements - $272 million

Percent of $3.296 Billion Total - 8.3%

Implementation Authority - Congressional

Recommendations Summary

In FY 1981, the Postal Service operated approximately 12,469 post offices -- 41.2% of all post offices -- that serviced 100 customers or less. Many of these rural post offices operate in the red by virtue of the postmaster's salary alone. The GAO identified as many as 7,067 of the post offices which could be replaced with a more economic form of service with no decline in the quality of service provided to customers. However, the current replacement process is slow -- mainly because it can be delayed by opposition from Congress and the Postal Rate Commission -- and at recent replacement rates, it will take 104 years before USPS has replaced all 7,067 post offices specifically identified by GAO. Additional post offices presumably could be replaced as well, but did not meet GAO's rather liberal criteria -- i.e., is the postmaster of retirement age; is the post office lease expiring? One alternative form of service are community post offices which are contractor operated -- i.e., do not require postmaster or his salary and benefits.

1. Congress should eliminate the current replacement process to allow the Postal Service to realize savings without depriving its customers of adequate service.

PROP 2

Meeting Space Requirements

Three-Year Savings/Revenue Enhancements - $234 million

Percent of $2.363 Billion Total - 9.9%

Implementation Authority - Congressional

Recommendations Summary

Federal departments and agencies occupying space in buildings managed by the General Services Administration (GSA) pay standard level user charges (SLUC), which have been based traditionally on comparable commercial rental rates. The current system of assessing charges is about 10 years old. The Federal average was 167 sq. ft. per employee in FY 1982. GSA has set a goal of a 20 percent reduction from that level to 135 sq. ft./employee. It has taken two years to reduce the space-per-office-employee by 5 sq. ft. At this pace it would take another 13 years to reach the 135 sq. ft. goal. A reduction of one square foot of office space per Federal employee would save $11 million annually.

1. Legislation setting a ceiling on SLUC should be terminated. Changes in rates, either up or down, should be dictated by current market conditions.

2. The GSA Administrator should be given full and complete support in the area of space allocation decisions.

3. The GSA's Office of Real Property should prepare and implement a formal plan for space-utilization surveys that covers every Federal agency and every region of the United States.

4. Each Federal agency should be required to reduce its office-space utilization rate per employee by a realistic amount and at a specific pace, to be established by that agency in consultation with GSA and using improved data from GSA. Formal action plans should be prepared to achieve the overall Federal goal within a reasonable time -- perhaps five years.

5. Space-utilization data and annual reviews of progress toward predetermined goals should be made part of the budgeting process.

FEEDING 5

Troop Feeding

Three-Year Savings/Revenue Enhancements - $167.3 million

Percent of $298.4 Million Total - 56.1%

Implementation Authority - Agency/Administration

Recommendations Summary

In FY 1982, the Defense Personnel Support Center spent $1.4 billion to procure food, with over 98% going to the Armed Forces. The Defense Department's ~~s~~ method for determining the budget for military subsistance has remained virtually unchanged since 1933. Because of outdated menu planning, excessive food allowances are provided, resulting in average cost of raw food per person of $3.57 per day. For comparison, the comparable cost of feeding college students is only $2.66 per day, 25.5% less than military personnel.

In addition many unauthorized personnel use military dining facilities with an estimated unnecessary cost of $100 million per year.

1. Defense food planning should be revised to establish a closer relationship between menu planning and budgeting. In addition, a separate feeding category should be established in Defense Department budgeting to increase accountability. Currently, funding for food is included in budget appropriations for military personnel, operations and maintenance, and military construction.

2. Defense should control access to food service facilities by extending to all dining facilities the identification card system currently under test.

LAND 2

Federal Vehicle Fleet Management

Three-Year Savings/Revenue Enhancements - $162 million

Percent of $627 Million Total - 25.8%

Implementation Authority - Agency/Administration

Recommendations Summary

The Federal fleet, primarily automobiles and light trucks, contains 318,000 vehicles. The General Services Administration (GSA) controls 90,000 of these vehicles. The other 228,000 vehicles are divided into more than 100 motor pools. The Department of Defense (DOD) motor fleet is the largest with 137,000 vehicles.

GSA establishes only general policy guidelines for the use of government vehicles. Specific policies are determined and vary widely by agency.

The complex and lengthy budgetary process leaves GSA insufficient time to standardize and determine new vehicle needs. In FY 1981, GSA needed 582 individual contracts to purchase 51,779 vehicles.

1. Analyze existing reports and data within one year and submit to the President accounting, operational, and management standards and improvements. These standards should be implemented for the entire Federal fleet.

2. Establish a government-wide fleet management information system (MIS) and address the fundamental question of whether the Federal government should be in the business of owning and operating a motor vehicle fleet. ($97.0 million)

3. Maximize volume purchasing leverage by utilizing a competitive, once-a-year, fixed price/indefinite quantity contract based upon agencies' budgets as submitted to Congress. ($60.0 million)

4. Increase vehicle resale revenues by implementing a reconditioning program for all decommissioned vehicles prior to sale. ($13.0 million)

FEEDING 3

Soy Extender In Ground Beef

Three-Year Savings/Revenue Enhancements - $83.9 million

Percent of $298.4 Million Total - 28.1%

Implementation Authority - Agency/Administration

Recommendations Summary

Currently, the Agriculture Department (USDA) purchases only pure ground beef for donation to schools under the National School Lunch Program (NSLP). Total USDA purchases of ground beef in the year ended June 30th, 1983 are estimated at $131.6 million -- of which about 85%, or $111.9 million, is donated to the NSLP -- making USDA the largest Federal purchaser of ground beef.

The Defense Department (DOD) also procures large quantities of ground beef -- $49.7 million in FY 1982 -- but its beef is 20% extended by soy proteins at an average cost savings of about 24¢ per pound in comparison to USDA. DOD has found that the extended ground beef is just as nutritious and as palatable as pure ground beef.

1. The Secretary of Agriculture should order that all USDA purchases of ground beef products contain 20% soy protein extender.

32-593 O—84——6

LAND 3

Federal Records Management

'hree-Year Savings/Revenue Enhancements - $55 million

Percent of $627 Million Total - 8 7%

mplementation Authority - Agency/Administration

:ecommendations Summary

The cost of storing government records is increasing faster than necessary due to the failure to schedule some records for disposition, the scheduling of other records beyond their useful reference life, and the lack of good records management practices within agencies.

Federal records occupied more than 37 million cubic feet at the end of 1981: 14.5 million cubic feet are in records centers, 3.2 million cubic feet are in agencies' storage, 1.3 million cubic feet are in the Archives, and the balance -- over 18 million cubic feet of predominantly active records -- are in office spaces.

The cost of storing records in a records center is $0.80 per cubic foot per year while the cost in office space is $10.60 per cubic foot per year.

The 1981 increase of 400,000 cubic feet of records represents a net increase of 1.2 billion pieces of stored Federal records, which would occupy 20 acres of storage stacked 14 feet high.

1. Establish disposition schedules (retention periods) that do not exceed the records' useful reference life. Each Federal agency should submit new disposition schedules for all records. Procedures must be established to ensure prompt resolution of disagreements regarding appropriate retention periods.

2. At least bi-annually, require Federal agencies to review and assess records management practices, and to improve files management procedures. ($54.6 million)

JUSTICE 9

Consolidation Of Port-Of-Entry Inspection Services

Three-Year Savings/Revenue Enhancements - $48 million

Percent of $850 Million Total - 5.6%

Implementation Authority - Congressional

Recommendations Summary

Currently, the U.S. Customs Services (Customs), the Immigration and Naturalization Service (INS), and several other agencies all perform border inspection services, many of which result in duplication, overlap, and unnecessary overhead.

1. The Office of Management and Budget (OMB) should coordinate the activities of the various inspection services in the short-term. Longer-term, Congress should choose one of the following methods of consolidating inspection services based upon economic analysis:

    (a) Assignment of all inspection responsibilities to Customs;

    (b) Assignment of all arriving passenger and accompanied baggage inspection to INS, and all cargo and unaccompanied baggage inspection to Customs.

FEEDING 4

Food Service Contracts

Three-Year Savings/Revenue Enhancements - $38.8 million

Percent of $298.4 Million Total - 13.0%

Implementation Authority - Agency/Administration

Recommendations Summary

The General Services Administration (GSA) administers 109 contract food service operations in Federally-owned buildings. Sales under these contracts are estimated at $65 million in FY 1983, of which Federal commissions account for only $750,000 or 1.15% of total sales. GSA costs related to providing food services are estimated at 6% of sales -- or about $3.9 million in FY 1983. GSA commissions are generally fixed at 1.5% of sales except in certain stipulated cases -- e.g., services operated by the blind -- where there is no commission. If GSA were to permit competitive bidding, commissions would likely rise to 7.5% of sales -- i.e., 6% points greater than most current contracts -- according to food service consultants surveyed by the Task Forces.

1. GSA should allow competitive bidding for food service contracts -- except for those specifically excluded such as those operated by the blind ($7.8 million).

2. To stimulate competition, GSA should eliminate restrictions on service contractors' profitability, but should retain ultimate control over prices.

3. Other Federal agencies with contract cafeteria operations -- about 250 facilities, excluding GSA, with combined sales of $643 million in FY 1981 -- should take similar steps to ensure their food service contracts offset all costs ($31.0 million).

Note: Of the total $38.8 million in revenue enhancements resulting from this issue, $7.8 million are fully substantiated and $31.0 million are partially substantiated.

Improved Cash Management can save tens of billions of dollars. The following, as examples, could save $6. billion over three years.

Just paying bills when due rather than on a first-in, first-out basis would save $2.6 billion over three years and requiring states to remit Federal Insurance Compensation Act (FICA) payments in the same manner as private sector employers could save $2.1 billion over three years.

Expanded use of the Treasury's Financial Communications System, which is currently operating at about 10% of capacity could save $1.6 billion over three years.

(Issue Summaries Follow)

ASSET 4

Utilize Payment By Due Date and Letters of Credit to Slow Disbursements

Three-Year Savings/Revenue Enhancements - $2.613 billion

Percent of $23.503 Billion Total - 11.1%

Implementation Authority - Congressional

Recommendations Summary

1. Cash management procedures can be improved through timely payment of due bills. Present practice at the Treasury's Bureau of Government Financial Operations (BGFO) is to issue checks on a first-in, first-out basis. Treasury should withhold disbursements until the date that coincides with the actual time when disbursement is required.

2. In the last five years, the government has used letters of credit in lieu of advances to provide grants to support public and private sector enterprises regarding public welfare. However, this procedure has not prevented states from accumulating excess funds. Treasury and BGFO should design a government-wide accounts payable system that allows for cash management on a checks-paid basis. This system would release funds for grants-in-aid programs as these funds are used by local, public and private enterprises.

3. Congress should modify Section 203 of the Intergovernmental Cooperation Act to permit Treasury to charge interest and penalties to states for excessive and early drawdown of funds.

ASSET 2

Speed Collection and Deposit of Government Receipts

Three-Year Savings/Revenue Enhancements - $2.145 billion

Percent of $23.503 Billion Total - 9.1%

Implementation Authority - Congressional

Recommendations Summary

1. While private companies with FICA withholding liabilities greater than $3,000 per month must make payments within three banking days of the end of a period (8 periods each month), states are allowed to transmit payments as long as 30 days after the end of the month. SSA should sponsor legislation to require state and local governments to remit FICA payments with the same frequency as private industry. This change would reduce by approximately 25 days the amount of time the states would have use of the funds.

2. The IRS should change its Remittance Processing System (RPS) workflow to decrease the time from receipt to deposit. The remittance processing technology of the IRS is the most advanced in the government and should be shared with other agencies and departments. The excess capacity of the IRS regional centers should be used by the Farmers Home Administration, Small Business Administration and the Department of Housing and Urban Development during non-peak months.

3. The Federal government could improve the collection of receipts and reduce the deficit by accelerating the implementation of a national lockbox system.

ASSET 3

Electronic Funds Transfer (EFT)

Three-Year Savings/Revenue Enhancements - $1.581 billion

Percent of $23.503 Billion Total - 6.7%

Implementation Authority - Congressional

Recommendations Summary

1. The Treasury Financial Communications System (TFCS) is a telecommunications network that provides the Federal Government real-time access to the nationwide banking system. Currently, the system is operating at about 10% of capacity. Increase agency use of the TFCS as a strong cash management tool; reduce the minimum dollar size transaction allowed on the TFCS; and initiate pilot programs for loan repayments through TFCS.

2. Certain individuals are required to pay estimated taxes to the IRS in each quarter in which income not subject to withholding taxes is earned. Revise collection procedures to use an electronic Federal Tax Deposit (FTD) system, decreasing processing time and the delay between due date and receipt of funds.

3. Use EFT for collection of excise taxes on alcohol distillers and cigarette manufacturers.

4. Use EFT to collect customs duties from import brokers eliminating the current 10 day grace period required to report and validate customs fee forms.

5. Institute procedures for automatic account withdrawal on installment payments due the government; this has been employed for at least five years in most banks and is used on a wide-spread basis by the insurance industry to collect premiums.

JUSTICE 2

Asset Seizure And Forfeiture

Three-Year Savings/Revenue Enhancements - $50 million

Percent of $850 Million Total - 5.9%

Implementation Authority - Agency/Administration

Recommendations Summary

Assets seized by the Federal Government during FY 1982 as a result of criminal or civil investigations totalled $317 million, of which cash accounted for approximately 25% or $79 million. Currently seized cash is not placed in interest bearing accounts and, because of slow processing of seized assets, General Accounting Office analysis indicates that the value of non-cash assets depreciate by 45% to 65% between the time of seizure and the time of disposition.

1. The Justice Department should develop a systematic policy to process seized assets to avoid unnecessary depreciation in value. Maintenance of seized assets should be handled by a newly-formed Asset Forfeiture Unit.

2. Seized cash awaiting disposition should be forwarded to the U.S. Treasury for deposit. This recommendation would also result in cash accelerations of $244.2 million over three years.

Reducing Error Rates in payments is an area of huge potential savings. For example, almost $4 billion could be saved over three years by more efficient enforcement of Old Age and Survivors Insurance (OASI) earnings provisions and the assessment of interest on overpayments.

The Issue Summaries which follow merely scratch the surface in this area which is part of the broader category of program waste in which PPSS has identified three-year savings of more than $160 billion.

They do, however, represent areas from which relatively near-term savings of $5.852 billion can result.

(Issue Summaries Follow)

SSA 6

Earnings and Enforcement

Three-Year Savings/Revenue Enhancements - $3.957 billion

Percent of $9.387 Billion - 42.2%

Implementation Authority - Agency/Administration: $2.977 billion
Congressional: 0.980 billion

Recommendations Summary

Old Age and Survivor's Insurance (OASI) beneficiaries are required to report any earned income to SSA each year, with annual income exceeding $6,600 resulting in a reduction in benefits. SSA notifies beneficiari of overpayments and arranges a repayment schedule -- primarily through a reduction in future benefits. There are no penalties and no interest on overpayments charged, even when the overpayment results from a failure to report income.

1. SSA should prepare a computer list of all beneficiaries aged 62-69 to ensure that earnings reports are mailed out and returned. The report should include an earnings estimate for the upcoming year. SSA should adjust benefits based on the earnings estimate ($2.532 billion).

2. SSA should accelerate development of its enforcement program that matches employers' reports with those submitted by beneficiaries ($445 million).

3. SSA should collect interest from beneficiaries who receive overpayments ($980 million).

HOSP 12

Duplicate Payments

Three-Year Savings/Revenue Enhancements - $1.131 billion

Percent of $11.912 Billion Total - 9.5%

Implementation Authority - Agency/Administration: $1.028 million
Congressional: $103 million

Recommendations Summary

The Department of Defense (DOD), Veterans Administration (VA), and the Indian Health Service (IHS) operate hospital systems. When these facilities are not available, the cost of care in a private facility is reimbursed for beneficiaries meeting specific criteria. It is estimated that 15%-20% of all VA and IHS claims result in duplicate or erroneous payments. No procedures exist to identify patients who are eligible for reimbursements from more than one government insurance program.

VA and IHS frequently reimburse the total billed charge for inpatient care. Medicare reimbursement of hospital charges is based on "reasonable costs and charges." On the average, Medicare pays 85% of the charges that remain after deductibles and coinsurance.

Claims under Medicare are processed and paid by private organizations contracted to do so, called "fiscal intermediaries" (FIs). It costs VA approximately $140 to process hospital claims and $100 for outpatient claims; IHS costs are approximately $50-$200 for claims processing. Private insurance and FIs spend $3-$6 per claim.

1. VA should pay physician and hospital claims for contract health care based on principles employed by private insurance and Medicare. ($103 million)

2. VA should contract with FIs to process VA claims in accordance with contractual agreements. The shared information system available to FIs would safeguard against duplicate payments and reduce the costs of administration. VA should continue to authorize care directly through claims submitted to FIs by hospitals and patients. ($828 million)

3. IHS should establish a fee schedule based on the Medicare allowable rates. Work is now being done on this. ($86 million)

4. IHS should contract with FIs for claims processing. The workload could be integrated with Medicare and would reduce the costs of claims processing because of the economies of handling more claims. ($114 million)

ED 2

Management Information Systems and Internal Controls

Three-Year Savings/Revenue Enhancements - $764 million

Percent of $2.828 Billion Total - 27.0%

Implementation Authority - Agency/Administration

Recommendations Summary

The financial systems currently used by the Education Department are not adequate for program oversight or for timely reconciliation with the Treasury Department. According to the Inspector General, 50,000 items which are found in error in the Education Department disbursement data file may have a value exceeding several hundred million dollars.

1. The Department should revise its current general ledger account structure to make it more responsive to both Treasury and Education's user needs. At the same time the system's focus should be shifted from timely disbursement to adequate oversight of areas with high potential for waste, fraud, abuse and error. As an additional check, audit coverage for Education programs should be increased.

PPSS estimated additional three-year savings of $10.9 billion from increased User Charges -- more than $3 billion of which could be realized near-term.

For example, $1.6 billion could be saved by charging users the full cost of Coast Guard services in non-life-threatening incidents.

Simply allowing agencies to recover the cost of their publications through user fees would save $265 million over three years.

(Issue Summaries Follow)

TRANS 19

Shift Costs of Coast Guard Services To Users And To Other Levels Of Government

Three-Year Savings/Revenue Enhancements - $1.574 billion

Percent of $4.418 Billion Total - 35.6%

Implementation Authority - Congressional

Recommendations Summary

1. Institute a schedule of user fees to recoup all direct operating and support costs associated with providing Coast Guard services to identifiable groups of marine users. These user fees would remove the burden of paying for these services from the taxpayer and place it on the users of the services ($1.554 billion).

2. Test the feasibility of relying on commercial towing enterprises to respond to non-life-threatening search and rescue incidents. Determine the extent to which private sector participation in search and rescue can provide an equivalent level of service, reducing Coast Guard costs.

3. Determine commercial capability and cost competitiveness regarding smaller buoys which constitute nearly half the Coast Guard's inventory of short range aids to navigation. These buoys are prime candidates for private sector maintenance contracts.

4. Continue to investigate whether the commercial sector can provide selected Commercial Vessel Safety services. The chief beneficiaries of these services are commercial mariners; it is appropriate, therefore, that the commercial sector provide the services for a fee.

5. Investigate whether existing Vessel Traffic Safety (VTS) systems used in selected high activity ports can be turned over to local authorities. Funding and service levels are most appropriately decided by the local community ($19 million).

PPAV 2

Publication User Fees

Three-Year Savings/Revenue Enhancements - $265 million

Percent of $1.728 Billion Total - 15.3%

Implementation Authority - Congressional

Recommendations Summary

Agencies pay most of their publication costs from program funds, with little opportunity for cost recovery. Congress often requires Executive agencies to disseminate information about their programs, regulations and research. Much of this information is distributed free of charge, with agencies paying the entire cost of publication and distribution out of appropriated funds.

The remaining publications are sold, primarily through the Government Printing Office (GPO). In these cases, the issuing agency still pays the costs of research, writing, editing, design, graphics and the initial press run out of appropriated funds. The GPO then pays to print the desired number of copies for sale to the public, and retains the proceeds of sale. None of the preparation costs of the issuing agency are recovered. The total unrecovered cost of Executive agency publication programs is estimated at $1.3 billion for FY 1982.

1. Establish organization structures appropriate to effective publications management.

2. The Office of Personnel Management (OPM) should develop revised job descriptions for professional publications, marketing and sales functions.

3. The Office of Management and Budget (OMB), in collaboration with the General Accounting Office, should develop model accounting procedures to track and report now-hidden publishing costs.

4. Agencies should have the authority to set user fees for their publications. ($265 million based on 6% of unrecovered publication costs)

USER 19

Deep Draft Ports and Channels

Three-Year Savings/Revenue Enhancements - $747 million

Percent of $10.211 Billion Total - 7.3%

Implementation Authority - Congressional

Recommendations Summary

To facilitate the use of large coal transport ships at a typical deep draft domestic port would require the expenditure of approximately $500 million for dredging. The most equitable method of paying for this dredging would be for the users rather than the general taxpayers to finance it.

1. Congress should impose a user fee based on the weight of commodities shipped to recover 100% of the cost of operating and maintaining deep draft harbors. Such a harbor would still be economic because, in the case of coal, the largest ships reduce unit shipping costs by 40%, according to Senator Byrd (D-WV).

USER 20

Inland Waterways

Three-Year Savings/Revenue Enhancements - $601 million

Percent of $10.211 Billion Total - 5.9%

Implementation Authority - Congressional

Recommendations Summary

The Army Corps of Engineers manages over 25,000 miles of commercial inland waterways in the United States, at a cost of $670 million in FY 1983 for operation, maintenance and construction. The current user fee -- based on a fuel tax -- will collect an estimated $36 million in FY 1983, only 5.4% Federal spending on the system.

1. Congress should impose a user fee based upon ton-miles to recover operation and maintenance costs. A segment-specific fee should also be imposed to recover construction costs plus interest on newly-constructed or improved segments of the system.

The preceding examples are by no means exhaustive of those PPSS recommendations which could provide near term savings. Ultimately the actual savings to be realized are dependent on the political will and commitment of the Congress and the Administration.

We are ready to help in any way we can.

32-593 O—84——7

STATEMENT OF J. PETER GRACE, CHAIRMAN, THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, AND CHIEF EXECUTIVE OFFICER OF W. R. GRACE & CO.

Mr. GRACE. Thank you, Mr. Chairman.

I know how busy you are. The last time I was here, Senator Long gave me 2 minutes, and then the bells rang, and he said I was throwing him by a picket fence. So, I hope today it won't be as bad as that.

Senator LONG. I yield to you my time for an opening statement [Laughter.]

Senator DOLE. You have whatever time you wish.

Mr. GRACE. Mr. Chairman, I am pleased to accept your invitation to address the work of the President's Private Sector Survey on Cost Control (PPSS) and to identify some of the major recommendations of the various task forces.

My name is Peter Grace. I was the Chairman of PPSS and am Chief Executive Office of W. R. Grace & Co. With me today is Mr. J. P. Bolduc, who was chief operating officer of the survey. He is the one who was in the office all the time, and there were 2,000 people, and they all, more or less, reported to him. He did a fantastic job. He really did. I don't know. We couldn't have done this work without the energy and drive of Mr. Bolduc.

I am here today particularly to suggest and to discuss possibilities for near term reductions in projected Federal budget deficits. The PPSS recommendations—now, you all have this statement before you, don't you—yes—The PPSS recommendations would result in savings of $424.4 billion over 3 years when fully implemented—I should have said if and when fully implemented. Our report makes clear that those 3 years are not a particular 3 years and certainly not the next 3. There has been a big misunderstanding on the timing because there is no way that you can say year 1, year 2, year 3 and mean 1984, 1985, and 1986, because all of these things take time.

For instance, bringing the civil service or the military retirement systems respectively down from 3 to 6 times the private sector would not become effective until the end of the century. That is a very big report, which was done over many, many months. Whether it is right or wrong is for you to decide, we are not politicians—we were only asked to look for comparisons.

Now, obviously to reduce retirement spending you have to grandfather people, so there is no way that the saving could occur near-term, but down the road, the savings are tremendous, even if you grandfather people—say through the age 45. If we recommend grandfathering everybody, etc., which would obviously be done, that is used against us by people saying that our savings aren't out until 2002. Imagine that, and PPSS are claiming savings. Savings were calculated on a present value basis, and it is all done very scientifically and very carefully. I don't feel that an argument like that should be held against the accuracy of our numbers. It could be, you know, that there are weaknesses in our numbers. We are not Solomon, but to attack us for that is really silly.

Just to repeat—all of our savings are based on year 1, year 2, year 3—if and when implemented. When 2,478 different ideas are received, each one—if and when implemented—would add up to $424.4 billion. Now, we have been criticized in using inflation, and I am going to come to that in a minute. The inflation was much higher when we started this work, and we sent instructions out. Actually, the $424 billion would be $408 billion if you take 5 percent inflation. So, in other words, the difference between 5 percent and 10 percent inflation is the difference between $424 and $408 billion.

Also, we did not take interest, and I just might say extemporaneously for one second that this number really surprised me. If Senator Dole and I had an argument—and god forbid, I would never want to argue with Senator Dole—but if we did have an argument and I wanted to cut a dollar, and he wanted to leave a dollar in, and of course, he would always win the argument because he is much more powerful than I am—that difference would amount to $73 through the turn of the century when you take in the interest and the inflation of 5 percent, et cetera. So, therefore, it is really amazing how these things mount up—whether you do them or not do them—and these numbers are not exaggerated. Anyone with a pocket calculator, you know, can prove them out if they know which button to push.

Now, we have identified for this committee hearing today before Senator Dole and his associates $59 billion of the total PPSS recommendations—savings—which I believe can be realized with minimal political resistance, which is brought out further on. As I understand, Senator, Mr. Chairman, we were sort of told that you would like to know a little bit more on the pragmatic side, and we have tried to address that issue in coming before you today.

Now, I have this background. I will go through it quickly. President Reagan decided in February 1982 that it would be useful to have a study of the executive branch of the Government by members of the private sector, and he invited me to become chairman of this effort. I have been asked many times why, and I always say I don't know why he asked me. He felt a survey patterned after the private sector study that he instituted when he was Governor of California would be useful and identifying inefficiencies, overlap and waste in the operation of the executive departments and agencies.

The President, of course, is very concerned about the tremendous increase in the cost of operating the Federal Government, which had gone up almost eightfold since 1965 from $118 billion to $926 billion budgeted for 1985, and naturally, I share this concern.

In July of 1982, the President's Executive order was issued, establishing the PPSS, and we started to organize the 161 executives who had been recruited from the private sector as the cochairmen of 36 different task forces.

Each task force was assigned to examine one or more of the departments or agencies in the Government or some functional area cutting across the whole Government such as procurement, asset management, et cetera. In addition, 11 special reports were prepared by the PPSS management office to examine areas of special interest. In organizing this effort, the private sector was requested by the President to finance the entire survey. This sounded very reasonable at the beginning, but now that I am wrestling with

$425,000 of deficit after spending $76 million, I am not so happy with the President's idea, but anyway, we will get the money one way or another.

We had to spend quite a bit of money begging—you know, will you please give us money to do this—from different private companies, and the stock answer we got was it was just another commission—nobody will ever read it. You know, you always run into the same arguments, but we did get $3.4 million in cash and about $73 million in donated services and travel expenses, et cetera.

We created a special foundation to handle the financing of these administrative costs, and all together it was about $76 million.

The 47 task force and management office reports have all been submitted and they include, as the Chairman pointed out. 2,478 recommendations that constitute $424.4 billion in savings, and that is the first handout there, and I am not going to move it today because Senator Long is not going to ask me to move the chart the way he did the last time.

The areas of program waste and inefficiency and systems failures account for $312.2 billion or almost three-quarters of the $424.4-billion total savings as summarized in the next chart. We have 443 recommendations on program waste, totalling $160.9 billion. All of these figures are 3-year savings. Subsidy program expenditures, lending programs, and debt collection activities—$151.3 billion—1,152 recommendations. In systems failures, we found a fantastic information gap. For example when I was in California, the first day the President wanted to see what I looked like, I think, so I went out to the Century Plaza. I spent about 45 minutes with him, and as he ended the meeting, he said, by the way, I think there are more Federal employees in California than there were State employees when I was Governor out here. Will you find out what all these people are doing in California? So, I said, yes, I will, Mr. President. I rushed back to Washington. The only contact we had—we had no staff—was the OMB, and I asked them if I could see a list of functions and positions in California because the President asked me to look into it. Well, they said they didn't have that information. They didn't have information as to the number of employees by State, or what they were doing.

Now, apparently, within 2 weeks, we were able to get some of this data finally, but to this day, Mr. Chairman, we have never been able—and as I understand it—nobody in Washington is able to get the list of all the facilities of the Government all over the United States. There is no such list.

At one point, we had a young secretary going through the yellow pages, and all of the telephone books, all around the country. And she got awfully tired—she said her eyes were bothering her—so we didn't finish it, but that is an example of the information gap. You cannot find out all of the facilities and offices of the Government in the United States. I know it is very difficult to say where you save money. Obviously, in a company, the first thing you do is to find out what you have got, where you are spending your money, why you are spending your money, and then you find out whether you think it is really necessary. And that is all an opinion, of course. And that is one of the problems here. What is one man's waste is very important to somebody else.

Nevertheless, the information gap we found was very, very real, and if somebody was to ask me what is the most important thing to do here in Washington, assuming that anybody would speak to me after we had finished here—of which I am not sure—I would say to get the 17,000 computers modernized, to get them interfaced and to get the information going back between them so you can get the kind of information that you need. There is all kinds of data, but it is not organized in a manner to help someone to run the thing properly.

Government finances—personnel management—there were 422 recommendations—$90.9 billion. Compensation and retirement plan, and I know that is very controversial. Structural deficiencies—211 recommendations—$12.7 billion. Central financial and administrative management and management tenure in key positions and other opportunities with 250 recommendations—$8.6 billion, which adds up to the 2,478 and the $424.4 billion.

In reality almost all the waste and inefficiency that we found in the Federal Government can be traced to systems failures and restraints put on the management of the executive branch by the Congress. There is hardly anything basic in the management of Government operations that does not require congressional approval, be it closing obsolete facilities, buying new computers, the wage scale on Federal construction projects, or just about anything that might result in greater efficiency.

One of the most prominent Congressmen after the President's state of the Union address the other day said: What is he talking about the deficit for? He is running the Government. Now, I might say that I have been in international business for over 40 years, and we are in 47 different countries with 82,000 employees, and I learned very early on that you can control anything—no matter how big it is. We could go to 160,000 employees in 96 countries, and the three systems that we have established would enable us to keep in touch with what is happening. And those three systems are: You have an organization chart set up and you decide this is the way I want the information to come through. These are the people that I want to depend on. You have a compensation system, so that people know that you are going to decide how much they get, and therefore, they have to please you and, finally, you have complete control of the capital expenditures of your corporation so they can't put on a wing of a new factory, they can't do anything—they can't even add working capital—unless they come through you.

Now, those three methodologies are the way big corporations run worldwide enterprises, and when I came down here, I was amazed to see that the President has none of those powers. Now, I am not a Government expert I know nothing about Government. I never took constitutionals. I am not a lawyer. All I know is that the President doesn't have the three powers that are necessary to run a big company, so therefore, when someone says—and I don't want to mention his name—what is he complaining about deficits for—he's running the Government—it is wrong. He isn't running the Government. But anyway, I am not defending anyone. I am saying he doesn't run the Government.

As a check on our own estimates, we employed a leading economic forecasting firm to project the Federal deficit situation with and without our recommendations—the PPSS recommendations. And they came up with the following for the year 2000. Now, that is the second chart, and I hope Senator Long can see it. Projected deficit in the year 2000. Without the survey's recommendation, $1,966 billion deficit—that is just $34 billion short of $2 trillion—and with the survey's recommendations $37 billion. Cumulatively, if all our recommendations are taken, we will save the taxpayers $1,929 billion, which is just $71 billion short of $2 trillion.

If fundamental changes are not made in Federal spending, as compared with the fiscal 1983 deficit of $195 billion, a deficit of over 10 times that amount—$2 trillion is projected for the year 2000—only 17 years from now. As unbelievable as this $2 trillion may seem, it is simply the working of compound inflation and interest and that is the power of compounding. We are taking an inflation rate of 6 percent, an interest rate of 11 percent, and I believe the average borrowing rate of the Government today is 10.75 percent, and the combined rate there is 17 percent. Now, the cumulative savings in 12 years on one dollar is $32, and in 17 years—$71. As you can see, that last 5 years it goes from $32 to $71. So, if we have about $118 billion a year savings, isn't it?

Mr. BOLDUC. In what, interest?

Mr. GRACE. No. Total savings. But if you take it at $100 billion, therefore the cumulative savings in 12 years would be $3.2 trillion and in 17 years, $7.1 trillion.

This is the message that we are carrying to you, gentlemen. The cumulative impact of the PPSS recommendations out in the year 2000 would be $10.5 trillion, or a savings of $130,000 per taxpayer, and that is the last chart there—$10.5 trillion at $130,000 per taxpayer. These are the only charts we have here. We don't have a whole bunch.

The different recommendations have different degrees of documentation and savings. Of course, they are estimates of a planning quality, rather than a budget quality. In accordance with our mandate from the President, we conducted a survey, not a detailed indepth audit.

I am, however, personally convinced that without significant changes in Federal spending patterns, we will confront ruinous deficits in line with those projected, and I might say that we worked with part-time help, and I don't know how much experience you have had with volunteers and part-time people. They can always find a reason why they can't be in Washington the next week—something has happened, and there is nothing you can do about it, and it is very frustrating, and that is why I say that Mr. Bolduc here had a very difficult task.

I feel that if we had full-time people and if we were paying them, that we could have found much more. Really, working with volunteers is very, very difficult. In addition, it should be noted that our savings estimates were based on (a) the use of a 10-percent inflation rate and the use of a 10-percent interest rate. Now, in 1982, when we started, the inflation rate was 13.8 percent and the interest rate was 14.75 percent. Our assumptions of that time were conservative and may yet prove to be conservative estimates of future inflation and interest rates. Our mandate was to examine the numerous operations of the Government as business. We used the same techniques and methods of analysis that businessmen use when they investigate an acquisition, particularly the acquisition of a failing business.

In such cases, we try to identify the changes that we would institute to make the business viable. We would try to identify waste that should be eliminated. What inefficiencies would we eliminate? What duplication or overlap would we correct? This was the approach we took in examining the Government. We did not examine major policy issues directly. For example, we did not study the merits of proposals to eliminate the Department of Energy or the Department of Education. We did not feel qualified to form an opinion on military strategy or the weapons systems, nor on foreign aid and who gets what, et cetera. And hence, we did not study these policies that were the basis of such procedures.

One might ask—as we have been asked—as to what experience businessmen have that qualifies them to examine the Federal Government. Now, I think the following that I am going to mention shows that businessmen can—they are not politicians—they don't understand how to keep people happy—they may be perceived as insensitive—but there are a lot of things that are done here that are very similar to what business does. For instance, lending money—the Federal Government is lending $764.6 billion dollars of loans outstanding—the private sector has $1½ trillion. HUD makes only three attempts to collect loans versus 24 to 36 tries in the private sector. There is a 41-percent delinquency rate on current Federal receivables. So, they don't do it the way the private sector does.

Now, maybe it is not political to do it. We don't know but it is not done efficiently. Timberland management. The Government operates 105 million acres. The private sector 347 million acres. The U.S. Forest Service gave away $235 million of firewood in the year 1981, which was 24.5 percent of total commercial timber harvested. I mean, the rest of the taxpayers who didn't get the firewood ought to, I think, know about that. Now, maybe they will be happy. I don't know, but that is what happened.

GRAZING LAND

There is 163 million acres in the Government, and 587 million acres in the private sector. The grazing program in the Federal area collected $15 million in grazing fees while providing $41 million worth of services, recovering only 36.6 percent of their costs. That is another one.

HOSPITAL MANAGEMENT

There are 177,000 beds in the Federal Government, and 1,481,000 beds in the private sector. These are just examples. We can give you many. We obviously can't sit here all day and take your time. A VA hospital in the Bronx costs $191,300 per bed which is about double the $97,400 per bed spent constructing the comparable Duke University Hospital.

NURSING HOME MANAGEMENT

There are 71,000 Federal Government nursing home beds—1,029 million in the private sector. The VA spends $61,250 per bed. to construct nursing homes. That is almost four times the $16,000 per bed cost of a major private sector nursing home operator. Those private nursing home operators do not cut corners there are some fly-by-nights, but they have been fading out, at least in New York State—so there is no reason for that differential to exist.

And that is one of the reasons why we feel—again this is a philosophical point—that when things can be privatized—which means that the private sector can operate it more efficiently—then there ought to be serious consideration given to privatizing. On ADP, automated data processing, there are 250,000 ADP employees in the Government. There are more than 2 million in the private sector. Half of the Government's computers are so old that the manufacturers will no longer service them. They don't have the personnel to do so. Additional personnel expenses for the Federal Government amount to $600 million a year. Inventory management. There is $41 million of inventory in the Federal Government. Over 99 percent is in the Department of Defense. We have $806 billion in the private sector, and the inventory replenishment techniques of the private sector would save the Government $4½ billion over 3 years on the management of this inventory. We had a very good group in there on inventory management, headed up by Ed Finckelstein, who runs Macey's, and Macey's for the last 5 years under his management, has been fantastic, and some of the ideas they have are really good.

ELECTRIC POWER

There is 244 billion kWh's generated in the Government—two trillion in the private sector. And the Government subsidized power is sold at one-third of market rate, and it costs industrial users only 2.45 cents per kilowatt hour in the Northwest, and the people in San Diego are paying 12 cents—12.09 cents—for power generated by the private sector. I noted that that was answered by somebody in Congress who said, look, this is why America is so prosperous. But I think if you ran a referendum on that across the whole country, I just don't know how they vote—because I am not a politician—but I would like to do a little betting on it myself.

BORROWING MONEY

The national debt, of course, is approaching $1½ trillion, and there is $420 billion corporate bonds outstanding, and the Federal borrowing from the public was $135 billion in 1982—33 percent of the $408 billion raised in the U.S. credit market. Now, different people have testified before Congress in the last few days that we have to get this crowding-out situation there soon. I don't know when it is going to hit, but it is going to hit soon.

R&D FUNDING

The value of the R&D funding in the private sector and the Government sector are about the same—$38½ billion Federal spending—$36.1 billion in the private sector. Now, we went through that. Many, many labs are not, you might say, coordinated. The programs and the plans are not planned properly. This is one of the toughest things to do. In our company, we spend about $80 million a year in research, and about the toughest management job we have is to keep it effective, but the Government R&D bureaucracy requires that Oak Ridge researchers consult 114 DOE offices for funding approval. Now, that can't be efficient.

TRANSPORTATION OF PERSONS

The Federal Government spends $5.2 billion. The nonuser operated transportation in the private sector is $20.4 billion. About four times as much. Since 1955—that is about 28 years—the Government has been prohibited from using private sector travel agencies and benefitting from their expertise. In 1980, the Department of Defense plan for a professional travel service was rejected by the Congress. The Government did not issue credit cards for travelers until we recommended it. That is one way to save cash—just have Government credit cards and not put out that money.

That was one of our recommendations, and they are going to do it.

PAYROLL

Civilian payroll $61.8 billion. That is $1.09 trillion in the private sector. It costs the Army $4.20 to process a payroll check versus $1.00 average in the private sectors thus 4.2 times the cost.

FREIGHT HANDLING

In the Government $5 billion. $30 billion in the private sector. The Federal Government does not negotiate volume discounts on its enormous freight charges.

BUILDING MAINTENANCE

It is 2.6 billion square feet. That is an awful lot of square feet, and it compares to over 10 billion in the private sector. The General Services Administration employs 17 times as many people and spends almost 14 times as much on total management costs than a comparable private sector firm.

In pension benefits, $19½ billion in the civil service system—$300 billion in private sector—and of course, they are three times the private sector in benefits. Pension fund assets—$96.1 billion in the CSRS. $481.1 billion in the private sector, about a half a trillion. The rate of return in CSRS in 1980 was 7.4 percent compared to 14 percent and over for a majority of private sector plans.

VEHICLES MANAGEMENT

It is 436,338 nonmilitary. 155.9 million motor vehicles privately and commercially owned. The average utilization of Federal vehicles excluding the U.S. Post Office is 9,000 miles a year, which is 64 percent less than the 25,000 miles per year that private rental firms consider to be effective utilization.

FAILURE TO RECONDITION VEHICLES

Prior to resale, as is common in the private sector, it lowers the Government resale revenues by $15.8 million over 3 years.

PROCUREMENT—$159 BILLION

Two trillion dollars in the private sector. The lack of competition or control in Federal contracts results in the Pentagon paying $91 for a 3-cent screw, et cetera.

We know—in the last few days—the bill on the jet engine with General Electric and United Technologies—this is what is keeping second suppliers in longer and keeping the competition going. It seems as though we are starting to move in a better direction that way, Mr. Chairman.

FOREIGN EXCHANGE

There is $10 billion in the Federal Government; $181 billion in the private seetor. We all hedge—we have people that hedge—versus other industrial countries, and we could save the Government $438 million over 3 years by hedging foreign exchange.

At the beginning of this presentation, I indicated possible near term savings of $59 billion, which could result from the implementation of PPSS recommendations. The possible savings achievable over 3 years are in the area of inventory management—$13.404 billion—loan management—$11.080 billion—tax collections—$10.746 billion—general management—$8.048 billion—cash management—$6.389 billion—reduced error rates—$5.852 billion—user charges—$3.187 billion. Total: $58.706 billion, or about $59 billion.

Under inventory management, more than $7 billion could be saved over 3 years by more selective use of military specifications in the procurement of commercially available hardware. More than $6 billion in additional savings would result from inventory reductions reflecting improved management techniques. These are described in the following two issue summaries from our Office of the Secretary of Defense task force report.

Now, I will not read them, Senator. I will go on very fast forward.

Is that all right, Mr. Chairman?

Senator DOLE. I was wondering at this point—since you have identified the near-term savings and, of course, some of them we don't have jurisdiction of in our committee—if we might pause and see if there are any questions from the members here, and then come back because I have some questions about specific matters that we have jurisdiction of. So, may we just give you a little break and start with Senator Long?

Do you have any questions up to this point, Senator Long? And then, I think Senator Bentsen is next.

Senator LONG. There is so much to chew on here that I need to think about this before I ask some questions.

Senator DOLE. Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman.

Mr. Grace, I note that Rudy Penner over at CBO says that the savings will probably not be anything like what you have suggested, and I notice that Frank Carlucci, the former Deputy Secretary of Defense, says that the savings estimates are far too high. I see Weinberger states that it would be cruelly unfair for the American people to perceive that vast savings could be made in this short period of time.

I think the important thing is not whether all those claimed savings can be made or the question of methodology, but whether this administration and this Congress are willing to delve into this report and look into some of the startling savings that you suggest can be made, and for that, I think that this Congress warrants giving you its real sincere and deep thanks for what you have contributed in that regard.

Mr. GRACE. Thank you very much, Senator.

Senator BENTSEN. Now, I notice, Mr. Grace, in one of these statements—the staff tells me in looking at it—that approximately $100 billion of these savings could be made by the administration, even without the concurrence of the Congress. And one of the things that you have suggested, which seems very meritorious to me and quite specific, talks about improving DOD inventory control. That would save about $6 billion over 3 years. The other requiring the DOD to purchase commonly used parts and purchase that equipment competitively and that that could save about $7.3 billion over 3 years.

Now, in looking at the budget—and this is the fourth budget that has been presented by the administration—and you have quite a number of people—experts—who are sympathetic to the objectives, I think, of having the private sector do as much of this as possible—I don't see in that budget few if any of the Grace recommendations. Would you comment on that?

Mr. GRACE. What do you say to that? J. P. Bolduc is here all the time and has been talking to his counterparts in the Defense Department, and I just feel that he would be a better person to answer that question.

Mr. BOLDUC. Mr. Senator, let me give you a little bit of an overview so we can place the question you have raised in perspective.

There have been, as you know, a series of initiatives underway by the administration to try to identify waste and abuse and root it out. One of those is Reform 88, which is headed up by the Office of Management and Budget. One was the Carlucci initiatives, and there is a series of other 29 items ongoing. The difficulty—and I have not personally studied the fiscal year 1985 Presidential budget submission—the difficulty is trying to find a specific line item where there has been a reduction specifically attributed to the Grace Commission work.

Some of it is attributed to Grace. Some of it is comingled with Reform 88. Some of it is a subset of the Carlucci initiatives, et cetera. But more specifically, let me give you off the top of my head five very specific recommendations that have, in fact, been implemented in the fiscal year 1985 budget.

No. 1, there is a $4.7 billion reduction in interest savings that comes about through the implementation of cash management techniques that the Grace Commission recommended—$4.7 billion. There is a $31 million saving that is attributed to a point Peter made earlier with respect to the issuance of credit cards in lieu of cash, which results again in interest savings. There is an estimated $53 million that will come about from the closing or the reduction in size of some 229 printing plants across the country.

There is a planned reduction—which they have come out publicly—of 40,000 mid-level to senior-level managers from GS-11 through GS-15. And there is a series of similar initiatives that have been undertaken and incorporated into the fiscal year 1985 budget.

Senator BENTSEN. And would you say—because I see my time is running out—are you talking about the initiation of—as I listen to your numbers and it is hard to get the numbers from just what you have stated—but it looked to me like you were talking about something that would be more on the order of 1 or 2 percent of what you are talking about there.

Mr. BOLDUC. If I had to venture a guess, we probably have—and this is strictly on guesswork on the basis of what I have seen happen and what I have been brought up to speed on—talking somewhere in the area of $10 to $15 billion, of Grace-attributed recommendations that have been incorporated in the fiscal year 1985 budget.

Mr. BENTSEN. Over how many years?

Mr. BOLDUC. For fiscal year 1985.

Senator BENTSEN. We are talking about a 3-year period, I assume. After you have time to study that, would you give me the specifics for the record at a later date?

Mr. BOLDUC. Sure.

Senator BENTSEN. Let me ask you just one more, if I may. You made some recommendations on some substantial alterations in the military retirement system—some $28 billion, and yet Secretary Weinberger last year and.And they are going up at the rate of about——

Mr. BOLDUC. About $100 billion a year.

Mr. GRACE. Yes; now, we have taken the social security and the military and the civilian—the past service liability—and we take it in the year 2000 to $27 trillion, so I didn't hear from Secretary Weinberger any figures as to how this is going to all be handled. It seems to me, and as I mentioned many times, I am just a businessman, but we have to take our stuff out when we build a plant because we have to know whether it is going to run to 2010.

So, when you see $27 trillion coming up in past service unfunded liabilities in 17 years, you just wonder. I mean, maybe we have to go back to the draft system. I don't know, but I don't think we are going to be able to afford this, Senator.

And of course, when you see someone—may I say this. Let's assume that inflation—let's make it simple without a calculator—is going to be 7 percent. That doubles every 10 years, as you know. Now, if you get someone retiring at age 38, 39, or 40, as they can, doubling by 48, quadrupling by 58, octupling by 68, and sixteentupling by 78—they are getting 16 times their pension that they got originally. Now, can we afford that? I don't know. I don't think so.

Senator BENTSEN. I don't think we can. Mr. Chairman, we have had an unusual situation here. The answers have been longer than the questions.

Mr. GRACE. Well, you ask good questions. [Laughter.]

Senator DOLE. Thank you. Senator Roth? I might say Senator Roth will have a lot of jurisdiction. His committee will be looking at many of the areas that you have already touched on.

Senator ROTH. As a matter of fact, the Government Affairs Committee is going over your recommendations. I look forward to your coming to that committee as well.

On the question of pensions, as you know they are being studied in my committee because we have to come up with some new recommendations. And I would urge and ask that you and your commission form a special task force to act as an advisory group to my committee so that we can get some input as to how the public pension system compares with the private side.

Mr. Grace, I would like to lay to rest once and for all this question that there are no savings to be made from waste, fraud, and abuse in Government. I am not here to say that I think that that is the total answer, but I am bothered when the head of OMB and others are beginning to say that we have done everything we can with respect to waste, fraud, and abuse. Is it a fair statement to say that the Grace Commission has found that very, very substantial savings can still be made by making Government more efficient?

Mr. GRACE. Absolutely, Senator. May I say that I have worked in the private sector for about 47 years, and I have never seen a time yet when the people in the company that is doing badly will tell you in advance that they haven't done all the things that they could do. So, this is human nature. No one is going to say, oh, no, we have overlooked a lot of things, and let these guys come down and find them.

So, I am not at all surprised with the statements that are being made, Senator.

Senator ROTH. Maybe they have been in the system too long. I don't know. [Laughter.]

But in any event, there are a number of changes in management and procurement practices. We have been spending a great deal of time, as you know, looking at military procurement. We found that a 12-cent wrench was costing almost $10,000, and so forth. But how can we make sure that these changes are instituted? You can't do it by passing a law. I mean, that is very difficult, but would it make any sense, for example, for some kind of a special task force to be created to implement these?

For example, you talk about computers. That should be able to be done rather easily if you have a vehicle for doin that. I question whether it necessarily can be done internally, because you run into many bureaucratic practices.

Would it make any sense to have a task force that is given authority—specific authority by the Congress—to implement some of these managerial changes so that we really move ahead? You talk about beds, for example. The case of beds in a VA hospital is costing what? Three times as much as to create a bed in a private hospital. Would it make any sense to create some kind of a task force to implement these managerial changes?

Mr. GRACE. Again, you are so much more experienced than I am, and you have a reputation all over the country for being somebody who is interested in efficiency all of your public life. So, I would hesitate to advise. However, we have in among our reports a Federal management system recommendation whereby the executive branch of the Government would have people in positions where they would be watching for exactly this and have the power under the President to see to it that these things are done.

For instance, these computers—you are going to need a computer czar in the Government to get this fixed, if we are going to do it at any rate of speed at all. We can't go through the Brooks Committee every time we want to buy a $3 million computer, and we ought to lease a lot of computers. This can be done, but it has to be a crash program. And the longer that we leave all of this information out there and not retained and worked on in the Government—So, I feel that if you gentlemen would look at the Federal management system report and see whether you think it makes any sense or not, and then allow these structural changes in the Government—if you would do that—I think that would accomplish a lot of what you are talking about, Senator.

Mr. BOLDUC. Mr. Senator, if I might add to that. I am not sure if what you are proposing is the proper solution. It may very well be. I do know this, however, as one who has served as a previous Presidential appointee, and now in the private sector.

There is a built-in conflict of interest. We, the Grace Commission, you, the Congress, are going to bureaucrats, to implement the Grace Commission recommendation and they have something at stake. And, when you go to a senior level manager who has, for example, 200 people and x of workload and his salary level of $55,000 to $60,000 a year is determined by the size of the staff and the size of the workload, and you ask him or her to bring about office automation to save x number of positions and x number of dollars, or ask him or her to reorganize for efficiency purposes, or to eliminate overlap and duplication—if that person loses 100 people and the workload is reduced, the first thing that happens is that the $55,000 salary drops down to $50,000 or so. In addition, the subordinate staff—some of them will lose their jobs—some will have salary reductions take place—so, you are going to the people who are going to be adversely affected if they take the actions recommended.

Senator ROTH. Exactly.

Mr. BOLDUC. And it is very, very difficult for them to remain objective. Let's be realistic. It is simply human nature at work. So, there needs to be a mechanism for a third party—unbiased people who can be fair and look at a situation and say this is good for the country—and they have to be tough-minded, because you know as well as I, the criticisms that surface when you try to change some things. I think that some outside-unbiased force—private sector—whatever it is—is probably necessary.

Senator ROTH. That is the reason I was suggesting a possible task force with real authority to act—not just to advise—because I think that is a problem. It is partly our personnel roles. My time is up, Mr. Chairman.

Senator DOLE. I think you are exactly right. I think Senator Roth can have a big role to play in this because they have to look at all the pensions and some of the other areas.

Mr. GRACE. I don't envy him.

Senator DOLE. But we do, and we are glad he can look at a lot of it. [Laughter.]

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman. I was looking particularly for the areas that are under our jurisdiction. What you have here, as I understand it, Mr. Grace, before us are the recommendations that you believe—these are the 59 billion that you mentioned in your presentation today. Is that correct?

Mr. GRACE. These are quick-fixes. Are they all under the jurisdiction of this committee?

Senator CHAFEE. No, they are not all under. Many of them are. I was just skimming through it, and it is a fascinating list. I was looking at the Post Office situation that x percent of the post offices——

Mr. GRACE. A third.

Senator CHAFEE. A third of the post offices serve 100 people or less.

Mr. GRACE. Yes.

Senator CHAFEE. But trying to figure out which ones were under the jurisdiction of us—in this list, it is mostly the tax collection system, as I look over this list. But then there are others that you have here that are not on this immediate list that deal with us—improved welfare benefit payment targetting. That is not on this quick list.

I am interested in something that isn't in this quick list, but I would ask you about because it is in your longer compilation. And that is the question of hospital beds. It is my understanding that you indicate that we have underutilized hospital facilities. What do you have to support that because, of course, this all ties in with the medicare problems that we are wrestling with here?

If you or Mr. Bolduc could respond.

Mr. BOLDUC. We have a series of reports that we used as source documents, coupled with people who have spent a great part of their lives in the area of health care services, who are experienced and knowledgeable in those areas. They have gone to prior documents and conducted an independent analysis to conclude that some of the hospitals run very, very high vacancy rates. And we did a similar analysis in the Federal Government sector, particularly in the Department of Defense where, as I recall, we found over 50 percent of total normal bed capacity in DOD hospitals vacant.

I would be happy to furnish you for the record, if you would like, the source of some of those numbers.

Senator CHAFEE. Yes.

Mr. GRACE. One of the problems, Senator, if I might put in a philosophical note here, with 2,478 specific suggestions and with the expertise that we see facing us here—people who have been in Government and in Congress for many, many years and been through all this—we probably—Mr. Bolduc and myself—could not get into a really good detailed discussion. We could, if you would tell us that you want us to come up and discuss X, Y, or Z. But we have 2,000 people, and they are a lot of great experts, and these people are prepared to testify—the ones who made the specific suggestions—and presumably you would get a lot more benefit by our kicking around with them and saying what is the matter with you—how dare you, et cetera. Because maybe they would have better answers than J.P. and myself would.

Senator CHAFEE. What I might do is work with—Now, Mr. Bolduc, are you still in Washington?

Mr. BOLDUC. As little or as much time as is necessary.

Senator CHAFEE. I am particularly interested in this hospital bed.

Mr. GRACE. We are available, however, may I say, Senator Chafee. We are available at all times. We came down here to help. I know that sometimes people question that, but we did come to help, and we are available at all times, no matter where we are.

Senator CHAFEE. Good. Thank you very much.

Mr. BOLDUC. Senator, I might mention that what we have presented here, is limited to those issues that you have specific jurisdiction over.

In the IRS, for example, there are a series of recommendations that are administrative in nature, dealing with reorganization, tax collections, et cetera. We focus on the enhanced utilization of data processing services. The overlap and duplication between the Department of Agriculture, the Customs Service, and the Drug Enforcement Agency at ports of entry is another area of potential savings.

We have a series of recommendations with respect to appeal cases that may or may not end up in court. Fifty percent of the pending cases are below $10,000 and 81 percent of the total dollar value of all pending cases are based in only 8 percent of the cases and are accorded the same level of attention as a $10,000 or below case.

We have recommendations in HHS with respect to eliminating overlap and duplication, with respect to low-income standard programs to try to develop an administrative process so that one recipient doesn't have to report his income or report his expenses to five, six, or seven agencies. But rather report to one and assure some uniformity and consistency.

Within the Office of the Secretary of HHS, we have identified overlap amongst administrative management services—payrolling, billing, payments, collections, personnel management, and data processing—within Secretary Heckler's office and the independent divisions of Social Security Administration, Public Health Service, Health Care Finance Administration, et cetera. They could save about 1,500 people through more efficient management of these support services. Social Security Administration has some 4,800 offices nationwide. We studied the field headquarters structure and concluded that you could achieve the SSA end objective with only 500 offices. These opportunities are all administrative in nature.

And I could go on and give you several more.

Senator CHAFEE. Let me ask just one quick question. As you know, in Massachusetts, they tried this amnesty program on their taxes in which anybody who paid back taxes within a certain period had to pay the interest but there were no penalties.

Mr. BOLDUC. Correct.

Senator CHAFEE. What do you think of that? Particularly if you set a limit—say, a ceiling of some type—in connection with the figures you just gave that we are spending too much time on the small ones.

Mr. BOLDUC. There are two sets of numbers involved, and Mr. Grace is considerably more knowledgeable than I am in that respect. But there is $100 billion estimated annually in the underground economy. And there is about $23.2 billion in delinquent taxes that are not being paid, which are outstanding claims which IRS is not doing as aggressive a job as they could to recover those dollars.

I philosophically have a personal problem with any amnesty program. And the problem that I have is that once you extend forgiveness, what is there to preclude somebody else cheating the next year in hopes that there will be forgiveness in another 3 years?

Mr. GRACE. And also I don't think, Senator, that the chance of getting caught today in the Federal taxes is sufficient to attract many cheaters. For instance, we have a very small amount of examinations, and they have been reducing the IRS people to examine tax returns. I think if you could do like President Roosevelt did in getting Joe Kennedy to run the SEC—if you could maybe get some of these guys that have done this for a long time and bring them down here—that we could really do a job, but I, myself, am exposed to a lot of theories out there, and I know a lot of tricks, and I think I could give people a lot of ideas. But I think today the way it is, the chance of getting caught is so small that you wouldn't get much via the Massachusetts route. That is my feeling.

Senator CHAFEE. All right. Fine. Thank you, Mr. Chairman.

Senator DOLE. Senator Long?

Senator LONG. For some time I have been thinking that we ought to permit the Government——

Senator DOLE. Could I interject that the buzzers are not indicating a vote—it is a malfunction.

Senator LONG. For some time I have been thinking that we should employ some lawyers on a contingency basis to collect Government debts which the Government cannot collect itself. There are many young lawyers who would be glad to pursue collection of debts, on a contingency fee basis.

Mr. GRACE. Terrific idea.

Senator LONG. The remark has been made here that the private companies do this all the time. If people owe you money, and the regular collection agent can't collect the debt then you hire somebody on a contingency fee basis—whatever he gets, he can keep part of it. The rest of it is turned over to the Government. I agree with you that we have let the odds get too favorable for the tax cheaters and the collection law evaders. You need to hire people to collect these debts. There is no doubt that a lot of bad debts could be collected if people were hired on a contingency fee basis to collect them.

The IRS is only pursuing a very small percentage of these bad debt cases.

Mr. GRACE. Absolutely. The incentive system, Senator, as you say, is so effective, and this whole idea of a contingency is terrific. As a matter of fact, you could do that across the whole Government. You could say you know there is something wrong with the procurement in the Defense Department, and let some good consulting firm come in here and give them one-eighth of 1 percent of what they save, and they would work here for 2 years for nothing. And we really ought to start to get the incentive system working on the economics of the Government.

There are so many opportunities that it is unbelievable.

Mr. BOLDUC. Today, Senator, there really is no incentive for a Federal employee to become more efficient and to save the taxpayer money. If he or she does, they are likely to get a reduction in salary and in grade level.

Senator LONG. Let me tell you about a similar experience I had. My 36 years of experience in Government has been that we don't have any system of identifying and rewarding these people who cut governmental costs. I have had people tell me that they did cut their costs and lost their jobs.

Mr. GRACE. It is a reverse incentive. You couldn't be more right. It is really worse than a lack of incentive system. There is a reverse incentive system.

Look at John Chad. I do not know the man. He is running the SEC. He wanted to put in the shelf registration which saves all kinds of work—you know, corporations can put or make a shelf registration on an issue debt when and if the money market conditions—that cut down the workload. They also tightened up the proxy rule, so they didn't have to read as much baloney as comes in every year

So, he was able—with what—130 people?

Mr. BOLDUC. 125.

Mr. GRACE. 125 people—he was going to cut. And he got called over, and they said, you may not cut that. You go back to work and you won't get your budget approved next year. So, this guy now is in deep trouble with 125 people in the agency and with their friends. He saves nobody any money, so why would anybody stick their neck out to do that?

Now, in a corporation, a guy would be a hero if he said he could run the thing just as efficiently with 125 people. Now, he is a bum. So, it is a reverse system. There is a minus-incentive.

Senator LONG. I have it in my own office. I brought somebody in and said this person can show us how to save some money and get better use out of the personnel we have. So, the person comes in and she makes a suggestion—of somebody we don't need. So we improve our way of doing business in the office. The next thing you know, some in my own office want this person offering suggestions to be fired. The only way I can keep her is to tell her that person stays. [Laughter.]

So, I suspect that you will find great difficulty in presenting and awarding a person who finds ways to save Government money.

Mr. GRACE. That is right.

Mr. BOLDUC. Senator, you have two very classic examples within this committee's jurisdiction currently, and I am convinced that if the proper incentives were there, millions of dollars could be saved. One, Internal Revenue Service is 2 years behind in posting income data from their W-2 forms for matchup and for compliance. Two, Social Security Administration is 2½ years behind in entering data which they get from retired individuals to determine whether they have exceeded their income limitation, and if they have, then in turn they have to pay a fine or refund some of the funds previously received. If this was the private sector, and you provided the right kinds of incentives to managers and say if you do *x*, this is what's in it for you, it would get done.

But there is no incentive.

Senator LONG. If you just start out by saying who has the power to change that in those two departments, and fire those two people. All right. Let it be known. These two people are being fired because it will save the Government a ton of money. They sat there and didn't do a blessed thing about it. You would be surprised how many others would pick up and start doing their jobs.

Mr. BOLDUC. That certainly is a form of incentive, Senator. [Laughter].

Senator LONG. I don't know anybody in the bureaucracy that got fired because he was wasting Government money.

Mr. BOLDUC. That is right.

Senator LONG. Or just doing a lousy job.

Senator DOLE. We will try to follow up if you can furnish a couple of names. [Laughter.]

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Grace, first I want to tell you I think you have done a terrific job because there is no doubt that there is a lot of waste in probably every Federal agency, including this one—the U.S. Congress. I think you have helped us help the country begin to nail down what some of those wastes are.

I also understand very much your point that in some respect the President's hands are tied. No doubt, that is true, and no doubt, Congress passes lots of legislation asking for reports—and there are some limitations—which make it very difficult for the executive branch to operate as efficiently as, say, any good managed private business.

I am wondering, though, how much of the President's own management decisions can affect some of these savings. The figure I have is about 22 percent of your total savings are savings that the President himself can implement. I am wondering if you could, for this committee—in a reasonable period of time—during the next several weeks—itemize and list those actions which the President can specifically take on his own initiative without congressional action.

I am wondering, Mr. Chairman, if we at the same time could ask the President which of those he, in fact, is going to implement this year of 1984 because I think the more we can get the ball rolling here, the more likely we can get some——

Senator LONG. If the Senator will yield, I would like to make one further suggestion. If the President would send us a suggestion on savings that he could implement if we would just give him the authority, could save us a lot more money.

Mr. GRACE. I will get right over to the White House as soon as you release me. [Laughter.]

Senator BAUCUS. I think there are two items. First, there is a category of changes he can make without congressional authorization.

Mr. GRACE. Now, maybe it would be helpful, Senator, if we could take 2 minutes and tell you what they are doing and what they have done. Will you do that, J.P.? He goes to the White House on these meetings

Mr. BOLDUC. They do have a process that is ongoing. They currently have agreed to 85 percent of the recommendations they have reviewed for implementation. But, Senator Baucus, when you mentioned a listing of recommendations which the President can take action on, bear in mind that we have done that assessment on the basis of the statutes that exist, but we have hundreds upon hundreds of examples where, even though the President is authorized—has the full power to close an office, to relocate people—where the Congress through the appropriations process has said "Thou shall not." So, though he has the power legally, he may not have pragmatic power.

Mr. GRACE. Pragmatically, I would say it is nearer 10 than 23.

Senator BAUCUS. Whatever it is, let's get the list. And let's see what we can do about it.

Second, I think the Senator from Louisiana touched on a good point about the system. I have often thought that we in the Congress should much more vigorously exercise our authority here in the Senate to not confirm some military officers who are sent up for promotion. Where some of those officers are responsible for waste and inefficiency perhaps in procurement. I think today times are changed a lot. That is, in a large respect, a military officer is promoted not because of whether he is a general on the battlefield but whether he gets his weapons systems through the Congress—first through Joint Chiefs and then Staff Joint Chiefs and OMB, and then through the Congress, and so forth.

That is, by and large, today what determines promotions It seems to me that, if we in the Congress, and particularly the appropriate committees—this committee does not have jurisdiction—were to more aggressively go into whether or not that particular officer is, in fact, responsible for some waste and inefficiency in Government and hold up his promotion, that word would get out throughout the Pentagon, and I think it would make a big difference, and we would see some savings there, too.

Senator DOLE. Let me just suggest that we have taken a look at areas in which we have jurisdiction in our committee, and the savings over 3 years is $108 billion, but $96 billion of that also requires action by Congress. I don't think we can just pass the buck to the President, and say, well, we want the President to take action, but we don't want to have to vote.

So, if we really want savings, theh we are going to have to do some things. We have added up all the different areas where we would have some jurisdiction—whether it is international trade or restraining health care costs or improving management or health care financing administration and our figures indicate that much of it—most of it—is going to require congressional action.

And therein lies the problem. We are great at making speeches, but we are short on taking action.

Senator Symms?

Senator SYMMS. Thank you, Mr. Chairman, and Mr. Grace and Mr. Bolduc. I appreciate your work and what you have done, and I think—as I have said to you before—that what would be tragic is if this work that has been done by your committee and your volunteer group of people just gets thrown in the dustbin of history like all other efforts to try to reduce Government spending.

And hearing this testimony this morning, I am glad to hear you say, J.P., about the efficiency and the nonefficiency of the Government because I think, a lot of times, people get very confused out there, and say what they want is an efficient Government, but in many ways if you are out there running a business, from my perspective anyway—thank God, we don't get all the Government we pay for. If they were any more efficient out there in Idaho with the Immigration and Naturalization Service, we wouldn't have any potatoes to harvest, and so forth.

So, I think that the real problem is that the only answer is to cut the Government spending, and I think Senator Long touched on a very important point. Should we just give the administrator, whoever he is, the authority to cut 10 percent out of the budget and tell him you are going to have 10 percent less, and make just a couple of rules that they can't just fire all the workers in the field—that they have got to fire some of the generals of the head office along with them—it wouldn't cause any problem at all in this country.

Do you think it would cause any problem if we just reduced our budget by 10 percent?

Mr. GRACE. May I say this? I mentioned in a talk the other day—the only way this is going to be done is the way the social security situation was fixed, and that was that people got together and cut a deal. Now, if we are all worried about a $200 billion deficit—if we are worried about a $2 trillion deficit in the year 2000—then I do think that we ought to sit down with some good mathematician forecasters and look at the 962 social programs and see the formulas that are in these social programs and look at the demographic changes that are going to happen in the next 5 or 10 years and see. Now, we know medicare is going to be $200 to $300 billion in the red by the mid 1990's, and that is no secret.

And we can go on and on with all these things. You are going to see we are very close to $2 trillion in the year 2000. Let's call it $1 trillion, but it is much nearer $2 trillion. Now, if that is true and if we accept it and we are loyal Americans, and if we have children and grandchildren—you are too young for grandchildren, Senators——

Senator SYMMS. Not too much. I am just 6 months away. [Laughter.]

Mr. GRACE. But I have 12 grandchildren. If we are worried about them, we have got to sit down without partisanship—and I am just a guy, you know, I am not a politician—I love everybody—and we sit down and cut a deal, and if the Congress would sit down with the administration and cut a deal, and say bring the private sector in and let them work on a contingency basis as Senator Long pointed out, and let these things get done, then I think you can cut 10 percent so easy.

As a matter of fact, when we came down here, we figured it was somewhere between 8 and 15 percent, and that is the range. Anywhere you go. You can go to the biggest corporation—the best run corporation in the world in Europe, and I have had business experience all over the world—and it is always 8 to 15 percent, Senator. And it can be done. But it will never be done if we all make speeches and we all make statements, and we don't sit down and say let's do it. And it can be done—easily—really.

Mr. BOLDUC. I have never personally seen an organization—in both sectors, the public and the private—where you couldn't come in and slash 12 to 15 percent and still run an efficient shop. If you just take a couple numbers—there are about 7,000 senior executives in the Federal Government—these are supposed to be the best and the brightest that manage the bureaucracy. If everyone was given an incentive and said if you can reduce the size of your operation—in some cases, with congressional support and cooperation—cut it back by 10 percent, and we will give you $20,000 if you meet your numbers, cutting it back by 10 percent would give you about $90 billion in annual savings, and it would cost you $140 million. Or a return of about 600 to 1.

Senator SYMMS. I hope we can do it. I have seen in my State—where we have a lot of Government land—the Forest Service and the Bureau of Land Management manage it. They used to cut twice as much timber and sell twice as much timber as they do today, with 10 percent as many people as they have got now. Now, the biggest parking lot in town in most places is either the BLM or the Forest Service park. They have all those new trucks out there, and all the people in the office. If you try to cut their budget, they fire the people that plant the trees, and the guys in the office are still left. So, I am convinced that there isn't any place we couldn't cut 10 percent at least. And we should. But as far as we are concerned, in the Congress, the only thing we can do is just cut the appropriations, and then let the administration handle it however they want to, but we have to give them just enough flexibility—I think they could do it.

Your suggestions are so good that I personally, as one Member of the Senate, am going to continue to pursue this as long as I can. We are going to hold some hearings in the Joint Economic Committee on the same subject and how some of these things could be privatized—to get the Government out of it.

I was shocked to find out that the Federal Government runs the eighth largest chain store in the world through the Pentagon commissary system, and I am sure it is important in many places, but in some places, I am not sure there is even a savings for the soldier because they can go to Safeway's and Albertson's or somewhere like that and get the same kind of a deal.

Mr. GRACE. That is right.

Mr. BOLDUC. That is a $785-million-a-year subsidy.

Senator SYMMS. I think my time has expired. Thank you, Mr. Chairman.

Senator DOLE. We want to ask a few more questions before you proceed. Did you go into the Tax Code at all? Did you get into that? That is filled with a lot of gravy, too.

Mr. GRACE. We didn't as a commission, but I have all along, Senator, so if there is anything—I know that I am facing one of the greatest tax experts in the world, and so I am very nervous, and Senator Long is out of the room, yes, we did look into it. We looked into all the tax expenditures. Sixty percent of the total potential tax expenditures hit people who have incomes—taxable incomes—of $50,000 or below. So, there is not as much meat in that turkey as it might appear on the surface. Senator Metzenbaum challenged me on that quite recently, and he had some information on certain corporations whose executives had served on this Commission, and he found out what their domestic tax payments had been in the prior year.

And I told Senator Metzenbaum—all in good spirit—that I didn't think he was entitled to have that information. I thought it was secret, but we do have 66.6 percent of all the so-called tax expenditures would come under the heading of those with adjusted gross incomes of under $50,000. I have a list on that if any of you Senators would like to see that. It shows where it comes and it is ranked high to low.

But, yes, we have looked into the whole tax situation. because, Senator, may I say, that we were concerned when we saw that the median American family is paying $2,218 up from $9 in the 1940's—246 times more now. If you adjust that for inflation, it is $45, so it is 50 times greater now and 90 percent of all the taxable income comes below $35,000.

And if you took all the income of everyone earning over $75,000, you would run the Government for 7 days. So, we did try to put that in that kind of a context, Senator, but we don't have anything like the tax knowledge that you have.

Senator DOLE. I just think we have to have a balanced effort here. I mean, there are some people who want to look at just one side. It is like any other program. Some people's loopholes are incentives to others. But, again, some of these provisions have been in the Code for 10, 20, 30, 40 years, and they ought to be revisited. Just as the food stamp program, medicaid, post offices, and everything else ought to be revisited.

Mr. GRACE. Right.

Senator DOLE. So, even though the 60 percent goes to the nonrich—that doesn't really say a great deal when we are talking about the corporate world and the very high incomes there.

Mr. GRACE. We have taken it on the individual taxes of where the biggest thing is. The net exclusion of pension contributions and earnings is $24.35 billion, and of that $18.029 billion—or 74 percent of that total—comes from those with adjusted gross incomes of under $50,000. So, the whole point was that we have $104.3 billion of the so-called tax expenditures of $156.6 billion in the year 1981. As you know, there are delays in getting these number out.

Senator DOLE. I don't have any quarrel with that.

Mr. GRACE. There are a few people where the adjusted gross income—and the adjusted gross income under 50 is a tax income of about 35, 40, or something like that—is that right?

Senator DOLE. The only reason I make the point is that there has been some criticism that business executives like to get together and decide we ought to cut food stamps and medicaid, but let's don't touch any of the tax breaks they enjoy. Now, that is not what you have stated.

Mr. GRACE. That is not my position at all, Senator.

Senator DOLE. Right.

Mr. GRACE. We didn't come down here to make that kind of policy. All we are saying is that, on the income taxes, 90 percent of the money comes from workers earning below $35,000, so people that say that President Reagan's tax cut—which didn't give anybody much more than the increase in the social security taxes, as you know—nobody below $35,000.00 has gotten terribly rich. It has been an increase in the discretionary disposable income of about 2 percent or something like that through these tax cuts. So, all we are saying is that it is not the Reagan tax cuts that have caused the problem because these people—in these lower brackets is where 90 percent of the income is—and that is not what you hear. You hear some congressional spokesmen and they don't say that, and all I want to do is get the situation in proper factual context. That is all I want to do.

Senator DOLE. I think an exhaustive review of the code would indicate that there are a lot of social policies, too, in the Tax Code—the child care credits in some cases go to people with $100,000 of income. So, there are a lot of things which could be looked at in the Tax Code. I am not trying to specify which ones. We are talking about tightening up everything, and my next question is going to be: Did you spend much time on the congressional budget? On what it takes to run the Congress?

Mr. GRACE. It is $1.3 billion.

Senator DOLE. Did you make some recommendations?

Mr. GRACE. No. We were asked not to have anything to say to that at all, and I certainly would not. I just know how much it costs, and I also know there is only one thing that bugs me, if you don't mind if I get something off my chest. That is that the congressional pensions are three to five times the FAC—final average compensation—as the private sector, and now they passed the so-called TEFRA law, and they took the corporate pensions, which are paid by the corporate sector, and reduced them to the point where the congressional pensions were three times the final average compensation of the private sector, but then when they did put in the limitation reducing it from $136,000 to $90,000, and now Congressman Rangle says that is going to start being indexed again in 1986. He said oh, no, we put that off until 1987.

But that raise—the congressional relationship on corporate pensions—from three to five times. So, I don't quite see the consistency in passing a law to reduce what corporations can put aside for their executives when the Congress is already getting three times the percent of final average compensation. I don't want to see Congress denied anything, because I think they are great people, but then you pass a law and say now it is going to be five times. So, we have got a new law now. You bums aren't going to get these pensions. I don't see that is too fair or consistent, but it is none of my business.

Senator DOLE. We are not required to be consistent. But, on the other hand, you could say most of these CEO's are making $500,000 to $700,000 a year. So you get paid while you are working, and we get paid when we retire. [Laughter.]

Mr. GRACE. That is right. The only difference. You are absolutely right. And you get a lot more glory, too.

Senator DOLE. When we retire?

Mr. GRACE. No, when you are here. [Laughter.]

Senator LONG. The average successful lawyer is making more than a Member of Congress is being paid.

Mr. GRACE. The one thing I never can understand is why there is so much competition. Why do people spend so much money to get elected, if it is such a lousy paying job?

Senator DOLE. We are all optimistic. We think it is going to change some day. [Laughter.]

Or maybe we will be on some commission later on. [Laughter.]

Senator LONG. I will tell you why I did it. I thought I might be able to contribute some good for the country, Mr. Grace. If I couldn't make more money than I am making at this job, I shouldn't be on the Finance Committee.

Mr. GRACE. I would pay you five times as much just to talk to me 10 minutes a day. [Laughter.]

Senator LONG. I will settle for that.

Senator DOLE. And if you will leave your number, we will all call you. [Laughter.]

Mr. GRACE. I would rather talk to your lovely wife.

Senator DOLE. She will be here tomorrow at 2 o'clock. [Laughter.]

Senator Roth has some questions. I do want the record to indicate that this was a bipartisan commission. They were not only businessmen but businesswomen who made contributions. What did you have all together? A couple of thousand people involved? Most of them are volunteers, as you have indicated, and most of the cost was picked up from the private sector.

Mr. GRACE. All of it. Excuse me, not most. All.

Senator DOLE. All of it was picked up from the private sector, so it is not the President's commission. It is one that he appointed.

Mr. GRACE. That is right. We have no idea what the partisan politics or political leanings of any member of our Commission—maybe one or two I know personally—but I mean, we didn't care.

Senator DOLE. I don't even know your politics.

Mr. GRACE. I don't have any politics.

Mr. BOLDUC. You may not want to know, either. [Laughter.]

Senator DOLE. I think he is probably listed as a Democrat, which I think is fine.

Mr. GRACE. My grandfather came from Ireland with no education and got elected mayor of New York twice—once on the Tammany Hall ticket and then he beat them as an independent, so I can't decide which was right, so I am sort of hanging between the two.

Senator DOLE. That is a good place to be. [Laughter.]

Senator Roth?

Senator ROTH. Yes. I would like to go back to some of the problems we have jurisdiction over here in the Finance Committee. I agree with something you said earlier—that probably nothing is going to be done unless you can get some kind of a bipartisan consensus because isn't it true that there is going to have to be some basic reform of the various entitlements? We cannot balance the budget strictly by waste, fraud, and abuse, which we agree is a major item.

Isn't part of the problem that people are living longer? And as a result, we are paying out more on these various programs. As you mentioned, the military program. They can retire at age 40. My 14-year-old daughter was told that the average person of her age will live to be 125. So, don't we have to address this question of what is the proper age of retirement, or not?

Mr. GRACE. What do you think, J.P.?

Mr. BOLDUC. I think there are two points to that. If you take a look at the entitlement programs—and let me share with you a couple of numbers which ties into what Peter said earlier with respect to the information gap—there are 34 million poor people in this country. Studies have been done to demonstrate that to take those 34 million people out of poverty would cost the Government $55.7 billion. This Government spends annually $124 billion a year on means tested programs, which are supposed to go to those at or near the poverty level and below. Of that $124 billion only $36.7 billion ever gets to those at, or below poverty.

Now, the bottom line is that in no place in the Federal Government today are there any data that shown who gets how much from what programs. Therefore, Senator, if you have a cash income of $9,000 a year, and the poverty level for a family of four is roughly $9,850—you are considered poor. Let's assume I have a cash income of $12,000. And with a family of four, I am not considered poor. However, you can then participate in the food stamp program and get $3,000 a year in food stamp benefits. Those benefits are not considered cash—they are considered in kind benefits, so you are still considered poor. Those $3,000 are also tax free.

You then participate under section VIII for housing subsidies and receive another $3,000. You are now up to $15,000 a year—that's now $6,000 that is tax free. I am at $12,000, earning a living. I am taxed on it. You are not taxed on your benefits. But nobody knows in the Federal Government knows how many people are earning how much when you consider in-kind contributions plus their cash income to determine whether, in fact, the intent of legislation is being complied with.

For example, today you have 34 percent of those participating in the food stamp program that are at an income level of 150 percent of the poverty level and above. The law calls for only 130 percent of poverty and above. You have 46 percent of the American people that are participating in housing subidies that are at the income level of 150 percent and above. So, what has happened is that the in-kind contribution is not being considered towards determining one's total income and therefore, when the food stamp program was passed, it said that you could only participate if your income does not exceed 130 percent of poverty. We now have 34 percent that are at 150 percent and above. There is no data base.

There is an information void. Nobody knows how many individuals receiving are how much from the multiplicity of subsidized programs.

Mr. GRACE. But we do know that it is about $70 billion more than what would theoretically be necessary to raise these people from below the poverty level, so somewhere along the line, we are losing $70 billion. And the only way we can find out the real details on that is to get the information that we are talking about. That takes management and that takes decisions, and then if we can get out of calling everybody insensitive and lacking in compassion—I mean, I think this is one of the things that is ruining the idea of getting the information.

Let's get the information. Find out who is getting it. What the situation is. What would it really cost to get these people above the subpoverty level. And then start calling us names after we have the information. But let's first get the information. I know that we have to get back to calling names, but if we could stop the name-calling for maybe 6 months and get the info, then we can go back to calling names again.

Senator LONG. While you are on that subject, if we could make just one other suggestion and say we are not going to pay anybody—anybody—for doing no work if we can pay them for doing something productive.

Mr. GRACE. Right.

Senator LONG. Many of them wouldn't be asking for the grant or a gift if they had to do a little work for it.

Mr. GRACE. That is right.

Senator LONG. They would say, gee, if I have to do some work, I might as well get me a real job.

Mr. GRACE. You know, Senator, I have a sister who is ill—quite ill—and she has been looking for a cook for 18 months. We cannot find a cook, and we have had employment agencies, we have had friends looking. I don't understand all this suffering, and we can't find a cook for this sick girl. This is my problem.

Senator LONG. That is par for the course. When you find an applicant, they say they are interested in doing the work provided you pay them in cash with no records being kept.

Mr. GRACE. That is it. All in cash.

But I don't have enough cash on me to do it. [Laughter.]

Senator ROTH. Let me go back because it seems to me the problem is even more complicated than perhaps you outline because you also have whatever the State and local government give in kind. Frankly, I tried to get General Accounting Office—about 4 years ago—to make such a study. One of the things that bothers me is that the guy or gal who works for cash is not paying taxes, so you have a built-in inequity there. I mean, the person who has got a job—a lower paying job—and is getting none of the benefits—pays taxes, so it almost appears that the system promotes your going onto welfare. You are better off if you don't pay taxes. Would you agree to that?

Mr. GRACE. Right.

Senator ROTH. And I am not suggesting that we should tax those, but I think that is unfair because you will find in some of your large urban areas people who are getting, including in-kind programs, incomes up to roughly $20,000. Maybe more. I am not sure today.

Mr. BOLDUC. In New York State we found that, you could receive 142 percent of the minimum wage by being on welfare, rather than working.

Mr. GRACE. Right. 142? That is in the State where I am looking for the cook. And I should move somewhere else. But this is a real problem. Really, Senator, nobody has the proper information. If we could get the information—and it can be easily done—then this thing can be sorted out, and I am sure we have not got in our numbers, that it would be another $40 billion in savings, at least.

Aren't you sure of that?

Mr. BOLDUC. I am not sure———

Mr. GRACE. Well, get sure. [Laughter.]

Mr. BOLDUC. The one thing we did recommend, Senator, was the issuance of a W-2 form comparable to the W-2 form that everybody receives at the end of the year when they are employed. We recommended that every Government agency making any subsidized payment—and there are 962 programs costing $408 billion a year in subsidized payments—any individual receiving a payment would at the end of the year—issued by the Government agency—receive a W-2 form and a copy of the W-2 form would also go to IRS. Not for tax purposes initially, but to get a lay of the land and find out who is getting what and at what level to determine whether some of the intent of the legislation is being complied with. Nobody knows.

Senator ROTH. My time is up again, Mr. Chairman.

Senator DOLE. Mr. Grace, the major recommendations which you suggest and which deal with the Finance Committee, are to improve welfare benefit payment targetting by subjecting all Federal benefit payments to income tax—that saves $60 billion; limit increases in Federal health care costs to the growth rate of the overall economy—$23 billion; prospective reimbursement for hospitals and limiting physicians fees—I think that may overlap the previous proposal—about $11 billion; enact a revised combined welfare administration plan for AFDC medicaid and food stamps—that is about $1 billion; make greater effort to collect delinquent taxes—$1.1 billion; increase the IRS examination staff, which would be a revenue gain from increased compliance of $2.9 billion.

Now, as I have indicated, many of these the President might be able to do on his own. But let's face it, 90 some percent would require action by Congress. I am not sure you are prepared to touch on those specific areas. I know later on in your statement you do mention many of these general areas. I promised Senator Bradley if he were back I would yield to him. When he is finished, I hope you could touch on these proposals. If not now, perhaps you could furnish us information later. There is some dispute about whether you really suggest that all Federal benefit payments be subject to tax.

Mr. GRACE. We did not.

Mr. BOLDUC. We did not. What we suggested and the way we arrived at our calculated savings is that we said that if you took the 34 million people currently in poverty and brought them up to 125 percent of poverty, that you could save $59.1 billion over 3 years, compared to the $124 billion you are currently spending.

What we recommended was that you collect the information, get a lay of the land, determine the extent to which you want to take corrective measures, assess the extent to which all subsidized programs are meeting the intent of the law, and then take action.

One option may be to establish a cutoff line that says anybody getting subsidized benefits with income above $25,000, $15,000, $40,000—would get taxed.

Mr. GRACE. But first we have to have the information. That is all we are saying.

Senator DOLE. I think there has been some misunderstanding about that.

Mr. GRACE. There has been.

Senator DOLE. But we are starting to tax social security benefits under the compromise.

Mr. GRACE. Yes.

Senator DOLE. It is a recapture. It is, in effect, means testing the program.

We don't call it that. And there are some who say you ought to apply some means testing to medicare and some of the other programs. I think you are probably correct. We keep raising this limit up here and more and more people qualify for the programs——

Mr. GRACE. That is exactly right.

Senator DOLE. And that is a problem. Senator Bradley?

Senator BRADLEY. Thank you, Mr. Chairman, very much. Mr. Grace, let me say that you have certainly provided us with the menu for action here. I think that it is a menu that all of us will look at very carefully. When we think about the budget, you know, we think in broad slices of a pie—defense, roughly a third—entitlements, mainly social security and medicare, a little over a third—and the other third being the rest of Government. About 150 of that this year is interest—so the rest of the Government is about $150 billion.

As you look at your recommended 3-year saving of $424 billion, how would you allocate where those savings will be made, among those three slices of the Federal budget?

Mr. BOLDUC. You have, Senator, approximately——

Mr. GRACE. You can't really do that, J.P., because we have got revenue enhancement, greater tax collection—in other words we have got quite a bit of revenue increases, too. So, we can give you a scientific breakdown of that, but it isn't that simple to take the $424 billion and allocate it among those three. Right?

Mr. BOLDUC. Yes. If you include revenue enhancement, you have roughly $100 billion in defense. You have approximately $60 to $70 billion in entitlement, HHS, social security, et cetera. And the remainder would fall in the other.

Mr. GRACE. Yes.

Senator BRADLEY. $100 billion in defense.

Mr. BOLDUC. These are 3-year savings.

Senator BRADLEY. And the other what?

Mr. BOLDUC. You would come up with about another $160.

Senator BRADLEY. No, $260, wouldn't you?

If you have $100 billion out of defense, and $60 billion out of entitlements, then that leaves you roughly what? That leaves you $260. $260 billion. So, $260 billion comes out of that third slice of the pie of which the whole Federal budget is $150 billion.

Mr. GRACE. That is right. But this is a 3-year savings.

Senator BRADLEY. I understand that. Multiply three times 150—you are at 450. And you are going to cut——

Mr. GRACE. We have a lot of revenue enhancement. We would be very glad to debate this issue with these numbers with you, Senator. It would give us a chance to get our numbers together because you are making monkeys out of us at the moment, and I am used to having a monkey made out of me, but I don't want to admit defeat quite yet because I know our numbers are correct.

Mr. BOLDUC. The one item on subsidized program I eliminated was some $59 billion. You are probably talking about another $100 billion in transfer related programs. So, you probably would end up with about the same breakout—one-third, one-third, one-third.

Senator BRADLEY. Could we get a little firmer fix on that? Maybe you could provide that for the record?

Mr. GRACE. We will write you a letter this afternoon, but we have to go back and get all of our numbers out.

Senator BRADLEY. Good.

Mr. GRACE. At the moment, you win. [Laughter.]

Senator BRADLEY. I don't look at this as an adversary proceeding. I look at it as a chance to clarify, really.

Mr. GRACE. And that is good.

Senator BRADLEY. And that is what I hope to do.

Mr. GRACE. At the moment, they are unclarified.

Senator BRADLEY. OK. Let me ask you this. In your recommendations, you say you recommend savings of $23 billion to limit increases in Federal health care costs. How would you do that?

Mr. BOLDUC. Very briefly, the rate of increase in health care costs has exceeded inflation by a factor of 40 percent. We would propose to cap the rate of increase to the rate of inflation and develop a competitive process whereby the marketplace would enable hospitals to compete for Government paid services and provide the kind of incentives that Senator Long was talking about earlier while you were away.

Mr. GRACE. Actually, if you want details on that, Senator Bradley, we would bring Mr. Hoffman and Mr. Mangiaracina down, both of whom have been in hospital management for many years, and they did a great deal of work on that. You know what I mean—to get the how-to-do down in details, we need to have those people with us because they worked for many months on that study.

Senator BRADLEY. Sure.

Mr. GRACE. One was the president of a hospital and the other has been an advisor in the New York hospital system for quite a number of years.

Senator BRADLEY. If I could, then, I heard the buzzer but I see the chairman is diverted—maybe I can ask one more question. You recommend some so-called revenue enhancements. My question is this. Do you have any thoughts about how we uncover the underground economy, which is estimated anywhere from $100 to $300 billion?

Mr. GRACE. We have a lot of thoughts.

Senator BRADLEY. Now, suggestions that I have seen in your proposal are primarily improved collection.

Mr. GRACE. Yes. And to have a greater number of examiners, et cetera.

Senator BRADLEY. But basically, you put a bigger stick out there for violators?

Mr. GRACE. Yes.

Senator BRADLEY. One of your suggestions that I would like to know a little bit more about is called volunteer IRS taxpayer service. What is that and how would that work?

Mr. BOLDUC. First of all, one of the things we identified is that there is an absence of an effective methodology within IRS in order to be able to forecast workload and person years of effort. We found a series of various functions and activities which we felt could be performed by volunteers from outside government if properly trained so that you could free up the available time of the agent who, in fact, is the one that is the most effective in recouping those tax losses or recouping those claims.

Mr. GRACE. Here are the numbers. Why don't you read it to him? I mean, this is very complex. Why don't you read the whole thing?

Mr. BOLDUC. OK. Use of volunteer professionals to staff IRS taxpayer service program. The taxpayer service program assists taxpayers in voluntarily complying with U.S. tax laws through a toll-free telephone system, walk-in counter service, and a correspondence program. In fiscal year 1982, the IRS answered about 40 million phone calls, of which 63 percent related to tax law inquiries, 13 percent to forms and publications, 12 percent to account information, and 12 percent to other areas.

A recent GAO study showed that about 11 percent of all taxpayers contacted IRS by phone and 9 percent in person during the 1982 filing season. The fiscal year 1984 budget includes a 35-percent reduction in taxpayer service, to be accomplished through sharp cutbacks in answering tax law inquiries over the phone or at IRS walk-in counters.

However, about 75 percent of taxpayers who contacted IRS felt that not being able to get a response from IRS would create serious problems. IRS will be implementing a system that will allow taxpayers to receive prerecorded messages regarding tax law issues with a cost of 58 cents versus $1.55 to handle calls personally under the current toll-free system. We recommended establishing a core of volunteer professionals made up of retired IRS personnel, retired CPAs, lawyers, et cetera to perform the services recently cut from the taxpayer service budget. They would answer tax law inquiries, and provide self-help instruction only. Account inquiries would continue to be handled by paid IRS employees.

So, we would place them in nonessential functions.

Senator BRADLEY. So, as I understand that, when was it—last year, or the year before last—that we eliminated that taxpayer service to save money, and IRS cut that budget. You propose that we would now try to provide that service with volunteers.

Mr. BOLDUC. I would say that even if the cutback was not there, that since these functions are nonessential to the effective mission of that organization, the service could still be provided by volunteers with a commensurate savings.

Senator BRADLEY. And does the IRS stand behind the advice that the volunteer gives?

Mr. GRACE. They stand behind some of the advice they give themselves, so they wouldn't be taking much more risk in doing it that way. By the way, I have a preliminary answer to your question. You know the bookkeeping down here is so screwed up that when you get a $850 billion outlay budget, it is really $1.8 trillion because they all set revenue against expenses, and they don't accrue for the pensions, which they should be. So, the real deficit last year was $450 billion, but the money that we are talking about—the $424 billion—is out of $1.3 trillion. So, what I mean is, we can't just take the total expenditure and apply it that way. We are taking it out of $1.3 trillion. You will get the answer later, but it is not something you can take the total budget and do it that way because the total real outlay of this Government is $1.8 trillion a year, including the reserves they should be setting aside for pensions.

So, it ain't no $900 billion—it is $1.8 trillion. I just wanted to mention that.

Senator BRADLEY. One of the reasons that I asked the question was that I will be asked this question at a town meeting. "You know this Grace Commission Report—how does it affect entitlements, defense, and the other part of the budget?" And I would like just to have an answer.

Mr. GRACE. Take the best answer today. I think it is: Madam or gentleman, or sir, there are 2,478 recommendations embracing $424 billion, and when we have got them studied, I will answer your question. Because one of the things that worries me about this is we have got all these instant experts in Washington who 3 days after we issued 23,650 pages of reports, with 2 million backup pages, can tell you it is a lot of baloney, and start with George Will, the Pulitzer Prize winner. He must be the fastest reader in history. [Laughter.]

Senator BRADLEY. I will see him today, and I will give him your regards.

Mr. GRACE. You do, please. [Laughter.]

Senator DOLE. What are there—47 volumes?

Mr. GRACE. Yes. Forty-seven volumes, including the President's report—48.

Mr. BOLDUC. Forty-eight with the President's report.

Mr. GRACE. Forty-nine. There are two volumes of the President's report, and 47 total reports, Mr. Chairman.

Senator DOLE. Are those available in one place?

Mr. GRACE. Yes, sir.

Senator BRADLEY. The Library of Congress.

Mr. BOLDUC. We could have them available to your office this afternoon if you would like them.

Senator DOLE. Well, let's wait a while. I don't want to——

[Laughter.]

Senator DOLE. Has anybody read all 49 volumes? Somebody must have.

Mr. BOLDUC. The two people you are speaking to have. I can assure you of that. No, but in all seriousness, the Government Printing Office has made it possible for the public to write in or to call in and pay for a copy of the report. The Department of Commerce had them available prior to the public meetings we had, so they are available.

Mr. GRACE. If you want to buy them all, it is $1,600, isn't it?

Mr. BOLDUC. That is right.

Mr. GRACE. And that is ridiculous. $1,600 is what it cost to buy them because of the cost of printing, but Bantam-MacMillan is putting out the President's report in 4 or 5 weeks, and it is going for $9.

Senator BRADLEY. Who do we write the check out to if we want to buy one for $1,600?

Senator DOLE. The Government Printing Office.

Mr. BOLDUC. You would make it out to the Congress, who controls the Government Printing Office.

Senator BRADLEY. It is $1,600?

United States
Government
Printing Office
Washington, D.C. 20402

ASSISTANT PUBLIC PRINTER
(Superintendent of Documents)

May 2, 1984

Mr. Roderick A. DeArment
Chief, General Counsel and
Staff Director
Senate Finance Committee
219 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

The Assistant Public Printer for Production, Mr. Robert McKendry, has called a situation to my attention that may be of interest to the Senate Finance Committee.

While typesetting the hearings of February 8, 1984, it was noticed that on page 129 Mr. Grace of the Grace Commission states that the cost to purchase the Grace Commission reports is $1,600.00. This statement is in error. The Government Printing Office sells the Grace Commission Report, which consists of 37 parts and a summary. Each of the parts and the summary have been or will be sold at prices ranging from $4.50 to $12.00 for the 37 parts, and $19.00 for the summary. The total Government Printing Office price for all the parts and the summary is $303.50.

I call this to your attention for whatever action you deem necessary. If I can be of further assistance, please do not hesitate to call.

Sincerely,

Michael F. DiMario

MICHAEL F. DiMARIO
Superintendent of Documents

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Mr. BOLDUC. Where, incidentally, the average salary of a proofreader in the Government Printing Office, which is overseen by the Congress, is $32,500 a year, and in the executive branch side, the average salary for a proofreader is $12,500 a year. That is one of the reasons why the costs are so high. And that is covered in one of our reports.

Senator DOLE. Why is that different?

Mr. BOLDUC. In part because of unionization, and collective bargaining, and the rate of pay has simply gone up and continues to go up, and the average proofreader today is at $32,500.

Mr. GRACE. Actually, in fact, when people bargain who have no stake in what they are bargaining away, you know, the bargaining isn't as good. You know that, Senator.

Senator DOLE. If we wanted to talk about the health care area, as I understand it, there are specific people who might be available to visit with our staff.

Mr. GRACE. Anything you want to talk about, we have 2,000 experts.

Senator DOLE. Are they all named J.P.? [Laughter.]

Mr. GRACE. A lot of them are getting their initials changed. [Laughter.]

Senator DOLE. This line behind you—are these all some of the members of the——

Mr. GRACE. These are people who assist J.P. and me to know what we are talking about, and they hand us sheets when you ask us something nutty—or something difficult, excuse me. [Laughter.]

Senator DOLE. All right. It might be helpful to have their names for the record if it is all right with them.

Mr. GRACE. All right. How would you like to do that? One of them is the White House assistant, Janice Colson. She is the only Government cost in the whole smear, but she was very wonderful.

How do you want their names to be given?

Mr. BOLDUC. We can furnish that for the record.

Senator BRADLEY. Maybe they want to get on TV.

Mr. GRACE. We have a nephew of Governor Carey here. He is working very hard. So, I want you to know that we have all kinds of fine people.

Senator BRADLEY. Thank you.

Senator DOLE. Just on a very minor point. Our printing bill in this committee is $806,000 a year for printing and binding reports. I have never understood why the Government should pay for that. I mean, it would seem to me that the lobbyists ought to pick up the tab for most of that. We have been trying very hard to do that. We hate to set up a little cash register here with somebody selling reports, like a book store, but you add that up in all the different committees and all the different Government agencies, and it is millions of dollars. It is almost $1 million in this one committee.

Now, obviously, some of that we could not sell. There is no demand for it. In fact, a lot of it there is not.

Mr. GRACE. That is right. Absolutely.

Senator DOLE. But one way to increase demand is to just mention taxes, and that increases the demand around this committee. I have written to the Rules Committee to see if we couldn't come up with some comprehensive plan—a congressional plan—where the taxpayers wouldn't have to foot the bill for private sector lobbyists. They come up and grab four or five copies of these reports that cost $10 and $15 apiece.

Mr. GRACE. That is right.

Senator DOLE. So, I assume you found hundreds and hundreds of examples like that.

Mr. GRACE. We did.

We did, Senator. And that is why it is so silly for some people to shoot their mouths off 48 hours after we issue the report. And I am not suggesting that anybody ought to wade all the way through it but at least, they either read it or they don't know what is in it. I mean that is simple—that is fair play.

Mr. BOLDUC. Along those lines, the Food and Drug Administration last year provided requests under the Freedom of Information Act to pharmaceutical firms and undercharged the cost of providing those reports you are talking about to the private sector by $13½ million, because they recovered only about 5 percent of the true costs of providing the material. Even though the law says that they are to charge 100 percent of the full cost of the service. Part of the problem is that the Federal Government has 332 incompatible accounting systems. 319 different payrolling systems. So, when you have an incomplete and inadequate accounting system, that's what happens. For example, the Federal Government does not know its overhead cost. No place can the Federal Government tell you what the overhead cost is.

Part of the process of recovering costs under Freedom of Information is to know what your overhead costs. Any corporation in America that tries to manage without knowing its overhead cost is in deep trouble. You just can't manage that way. But the Federal Government does.

Mr. GRACE. It is really a jungle to try to find out what is going on, and with these 332 accounting systems, and the incompatibility of the computer systems and 17,000 that are obsolete, the lack of office automation, Senator, we could come into this Government and in 2 years make it so efficient that you wouldn't know about it. Then, many of these arguments could be settled on facts and not on suppositions. That is the main thrust of our argument, Senator, Mr. Chairman.

Senator DOLE. I don't disagree with that—and that is why we are having this hearing. I get asked in my state: "what about the Grace Commission Report?" I think the American taxpayers want something done to cut the cost of Government. Now, they don't suggest that everything ought to be accomplished in that report—you don't either.

Mr. GRACE. No, not at all.

Senator DOLE. But if we got 10 percent of it over a 3-year period—or 15 or 20, whatever—any arbitrary percentage, it would be more than we may have done otherwise.

Mr. GRACE. I think that if both branches of the Government—I am talking here about the congressional and the executive—would get serious about it, and then ask, say, some group of people—maybe it would be us or whoever—to come down and work with them together in a cooperative spirit. The one thing that I have noticed, Senator, and I have met you at conventions in the past—like fertilizer conventions—it is a tough business, the fertilizer business—with PIK we lost a couple of hundred million last year—but at least we are all working together. We are trying to solve our problems together. And if we can only get some cooperation down here with sensible people who will sit down and realize that it is the taxpayer that is paying for all this, and we are all sorry about these median families, then I know we can make a great amount of progress. We really can.

Senator DOLE. There has been some criticism of the report—that it dealt more with policies than with management. I mean, that you were trying to change policies rather than to give us suggestions to improve efficiency. How do you deal with that? In some cases, you have gone into policy.

Mr. GRACE. I mean, is it policy to say, for instance, that the private sector pensions are one-sixth as generous as the military pensions? Is it policy to say that the sick leave in the civil service is six times what the private sector is? We are saying that the private sector gets a lot of things done in this country—75 percent of the GNP, right? If you take out the State and local it is 60 percent of the GNP, and they have methodologies and systems and ways that could be used by the Federal Government, and one of them is how they compensate their people, and we the task force that worked on the personnel side, were top personnel people like Bob Hatfield, who chairs the Personnel Committee of Johnson & Johnson and General Motors—some of the biggest companies in the country—and some real professionals were on that task force. All they did was say that to get this job done in the private sector you pay X. To get this job done in the Government sector, you pay Y. Now, nobody has to do anything. We are just telling them that. I don't think that is entering policy. It is a statement of fact.

We have no power to do anything. I think that anybody who sheds more light on a complicated situation is helping and not hurting. So, we are not entering policy. We are giving facts.

Mr. BOLDUC. Mr. Chairman, our primary focus was on operations. It was not on policy. We looked at the practices, procedures, methods, and controls, but when you do that, you find yourself getting into program operations. For example, two programs, that are very near and dear to you and you are thoroughly familiar with, are the school lunch and the food stamp programs. When we looked at the operating procedures to identify any overlap and duplication, we found that if you have a family of four participating in the food stamp program—and the intent of the program is to provide an adequate nutritional diet to the family of four—and if these 2 youngsters, participating in the food stamp program, are also participating in the school lunch program—getting a free breakfast and a free lunch—that is 2 meals per youngster per day—4 meals per day—20 meals per week—80 meals per month. There is no offset between this program—school lunch—and this program—food stamps.

Now, some might say that is policy. We happen to think that is simply good management if you take a look at the intent of the law. That is overlap and duplication; $1.3 billion potential savings per year.

Senator DOLE. I don't quarrel with that. I think the one thing that you recognized early on is the political realities. I mean, let's face it. There is a 100-vote margin in the House, generally a liberal House—I don't say that critically—it is a fact.

Mr. GRACE. What we are trying to do, Mr. Chairman, is to get the taxpayers—the 72 million of them out there—to get the political realities, too. You see, the trouble is that the taxpayers don't realize 10 percent of what is happening to them, and if we can educate the taxpayers, then we will put a balance into these political realities and help you people to do the kind of a fair-minded job that I know you want to do, but we have got to get the political reality more in balance.

Senator DOLE. Have you ever thought about getting these 7,000 people together——

Mr. Bolduc. The Senior Executive Service?

Senator DOLE. Right. Aren't there 7,000 you mentioned?

Mr. BOLDUC. Yes; there are 7,000 senior executives in the SES. Is that what you are referring to?

Senator DOLE. Yes.

Mr. BOLDUC. No. We had not thought of getting them together. We did recommend, however, after taking a look at operations, that the 7,000 should be reduced to 3,500 and their salary levels increased upwards of 30 percent so that you pay for what you are getting, you would, by doing this, make it the elite group of the best and the brightest, and provide the proper incentives.

It was intended under the 1978 Civil Service Reform Act that you would attract the best and the brightest in this SES corps, and that is not what has happened.

There are too many of them. But, no, we have not.

Senator DOLE. I don't know whether that is even possible. It seems to me that, if in fact, they have the responsibilities for making some of these things happen, I assume somebody is going to let them know about the report. I assume that is 7,000 nationwide; is that correct?

Mr. BOLDUC. Correct.

Senator DOLE. And probably some overseas.

Mr. BOLDUC. Correct.

Mr. GRACE. That is right.

Mr. BOLDUC. Over 90 percent are domestic U.S.A., however.

Senator DOLE. And I imagine the great bulk are right here in Washington, D.C.

Mr. BOLDUC. Right.

Senator DOLE. I am going to yield to Senator Symms, but what we would like to do now is, if we can, identify the people who worked on those areas that we have jurisdiction of. We can start at the staff level, and it might be more productive.

Mr. GRACE. We are all at your service.

Senator DOLE. We can't expect two people to answer every question, particularly when somebody else has spent a lot of time on it and knew a lot more about it to start with, probably more than we knew about it.

So, we are hoping. We plan to get at least some savings in this downpayment package—deficit reduction, if we ever have a meeting.

Mr. GRACE. Yes. We are at your service, and so are the 2,000 people, and we are ready, willing, and able to be of whatever assistance that we can afford you, Mr. Chairman, and your confreres.

Senator DOLE. Senator Symms?

Senator SYMMS. Thank you very much, Mr. Chairman, and thank both of you for excellent work, not only with the Commission, but your testimony here this morning. I find it probably one of the most enlightening things that happens in my days around here, Mr. Grace, when you come to testify because, after having been in the Congress now for some 11 years, I sometimes find that I grow a little bit cynical about whether Washington ever wants to do anything, and I saw your article in U.S. News & World Report, where the headline said "Washington, D.C., A Town of No Guts." And I sure couldn't agree with you more.

It is just tragic in my opinion what is happening to the budget process here in this town. But on this question about the $64 billion and $120 billion for people below the poverty line. In that recommendation, which this committee has some jurisdiction over part of that, anyway, was there any recommendation as to, say, using a negative income tax and getting rid of some of those things?

Mr. GRACE. No, we didn't make that recommendation. We talked about it a lot, and we didn't get the information soon enough, Senator, to be able to refine that. But there are a tremendous amount of possibilities along those lines. You could wipe out, in my opinion, $40 billion of overhead of people who have a stake in this so-called welfare situation, and they are gaining from it.

Senator SYMMS. A stake in increasing the rolls.

Mr. GRACE. A stake in it. They are getting their jobs and their whole wherewithall on it.

Senator SYMMS. You want to keep people on the rolls instead of getting them——

Mr. GRACE. Sure. That is human nature. I would do the same.

Senator SYMMS. So, that is still something where you have not made anything other than try to get the facts and the accounting.

Mr. GRACE. We say that if you get the facts, the solutions will stand out in bold type in front of everybody of rational approach.

Senator SYMMS. Just one specific question—you may not have or you may have the information here. I was told by a constituent of mine that anybody that wants to can write the U.S. Patent Office about information about new patents applying to any specific area of a thing, and the Patent Office will just literally mail them tons of material.

Mr. GRACE. That is right.

Senator SYMMS. Do these people have to pay for that?

Mr. GRACE. No. No, not enough. I mean, the whole thing is undercharged, and you get too much free service, and it is being given to the richest corporations in America. The same thing in the Freedom of Information Act.

Senator SYMMS. I was told it is even given to the Soviet Union. They come down and just carry out carloads of patents on computers, computer chips, et cetera.

Mr. GRACE. Yes, that is right. It is all not costed properly at all, Senator

Senator SYMMS. And that is in the recommendations. I might just say, Mr. Chairman, on the Government Printing Office, I have a bill introduced that would equalize the pay at the Government Printing Office, but thus far, it has met a great deal of resistance right here in the own bureaucracy of the Senate—there is a lot of resistance to it. We haven't been able to move that bill although we have made some headway with that because it really is outrageous. I found out that the printer in Boise, Idaho, that works for the local newspaper who does exactly the same job as they do here for about one-third the pay.

Mr. GRACE. That is right.

Senator SYMMS. And they belong to the Printers Union out there, as these people do here, so it is really a——

Mr. BOLDUC. We viewed, Senator, the area of printing as well as guard, custodian services, painter, carpenter, electrical, boiler operators, et cetera as Government activities and functions that are commercial in nature and not governmental in nature, and ought to be contracted out to the private sector. We identified over 300,000 positions in Government today that are commercial in nature and ought to be contracted out at substantial savings to the Government. There are those that would argue that the private sector is going to charge you more. You really have to take a look at how the Government calculates its cost of providing these in-house services.

First of all, retirement. Retirement is only costed out in terms of what it costs today. If it was costed out in terms of a 40-year amortization, the true costs as a percent of payroll would be 87 percent. If you take a look at the 332 incompatible accounting systems, they can't account accurately for overhead. Therefore, the in-house estimate is always significantly lower and thus results in keeping the function in-house.

Again, there is no incentive for someone to work themselves out of a job. 300,000 positions.

Senator SYMMS. Thank you, Mr. Chairman, and thank you, gentlemen.

Mr. GRACE. Thank you, Senator Symms.

Senator DOLE. If it is satisfactory, we may want to submit some questions in writing. We don't want to burden you, and I assume you are going to be appearing before a number of congressional committees. Maybe you already have, but we are very pleased to have you come to the Senate Finance Committee. We have a lot of jurisdiction in this committee, whether it is medicare, medicaid, social security, unemployment, welfare, plus all the revenues, so we feel that we have a rather large role to play. I believe there are enough of us on the committee from both parties who are willing to make some difficult decisions. And I am not certain, very honestly, how much we are going to do this election year. We ought to be able to do something this year, at least to have indepth hearings and look at some of the things you have raised. But I hope we are not going to shoot the report down before we read it—which is not unusual around here.

Senator SYMMS. Mr. Chairman, I might just say that I am so enthusiastic after hearing this again this morning, and I am going to drag out my social security amendments to raise the retirement age and try them again on the budget act this year.

I got 12 votes last year. Maybe I will get 15 this year.

Mr. BOLDUC. Senator, I might say that you might bear in mind that the social security employee who will make a determination on your eventual social security check has to deal with a manual that is 25,000 pages thick, 6½ feet high, and cost $4.4 million to print, $6.6 million to distribute, and there are 12,000 pages of changes each year for which each employee is given 1 hour per week to become learned and knowledgeable about these changes. If you do a quick calculation, 50 weeks per year—12,000 changes—240 changes per hour—or 4 pages of change per minute, which that employee must learn to understand, interpret, and apply.

You want to know why your social security check may be in error when you get it?

Senator DOLE. Why does it cost so much more to issue a check in the Government than it does in the private sector? Did you say $4 per——

Mr. BOLDUC. $4.20 versus $1.

Mr. GRACE. About $4.28, I think, against $1.16, wasn't it?

Mr. BOLDUC. It is 4 to 1.

Senator DOLE. Do we just handle it more here? By more people?

Mr. BOLDUC. Some of it is attributed to lack of automation. Some of it is attributed to work flow. Some of it is mailing the time and attendance reports from a whole series of points across the country, rather than transmitting the information electronically. Some of it is overstaffing and overgrading.

Mr. GRACE. And also the figure is wrong. Because that $4.28 does not include the 1.8 times the true salary level, including the amortization of the past service liability, so you can make it 7 to 1. If you take in the amortization, which the private sector has in the costs. So, it is really 7 to 1, and we ought to stress that more because we haven't got it in the full comparison that we should have it.

Senator DOLE. Thank you very much. We appreciate your patience today. Thank all of you for coming.

Mr. GRACE. Thank you for your patience.

Mr. BOLDUC. Thank you.

[Whereupon, at 12:10 p.m., the hearing was concluded.]

[The prepared report of James Packard Love follows:]

THE GRACE COMMISSION

A Critique of the President's Private Sector Survey on Cost Control

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Introduction

The following is an overview of the work of the President's Private Sector Survey on Cost Control (PPSS), commonly referred to as the Grace Commission. In evaluating the Grace Commission work I have reviewed the initial draft task force reports and the more recent summary report, conducted a number of interviews with White House, OMB, and agency personnel who are charged with the task of implementing the recommendations, and obtained internal agency evaluations of the Grace Commission work product through the Freedom of Information Act. The following general areas warrant public concern about the Grace Commmission report.

1. The estimates of achievable cost savings are not credible, and the quality of the work was often very poor. No one at OMB is prepared to say how much the Grace Commission recommendatons could save over the next three years, but the numbers appear to be extremely small relative to the amount reported by Grace. In some cases the exaggeration by the Grace Commission borders on fraud.

2. The report goes beyond management concerns to address important public policy issues. These include many regulatory changes that have little budgetary impact for the government, but weaken efforts to protect consumers and the environment. The report recommends reductions in funding of many government programs, including those that provide nutrition and health care to the poor and financial aid to students, just to name a few.

3. In many areas where the Grace Commission addressed policy issues it was compromised by conflicts of interest. This was particularly true in the areas of the environment, energy, and agriculture, as well as in a number of privatization proposals.

4. The White House has established an extraordinary system of tracking and implementing the Grace Commission recommendations. Although many of the more controversial recommendations are likely to be held over until after the election, the tracking mechanism is designed to keep pressure on agencies to consider implementation.

The report is less an analytical review of management practices than a polemical attack on government spending and regulation. The summary paints an anecdotal and alarmist picture of waste, inefficiency, and runaway spending on social programs, which is designed more to shock and mobilize the reader than to describe in an objective manner the possible cost savings from management efficiencies. Grace says he will turn the report into a personal crusade, and he can be expected to use his easy access to the President and the White House tracking program to promote his efforts to cut spending on social programs and oppose government efforts to regulate industry.

At the request of the Senate Budget Committee, the Congressional Budget Office (CBO) and the Government Accounting Office (GAO) are jointly evaluating about 100 Grace Commission issues (300 recommendations), where Grace projected savings of $1 billion or more. The evaluation is scheduled to be completed in the next four weeks, and the Senate Budget Committee will hold hearings on Feburary 28. The CBO and GAO report will identify the dollar amount of savings that can be achieved from the recommendations over the next three years, and the numbers are expected to contrast sharply with those used by Grace.

These points are discussed in greater detail below.

1. <u>The estimates of achievable cost savings are vastly exaggerated.</u>

This year the nation's attention is focused squarely on the problem of budget deficits. The Grace Commision report will be interpreted by many Americans as evidence that the deficit can be reduced significantly by reducing government waste and inefficiency. President Reagan twice referred to the Grace Commission during his 1984 State of the Union address to lend support to his policy that the deficits should be reduced without raising taxes. The question of the amount of money that can be saved by implementing the Grace Commission recommendations is an important one for those charged with making macro-economic policy, regardless of the recommendation's other merits. If the Grace Commission's assertions of available cost savings are taken at face value, a case can be made for focusing less on higher taxes and more budget cuts. Clearly this is the impression that Reagan wants to make.

Interviews with OMB and line agency budget officals, and a review of internal agency documents obtained under the Freedom of Information Act provide evidence that the projected savings used by the Grace Commission are grossly exaggerated, to the point where a wholy misleading picture of achievable savings is given. There are a number of reasons that Grace Commission figures are inflated. In many cases the Grace Commission staff simply made errors in calculations, or apparently failed to understand how the budgets were constructed. Many of these errors are so egregious they raise questions about the competence or motivation of the Grace Commission task force teams. In other cases the Grace Commission claimed savings for measures that were already underway in the agencies, due to OMB initiatives or some other management program. The three year saving figures also include dollars that will not be realized for decades, but are included by the Grace Commission either in present value terms, or in some cases, as undiscounted future savings. Often it is not obvious when the "3 year savings" begin, or which accounting convention has been used to justify them as current savings. The agencies and OMB have often had to struggle to sort out these ambiguities. Finally, there are large disparities in the political feasibility or programmatic desirabiliy of the recommendatons, and the large ticket items are generally those that are least likely to be adopted, or simply represent cutbacks in government programs, and not savings <u>per se.</u> The follow examples provide some insight to the problems.

<u>Veterans Administration.</u>

In a July 21, 1983 letter to Craig Fuller, who works under Edwin Meese as the Assistant to the President for Cabinet Affairs, Harry N. Walters, the Reagan appointed Administrator of the Veterans Administration wrote:

> We do not believe that implementing the recommendations will result in any savings and in many instances would result in increased costs. We are very concerned that the reports generally rely on superficial analysis of data. They present as original ideas improvements already underway to solve operational problems previously identified by this agency. Overall, the reports do not offer substantive, practical recommendations that would improve the operations of the Veterans Administration nor improve the provision of benefits and services to veterans.

Attached to the letter were the VA's evaluation of 16 of the Grace Commission recommendations. The evaluations are summarized below:

Veterans Administration evaluation of Grace recommendations
(millions of dollars)

Recomendation	Estimated 3 yr savings Grace	VA	Recommended for implimentation
Vets 01	270.70	0.00	no
Vets 02	1,484.00	0.00	no
Vets 03	00.00	0.00	no
Vest 04	225.00	-352.83	no
Vest 05	953.00*	0.00	no
Vest 06	84.70	0.00	no
Vets 07	0.00	0.00	yes
Vets 08	0.00	0.00	no
Hosp 02	0.00	0.00	-
Hosp 04	4,284.00	0.00	-
Hosp 05	1,321.10	0.00	no
Hosp 06	0.00	0.00	-
Hosp 07	-350.00	0.00	already in budget
Hosp 08	431.10	-330.00	no
Hosp 09	221.80	0.00	no
Hosp 12	1,131.00	0.00	no
Hosp 13	1,441.20*	0.00	no
totals	11,497.60	-682.83	

* indicates revenue enhancement

According to officals at the VA's Division of Program Planning and Evaluation, the White House came back to the VA with a new set of recommendations, which the VA responded to on January 26, 1984. Those numbers are not currently available, but officals say the Grace Commission has been forced to "come down on a lot of numbers." They said the Grace Commission "thought they uncovered some information," but it turned out to be "misunderstandings." One VA official said the Grace Commission was "not malicious," but "the quality of work was not outstanding."

Personnel Management

One of the few critical observers of the Grace Commission is Congressman William Ford (D-Michigan). His Subcommittee on Investigations of the Committee on Post Office and Civil Service held hearings on the secrecy surrounding the Grace Commission when it was first organized, and raised questions about potential conflicts of interest. On May 24, 1983 the Subcommittee held hearings on the Grace task force on personnel management. Submitted into the record at that hearing (Serial number 98-7) was a May 20, 1983 CBO analysis of the savings that would be realized from the Grace recommendations. Ford's staff prepared the following chart which compares the Grace and CBO estimates.

Potential Outlay Impacts of the Grace Recommendations
For The Civil Service Retirement System, FY 1984-1986
(Assumes October 1, 1983 effective date)
(Millions of Dollars of Savings)

	Grace claims	CBO estimate
Increase Normal Retirement to Age 62	4,300	0
Base CSR Benefits on Av. Salary for 5 yrs	810	330
Discontinue Crediting Unused Sick Leave	1,080	110
Increase Early Retirement Reduction	5,380	30
Modify Disability Criteria and Benefits	1,710	-490
Require Actuarial Survivor Benfit Reductions	450	230
Eliminate Certain Student Benefits	210	170
Reduce Inflation Protection	4,870	1,290
totals*	18,810	1,670

* Details may not add to column totals because of the cost interaction among the proposed changes and rounding.

The CBO estimates were prepared by David DelQuadro and Sherri Kaplan. According to DelQuadro, the more recent Grace report increased the $18.8 billion figure to $58 billion, by including estimates of the present value of future savings from current changes in peronnel practices. He stands by his May 20, 1983 estimate of $1.67 billion in savings, which reflects the dollars that would be realized over the next three fiscal years, and is in the process of updating it for the five year period of FY 85 through FY 89.

Environmental Protection Agency

On May 27, 1983 the EPA sent to the White House its evaluation of the cost savings that would be realized from EPA issues 1 through 12 (each "issue" may involve several specific recommendations.) This document, obtained through the Freedom of Information Act, is summarized below:

EPA evaluation of Grace Commission Savings
(Millions of dollars)

Issue	Grace claims	EPA estimates	recommended for implementation		
EPA 01	46.30	12.40	1 yes	2 no	
EPA 02	17.80	0.00	no		
EPA 03	120.00	0.00	1 yes	2 no	
EPA 04	91.40	32.46	1 yes	3 no	1 FY84**
EPA 05	62.90	0.00	FY84		
EPA 06	21.80	3.40	no		
EPA 07	34.60	2.40	no		
EPA 08	6.40	1.30	no		
EPA 09	28.00	7.26	no		
EPA 10	6.40	indeterminate	yes		
EPA 11	22.00	22.00	yes		
EPA 12	7.80	0.00	3 yes	1 no	1 FY84
totals*	459.00	81.22			

* exclusive of EPA 10   ** Already in FY 84 budget

The detailed comments by the EPA staff gave specific examples of problems in the Grace report. For example, the "workyear savings estimated by the Task Force for minor permit issuances appear to be greater than the workyears in the entire program." In an April 19, 1983 memo Carol Finch stated:

> There is still quite a bit of work to be done on the variances we are finding between our numbers and theirs. <u>However, we can say with certainty that the cost savings the PPSS shows are greatly overstated.</u> The overestimates appear to include incorrect assumptions, oversights, and miscalculations. For example, for the Region I, II, and III merger, the PPSS indicates an annual savings of $4.7 million, while the total annual operational costs of all three involved labs only comes to $3.3 million. [Emphasis in original]

In addition to these and dozens of similiar comments were concerns about the impact of Grace Commision recommendations on EPA program goals. On

July 21, 1983 Clarence E. Mahn, Director of the EPA Office of Fiscal and Contracts Management wrote: "The report also recommends that Federal funding for State assistance program grants should be cut to 25% of State requirements. . .An arbitrary reduction of current funding to 25% of state requirements should not be adopted unless supported by analysis of requirements and the State's abilties to effectively operate with the reduced funding."

On the recommendaton that the EPA could save money by issuing perpetual permits to companies managing the discharge of toxic substances under the NPDES, Region V Administrator Valdas Adamkus, a Reagan appointee, wrote on May 13, 1983, "the recommendation made in item EPA-4-3b to eliminate a time restriction on all permits is absurd. This ignores the regulatory responsibility of EPA." In discussing the elimination of public notices for permits to firms that manage hazardous wastes, Adamkus noted "consideration should be given to the effect this might have on public confidence." On the question of delegation of regulatory responsibilities to the states there was the blunt comment:

> The report ignores the fact that EPA is responsible for assuring compliance with federal environmental laws. In addition, the report does not appear to be interested in maintaining the quality of environmental programs.

Department of Agriculture

In its January 15, 1984 summary report to the President, the Grace Commission claimed savings and revenue generation of $12.84 billion in the Department of Agriculture. According to budget officals at that agency, there is a continuing series of meeting involving the White House and OMB to determine which of the Grace Commission's recommendations will be accepted and how much money they will save. The proccess, which began last summer, was characterized as slow. The Grace Commission recommendations would require "a huge redirection of programing," and "most of the big ticket items were aid to farmers." Cuts in this area "were not in the cards." Although the Department was unwilling to release specifics until after the FY 85 budget was released, it did say that of the original 58 Grace Commission recommendations, 27 had been rejected outright as of January 20, 1984, and they were still considering the remaining 35. When asked about the total savings that would likely be realized as a result of the Grace report, one Department of Agriculture budget offical said it would be "in the order of magnitude of $300 to $400 million," or about 2 to 3 percent of the Grace projections.

Department of Health and Human Services

Budget officals at HHS were among the most dissatisfied with the quality of the Grace Commission work. One budget offical discussing the quality said it was:

> mixed, a lot of ideas were good, but there wasn't enough time to put it together. Off the record, the work was not very

careful, they could have done better detail work. It couldn't stand up to objective scrutinty. It's not a case of standing up under a microscope, but it should at least stand up under long range binoculars.

Department of Housing and Urban Development

In contrast to HHS, HUD officals were very upbeat about the Grace Commission. Judith Tardy said the officals they worked with were top notch. She said Wells Fargo bank provided free training to top HUD officals, and they came up with a number of ideas about cash management techniques. However, when asked if HUD could save the $2.4 billion claimed in the Grace Commission summary report, Tardy said "we don't agree with the dollars." Like several other budget officals, she said many of the management improvements talked about Grace report have already been implemented. She said this was not surprising, given the fact that the Grace Commission did most of its work in 1982, issued its task force report in the spring of 1983, and is just now issuing its final report. Moreover, in addition to the Grace Commission work there were a number of OMB management inititatives that addressed many of the same points, such as the cash management improvements sought under OMB's Reform 88 program. "Some of the Grace recommendations were already in the FY 83 budget" she said.

Department of Education

Officals from the Deparment of Eduction echoed Ms Tardy's comments about the importance of OMB's management initiatives, and the fact that most of the achievable savings in cash management and the like have already been implemented. Special assistant to the Deputy Secretary for Management, John Marshall said they haven't seen the final Grace report, but there were problems in determining the savings that were net of policies already adopted by the Department, or not counted in other Grace recommendations. He said the Grace Commmission frequently got into policy issues, such as its recommendations to consolidate categorical programs into block grants, that went beyond the scope of mangement efficencies.

Federal Energy Regulatory Commission

The FERC provides an interesting case study of how the Grace Commission treated a small agency that doesn't have a large budget, but which plays a crucial role in policy making. On May 23, 1983 FERC chairman C. M. Butler III submitted to the White House its evaluation of 13 Grace Commission recommendations. The Grace Commmission and the FERC agreed that eleven of the thirteen recommendations would yield savings of $.6 million over three years. These included proposed changes in the management of its regulatory docket, and reductions in reporting requirements for public utilities for such items as their cost of service and the use of fuel adjustment clauses. The two remaining recommendations involved deregulation of natural gas and oil pipeline rates. Grace claimed the two deregulatory proposals would result in savings of $34.5 million, while the FERC set the figure at $9.3 million. The Grace Commission stressed that in addition to the savings to the government, the regulated industries would save an estimated $1 billion, which Grace asserted would be passed on to consumers in the form of lower prices.

There are two important aspects of the FERC recommendations that deserve highlighting. First, proposals for deregulation of natural gas and oil pipelines were issues long before the Grace Commission was ever created, and it is misleading to present the "savings" as products of an efficiency study. This is, of course, a pervasive problem with each and every one of the Grace task force reports. More important, however, is the failure of the Grace Commission to consider the impact of its recommendations on consumers and taxpayers. The natural gas deregulation proposal speaks for itself. Consider, however, the more obscure proposal to deregulate oil pipelines.

The most important oil pipeline is the Trans-Alaska Pipeline System (TAPS). At present the FERC is mediating a dispute between two ratemaking methodologies that involves a $3 per barrel difference in tariffs. The federal government bases its royalties and taxes on the wellhead price of Alaska oil, and each $1 increase in TAPS tariffs costs the federal government about $330 million per year in windfall profits taxes. If the Grace Commission is correct, and oil pipeline deregulation will save $12 million over the next three years in regulatory costs (as opposed to the $2.1 millon estimated by FERC), it will also cost the treasury billions of dollars in lost revenues. If TAPS tariffs are just $3 higher under deregulation (and most experts would predict much higher increases), the federal government would lose about $3 billion over the next three years. Over time the costs would grow, as higher tariffs reduced the value of North Slope oil properties. On November 1, 1983, economist Alfred Kahn told FERC moderately higher TAPS tariffs will cost the federal government $15 billion in lost taxes and royalties, and reduce U.S. oil production by 1 billion barrels over the next 20 years. Kahn also said the lost oil production will raise world prices for oil, and cost consumers between $500 million and $1.9 billion per year in higher fuel prices. Testimony by independent oil marketers before the House Subcommittee on Surface Transportation claimed deregulation of oil pipelines in other states would raise consumer prices as much as 5 cents a gallon in some markets. When the Grace Commission focuses exclusively on narrow issues of cost savings such as these it often offers "savings" that are all too costly for consumers and taxpayers to bear.

The examples discussed above are not isolated instances where the Grace Commission's reported "savings" are exaggerated, don't exist, or will simply result in a cutback of federal programs. Much of the Grace report is simply a compilation of cost cutting proposals that were originally developed by the agencies themselves, or some other government agency, such as GAO. OMB officals confirm that many of the initiatives that Grace claimed will result in savings were addressed in earlier Administration management reforms, and have already been widely publized by the Administration. There is some question about whether or not Grace will be given credit for savings that were already realized in FY 83 and FY 84 bugets. This is viewed as a public relations or political problem for OMB, but not one of substance. The incremental or "net" savings from adopting the Grace Commission recommendations prospectively are relatively small.

There are a number of inconsistences in the way the numbers are presented by the various Grace task forces. One of the most important issues involves the accounting conventions for future savings. OMB

Assistant Director for Budget Review Carey Modlin says changes in military pensions won't result in reduced outlays until FY 2005. There are simliar issues in the numbers from the Personnel Management and other task force reports. Although it is certaintly worthwhile for the Grace Commission to worry about long term budget problems, the suggestion that the savings can be realized in three years is misleading.

The combined effect of sloppy work, claiming credit for previously implemented management innovations, counting long range savings as current savings, and simply recommending cutbacks in public programs, is to vastly overstate the amount of savings from eliminating waste and inefficency in government. The White House has played a central role in evaluating and implementing the Grace Commission recommendations, and has been confronted with the truth about the amount of savings that the Grace Commission can deliver since last summer, when the line agencies and OMB provided internal evaluations of the Grace Commission numbers to Craig Fuller, the Assistant to the President for Cabinet Affairs. The Summary report of the Grace Commission was approved on January 15, 1984, months after the problems with the Grace numbers had been extensively debated in a series of meetings involving the White House, OMB, the line agencies, and the Grace Commission itself. Despite their loss of innocence, both the White House and the Grace Commission used the release of the summary report to pursuade the public that huge savings can still be made in certain government programs by eliminating waste and inefficiency.

One can speculate about the motives for deceiving the public about the quantitative magnitude of savings from further management improvements in government. One explanation is that large numbers will impress the public with the diligence of the Grace Commission and the worth of bringing the private sector into the budget process. Another reason is to divert public attention from the policy implications of the Grace Commission recommendations, by making the payoffs seem large relative to the cost in terms of lower benefits from government programs. A third and more important reason is to provide political support for President Reagan's contention that large federal deficits can be reduced through cuts in the budget rather than higher taxes.

2. <u>The Grace Recommendations are not restricted to management efficiencies, and address many substantive public policy issues.</u>

President Reagan created the Grace Commission through Executive Order 12369 on June 30, 1982. The Commission was directed to advise the President about ways of improving management and reducing costs in government agencies. As the Grace Commission got underway it was criticized by journalists and members of Congress for the composition of its membership (Mostly white male corporate executives), the secrecy surrounding its operations, and the potential for conflicts of interest. The White House defended the Commission from the conflict of interest charges by repeatedly stressing that its mission was to propose more efficient management of government agencies, rather than to recommend changes in policy.

When the Grace Commission's task force reports were made available in the spring and summer of 1983, it was clear that they went beyond management measures. On July 26, 1983 Federal Judge Gesell ruled in the

National Anti-Hunger Coalition case that the "balance" requirements of the Federal Advisory Committee Act applied to the Grace Commission, and three recommendations dealing with cuts in the federal food stamp program were approved in violation of that requirement. Ralph Nader and James Love wrote to Assistant to the President for Cabinet Affairs Craig Fuller on October 29, 1983 to raise the problem created by the decision of the Grace Commission to make recommendations about substantive policy issues. The letter called the National Anti-Hunger Coalition ruling to Mr. Fuller's attention, and listed 66 other Grace Commission recommendations from 13 task force reports that are clearly policy oriented.

Nader and Love informed Fuller of two reasons to be concerned about the inclusion of policy oriented recommendations in the Grace Commission reports. First, based on the Gesell ruling, it appeared the Grace Commission was not legally constituted to make such recommendations. Second, once the Grace Commission strayed beyond its manadate to consider management improvements, the question of conflicts of interest raised its head. The White House was asked to identify those recommendations that addressed substantive policy issues, and to determine if there are adaquate protections against conflicts of interest. On November 16, 1983 Counsel to the President Fred Fielding wrote Ralph Nader and said the Gesell ruling could not limit the right of the President to consider the merits of recommendations from any source, and to state "substantial efforts were made to limit the potential even for the appearance of such conflicts."

The question of conflicts of interest is addressed in the next section of this report. The issue of the legality of the policy-oriented recommendations deals not with the right of the President to consider advice, but rather with the obligation of the Grace Commisson to abide with Grace by provisions of the Federal Advisory Committee Act. Aside from the legal issues, however, is the question of whether one would want a group like the Grace Commission to make far-ranging budgetary and regulatory recommendations in policy areas where it has little background or represents the narrow viewpoints of a group of corporate executives. By embracing the Grace Commission report President Reagan has indicated that he does. The following is a small, but representative sampling of the types of policy-oriented recommendations the Grace Commission undertook to make.

The National Anti-Hunger Coalition objected to several Grace recommendations dealing with nutrition programs. The three recommendations addressed in the July 26, 1983 Gesell ruling included changing the base for computing benefit allotments because, according to Grace, "benefits are distributed which are well beyond stated requirements." In addition, Grace recommended the minimum $10 benefit be eliminated, and that school lunches be counted as income for purposes of determining food stamp eligibility. The Low Income Standards and Benefits task force recommended elimination of the Emergency Assistance Program, which provides aid to needy families in emergency situations.

The Education task force recommended the Department of Education consider "early divestment of unrelated activities, such as civil rights enforcement, student housing loans, and rehabilitative services," and a number of reductons to aid to students, including phasing out the Federally Insured Student Loan program, and a doubling of the origination fee (from

5% to 10%) for the guaranteed student loan program.

The Agriculture task force recommended the USDA allow the industry to conduct its own postmortem poultry inspections, reduce the intensity of inspections for meat, poultry and egg products process operations, discontinue prior approval of meat and poultry labels, and turn over dairy plant inspections to the states. The Transportation Department task force recommended legislative repeal of the Uniform Tire Quality Grading System. The Grace commission wanted to reduce Federal Maritime Commisson jurisdiction over ocean shipping rates. The FCC was asked to eliminate FCC staff completely from their role as litigants in contested applications, and it wanted legislation that would make broadcast license renewal more automatic.

As noted earlier, Grace recommended reductions in reporting requirements for public utilities, and decontrol of natural gas and oil pipeline rates. The Nuclear Regulatory Commission was asked to issue single-stage licenses permitting both construction and operation of nuclear facililities, and preapproval of sites and designs. The NRC was told it should "replace adversarial modes," and where feasible provide regulatory incentives for "licensee self-reliance and self-initiated evaluation."

The Grace Commission recommended selling <u>all</u> electric generating and transmitting assets operated by the Army Corps of Engineers and the Alaska, Bonneville, Southeastern, Southwestern, and Western Power Marketing Authorities. These facilities currently sell between 6% and 8% of all electricity consumed in the country, most of which is hydroelectric. Until the assets can be sold, the Grace Commission recommends tripling rates, costing consumers of those facilities $4.543 billion. Grace also recommended selling off the TVA's coal reserves and requiring it to increase its purchases from private coal companies.

The Grace Commission recommendations on environmental programs include dozens of proposed reductions in programs to protect the environment. Funding for 12 state grant programs would be consolidated into a single block grant, and the federal share would be reduced from the current average of 45% to 50% of program cost, to 25%. It would be easier to get permits to manage hazardous wastes, and provisions for public notice would be reduced. Grace recommends eliminating time periods on permits for disposing toxic substances under the Clean Water Act.

The task force report on Federal Construction Management recommends many changes in environmental laws and regulations. These include exemptions from filing Environmental Impact Statements under the National Environmental Policy Act, changes in regulations of the Council on Environmental Quality, rescinding Executive Order 11990 protecting wetlands, stopping the implementaton of new fish and wildlife rules, eliminating rules adopted by the Advisory Council on Historic Preservation, repealing DOT rules that restrict the use of parks, recreational areas, wildlife and waterfowl refuges, or historic sites, revising Executive Order 11988 on floodplan management, amending the Safe Water Drinking Act rules to remove EPA power to protect aquifers, amending the Endangered Species Act, revising policies, regulations and guidelines governing the disposal of dredged materials in open waters, eliminating EPA permits under the Clean Water act for the discharge of dredge and fill materials in U.S.

waters and adjacent land areas, and reducing environmental protection under the Wild and Scenic Rivers Act. The Construction task force also recommends the federal government make it more costly for citizens to sue for enforcement of environental laws, and it wants to use tax incentives and the withholding of federal grants to insure that municipal wastewater treatment plants are privately owned.

3. Conflicts of interest plagued the Grace Commission.

When the Grace Commission was organized in 1982, and 2000 executives from the country's largest corporations descended upon the federal government to investigate cost cutting strategies, journalists, members of Congress, and citizen groups became alarmed about the potential for conflicts of interest and the compromising of federal agencies. These fears were increased by the extraordinary secrecy of the Grace Commission. Members of Congress were initially unable to obtain the names of the Grace task force members assigned to particular agencies. The White House set up intricate layers of organizational structures in an attempt to insulate the Grace Commissons from public disclosure, conflict of interest laws, and the obligations of the Federal Advisory Committee Act. As criticism of the Grace Commission mounted, and other Administration scandals were fueling what some network commentators called the "sleaze" issue, the White House sought to defuse the conflict of interest issue by reassuring Congress and the public that the Grace Commission would not have access to agency enforcement data, nor would it offer recommendations on substantive policies. Its mission was to recommend improvements in the management of government agencies and to help eliminate waste and inefficiency.

By virtually any standard, the Grace Commission has exceeded this narrow mandate, and offered hundreds of recommendations that will change government policy on regulatory matters, aid to the poor, and other substantive areas. In his November 16, 1983 letter to Ralph Nader, Counsel to the President Fred Fielding said, "substantial efforts were made to limit the potential even for the appearance of such conflicts." The following reviews just a few areas where, despite White House assertions to the contrary, the appearance of conflicts of interest looms large.

According to John Hyde and George Anthan of the Des Moines Register (May 29, 1983), "The unit studying the USDA not only had (two) former Armour executives, but employees of Quaker Oats, General Foods, Cargill, Deere & Co., Continental Grain, Archer-Daniels-Midland, International Mineral and Chemical Corp., several large agriculture lenders and at least one Washington lobbyist who represents agribusiness clients." Members of the task force had an undisputed interest in the recommendations to cut back federal meat and poultry inspections. One member of the USDA task force was Donald Haider of Northwestern University, who "worked on the section of the USDA report that recommended that rural electric cooperatives be required to utilize higher-cost private credit, long an aim of the private utility industry. . . Haider said his salary and expenses while he worked on the Grace Commission were paid by Commonwealth Edison Co."

The task force on The Department of Energy, the Federal Energy Regulatory Commission, and the Nuclear Regulatory Commission included 21 members from Dupont (owner of Conoco), 7 from Westinghouse, and representatives from Duke Power, Pepco, and a number of other corporations and law and consulting firms that have direct interests in the policies of the three energy agencies.

The task force on Federal Construction Management that recommended the changes in environmental programs discussed in the previous section was staffed almost exclusively by large engineering and construction interests, such as Morrison Knudsen Co., Stone and Webster Engineering, Jacobs Engineering Group, Granite Construction, Daniel Construction, Greiner Engineering, M. W. Kellogg Construction, and the American Consulting Engineers Council, just to name a few. The recommendations to use tax incentives and the withholding of federal grants to promote private ownership of wastewater treatment plants will be welcomed by task force members such as Illinois Water Treatment Company, which can expect to benefit directly from the adoption of the proposed recommendation.

Among the more egregious conflict problems is the EPA task force. EPA budget staff referred to the Grace team as the "Diamond Shamrock" group, for the large chemical company that had 16 members on the task force. It also included representatives from American Cyanamid Company, Ashland Oil, BASF, Combustion Engineering, Dow Chemical, El Paso Products, Ford Motor Company, BF Goodrich, Great Lakes Chemical, Lubrizol Corporation, Martin Marietta, Monsanto, Nalco Chemical, National Distillers and Chemicals, Owens-Illinois, Pennwalt, Phillips Petroleum, American Thermoplastics, Shell Oil, and Union Carbide Corporation. It is inconceivable that the White House or Peter Grace made any effort whatsoever to avoid conflicts in the EPA recommendations.

Nalco Chemical is the owner of Industrial Bio-Test Laboratories, one of the oldest independent laboratories. According to Keith Schneider, writing in The Amicus Journal, (Spring 1983) it is also one of the largest. An estimated 35 to 40 percent of all toxicology tests in the country were conducted by IBT over the past decade. It performs "thousands of critical research projects for nearly every major American chemical and drug manufacturer, dozens of foreign concerns, and several federal agencies as well. Nearly half of IBT's studies were used to support federal registrations of a mammoth array of products: insecticides, herbicides, food additives, chemicals for water treatment, cosmetics, pharmaceuticals, soaps and bleaches, even coloring for ice cream."

Beginning in 1976 the FDA and the EPA began questioning the validity of IBT testing practices. In 1981 the president of IBT and three of his top associates were indicted by a federal grand jury for conducting and distributing fake scientific research for their part in what FDA investigators "allege is the most massive scientific fraud ever committed in the United States, and perhaps the world." On October 21, 1983 three of the defendants were found guilty of criminal fraud while the fourth has yet to be tried. Literally thousands of tests used to register products for the American market were found to be invalid by American and Canadian scientists. Most of them involved 325 insecticides and herbicides. The Grace Commission recommendation to shut down eight regional EPA testing laboratories and use private laboratories more extensively will benefit this task force member.

The Grace recommendations for making it easier to get and keep permits to dispose of toxic substances and manage hazardous wastes will help all the chemical companies on the task force, and it will also benefit Peter Grace's employer, the W. R. Grace Company, a large manufacturer of specialty and agricultural chemicals (with $2.7 billion in 1982 chemical sales).

The following is a limited survey of some of the ways the EPA task force members are involved with the agency. The EPA provided a partial list of active enforcement cases that were under consideration while the Grace Commission EPA task force was reviewing its budget and regulatory programs.

EPA task force members with active enforcement cases under six environmental acts administered by EPA

Task force member	Violations alledged under the following environmental acts
American Cyanamid Company	RCRA CERCLA
Ashland Oil	RCRA CERCLA CWA CAA
BASF	RCRA
Dow Chemical	RCRA CERCLA CAA TSCA
El Paso Products Company	TSCA
Ford Motor Company	CERCLA
BF Goodrich	CERCLA TSCA
Great Lakes Chemical	CERCLA CWA
Martin Marietta	CAA
Monsanto	CERCLA CWA CAA
Nalco Chemical	CWA
National Distillers and Chem.	CERCLA
NCR Telecommunications	CERCLA

Owens-Illinois	CERCLA
Pennwalt	RCRA CWA
Phillips	CERCLA CAA
Shell	RCRA CERCLA CAA
Union Carbide	RCRA CERCLA CWA CAA TSCA

Abbreviations:

RCRA	Resource Conservation and Recovery Act (Hazardous Wastes)
CERCLA	Superfund
CWA	Clean Water Act
CAA	Clean Air Act
TSCA	Toxic Substances Control Act
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act

These firms hold literally thousands of permits for herbicides, pesticides, disposal of toxic substances, management of hazardous wastes and the like. They are also active participants in EPA rulemaking. One incomplete list furnished by EPA listed the companies which participate in various agency rulemaking proceedings. Task force members involved in EPA rulemaking include Ashland Oil, American Cyanamide, BASF, BF Goodrich, team leader Diamond Shamrock, Dow, Ford, Lubrizol, Monsanto, Nalco, Owens-Illinois, Phillips, Shell and Union Carbide.

It would be hard to find a group of executives with greater vested interests in the operation of EPA. Team leader Diamond Shamrock's filings with the SEC report "The Clean Water Act requires the Company to obtain and comply with the terms of discharge permits and provides for the imposition of penalties, regardless of fault, for certain discharges of effluents. As a result of controls established under the Clean Air Act, the Company has incurred or will incur expenses in reducing or eliminating air emissions that could (limit) its ability to construct and operate new facilities in certain locations." The corporation considers significant to its finances regulation under the Toxic Substances Control Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). The company is a defendant in a suit brought by a group of Vietnam veterans over illnesses they claim were caused by the herbicide Agent Orange, and is the former operator of a chemical plant in Newark, New Jersey, that was recently found to be contaminated with dioxin. (NYT 6/22/83) Other members of the task force have similar involvement with the EPA.

If, as Fred Fielding said, "substantial efforts were made to limit the potential even for the appearance of such conflicts," one wonders what the White House ethical standards are, and what it would take to actually have a conflict of interest.

4. The White House is committing resources to implement the Grace recommendations.

The White House has established an extraordinary system of tracking and implementing the Grace Commission recommendations. The project is supervised by the Counsellor to the President, Edwin Meese, and the Cabinet Council for Management and Administration, which Meese chairs. The detail work is delegated to Assistant to the President for Cabinet Affairs, Craig Fuller. In an article titled "Business's Man in the White House," Fortune (9/5/83) described Fuller as an influential second tier White House official "in-the-know business reps . . .ring up" when they need help from the government, and other approaches have failed. He confers with Reagan several times a day, and enjoys the confidence of sparring White House factions such as "'pragmatists' like James Baker, Richard Darman, and Micheal Deaver, and 'ideologues' like Meese and (former) National Security Advisor Clark." He entered the White House after working for Deaver & Hannaford, the public relations firm co-founded by Deaver.

When the individual task forces issued their recommendations and projected dollar savings last year Fuller sent OMB and each line agency an evaluation sheet that asked for positions on the recommendations, and independent estimates of the savings that could be realized. This was followed by a series of meetings at the White House, chaired by Fuller, and attended by the agencies, OMB, and members of the Grace Commission. Each agency was asked when it would implement the recommendations, and if not, why not. The outcome of the meetings was a negotiated agreement on which recommendations would be adopted, when they would be implemented, and what the dollar savings would be. The entire process was put on a computer so the White House and the Grace Commission can keep track of the progress toward implementing the recommendations of the task forces.

In an August 19, 1983 interview, Fuller said if any of the parties disagreed with the outcome of the meeting the decision could be appealed to Meese. The appeal is open to the Grace Commission as well as the government agencies, providing for an extraordinary amount of clout for a group of corporate executives who are essentially invisible to the general public. Fuller was asked if steps were taken to isolate the policy oriented aspects of the Grace recommendations, or if there were safeguards to protect against conflicts of interest. Fuller said the only thing the White House did was to ask the Grace Commission, in the beginning, to focus on management rather than policy, but there was no attempt to review recommendations once they were written, to determine if they were in fact policy oriented.

On the question of conflicts of interest Fuller said the White House cleared the members of tne Grace Executive Committee and the co-chairs of the task forces, but not the members of the task forces. He suggested the mechanism for weeding out bad policy recommendations was the agency review of the Grace recommendations. When asked if the White House involvement "gave a presumption" the policies were supported by the

President, so the agencies felt obligated to implement them, he said, "you shouldn't assume the recommendations are sacred," adding "that was not the spirit of the meetings so far."

Many observors originally dismissed the Grace Commission as a public relations effort with little substance, or an easy way to make Grace and other corporate figures feel important without having any real impact on government policy. Whether that will be the case remains to be seen. Grace has continued to have very good access to the President and the White House staff. Members of the EPA budget staff noted that he casually dropped by during an early White House meeting with Fuller on the EPA recommendations, and the Grace Commission task force members have continued to monitor the progress of the implementation of the recommendations. More important, Grace seems poised to continue to press for the task force recommendations through next year. The computerized tracking system provides the Grace Commission members with a powerful tool to keep abreast of their recommendations, and it may well provide an important agenda for a second Reagan term.

The Politics of Grace

Few Americans will have the opportunity to know much about the substance of the Grace Commission recommendations. A copy of the summary report costs $45, and a complete set of Grace reports including the task force recommendations costs more than $1,600. There were no opportunities for public hearings on the task force reports, and the decisions about whether or not to implement the recommendations will be made at the highest levels of government. Only because so many of its recommendations require legislative or rulemaking action will there be opportunities for public debate, and even then it is doubtful that the source of the proposals will be obvious. The legacy of the Grace Commission is likely to be a bitter one, of false promises in terms of budget savings, and hidden costs in terms of the quality of life as programs that help the poor, the environment, consumers and workers come under attack. The hyperbole that Grace is so fond of is not a helpful contribution to the national debate over responsible fiscal policies, and the ideological nature of the policy recommendations will be divisive at a time when national politics are becoming more polarized.

For all its moral outrage at government spending, the Grace Commission ignored many of the most pressing issues. It attacked military spending by recycling well known stories about contracting problems and by attacking military pensions and commissary privileges, but it ignored the huge waste from spending on weapons systems that are poorly suited to our nation's strategic needs. It attacked spending on the poor, while it proposed hundreds of ways to enrich the private interests that would benefit from the disposal of federally owned natural resources, power projects, and other properties. While Grace railed against low cost loans for housing, students, and consumer owned cooperatives, he left untouched his own favorites, such as the federal Synthetic Fuels Corporation. He was outraged that families do not have to deduct school lunches from food stamp allotments, while he took steps to reduce efforts that would insure the lunches were fit to eat.

President Reagan has thrown his prestige behind the Grace

Commission in its efforts to reduce the government to a concession stand for corporate cheerleaders. He has foresaken his opportunity to use the Presidency as a bully pulpit to elighten the public about our fiscal problems and encourage all Americans to make sacrifices toward a more just and open society. Instead, he has allowed himself to become the puppet of bullies, bent on enriching the rich, despoiling our health and environment, and further impoverishing our poor.

The final irony of the Grace Commission is its cost. In an Administration that thinks it can reduce nuclear arsenals by setting off an arms race it is fitting that it looks to a Commission for management advice that was given six months but needed eighteen to finish its work, a Commission that employed four times the staff of OMB to compile yet another list of budget cuts and management changes that other studies have already identified, a voluntary lobbying effort by corporate officals that was free, but will cost $35 million in tax write-offs. In a cost-benefit calculus, the Grace Commission's worthwhile management advice must be weighted against its cost as an impediment to better understanding of our fiscal options, and the cost that citizens will bear should its conflict ridden advice be taken.

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