GRACE COMMISSION REPORT

I realize some of you may be thinking "What will support the services offered by the government if none of us pay Federal Income Tax?" Well, below is a report requested by President Ronald Reagan to see just where the Federal Dollar goes.

The Grace Commission Report has no copyright notice in it. Since it appears to be in the public domain, the beginning of the report is found below. The Grace Commission confirms the allegation that the income tax revenues go 100% to pay the interest on the national debt and not a single nickel of it goes to the government. Whatever government services we have, they are not being financed by the income tax. The underlined section of this report is from the Grace Commission that proves that none of the personal income tax goes to pay for any government services and is used to pay only the interest on the national debt.

WAR ON WASTE

President's Private Sector Survey on Cost Control

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January 12, 1984

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

Dear Mr. President,

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

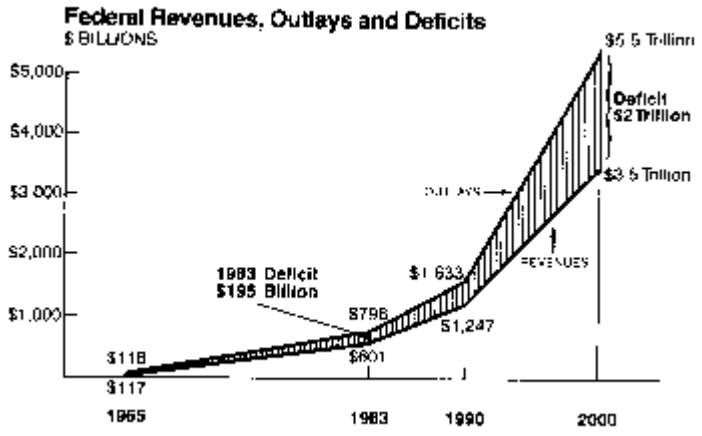
$424 billion in three years, rising to

$1.9 trillion per year(by the year 2000.

These proposals would transform the Federal debt situation as follows:

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

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



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

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

In the course of the search by our 36 Task Forces, chaired by 161 top executives from around the country and staffed by over 2,000 volunteers that they provided, we came up with 2,478 separate, distinct, and specific recommendations which are the basis for the carefully projected savings. For practical purposes, these savings, if fully implemented, could virtually eliminate the reported deficit by the 1990's versus an alternative deficit of $10.2 trillion in the decade of the 1990's if no action is taken.

Equally important, the 2,478 cost-cutting, revenue-enhancing recommendations we have made can be achieved without raising taxes, without weakening America's needed defense build-up, and without in any way harming necessary social welfare programs.

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

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

Therefore, $100 billion in reduced Government spending in year one equates cumulatively to

$7.1 trillion in the year 2000. And since borrowings are decreased by this amount, so will the national debt decrease.

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

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

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

Importantly, any meaningful increases in taxes from personal income would have to come from lower and middle income families, as 90 percent of all personal taxable income is generated below the taxable income level of $35,000.

Further, there isn't much more that can be extracted from high income brackets. If the Government took 100 percent of all taxable income beyond the $75,000 tax bracket not already taxed, it would get only $17 billion, and this confiscation, which would destroy productive enterprise, would only be sufficient to run the Government for seven days.

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

One-third of all their taxes is consumed by waste and inefficiency in the Federal Government as we identified in our survey. Another one-third of all their taxes escapes collection from others as the underground economy blossoms in direct proportion to tax increases and places even more pressure on law abiding taxpayers, promoting still more underground economy-a vicious cycle that must be broken.

<u>With two-thirds of everyone's personal income taxes wasted or not collected, 100 percent of what is collected is absorbed solely by interest on the Federal debt and by Federal Government contributions to transfer payments. In other words, all individual income tax revenues are gone before one nickel is spent on the services which taxpayers expect from their Government.</u>

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

In the Northwest, the Federal Power Marketing Administration is selling subsidized power at one-third of market rates. If the Federal power were priced at market, there would be a three-year increase in revenues of $4.5 billion, which equates to the three-year personal income

taxes of 676,000 median income American families who are thus subsidizing a discrete group in one part of the country.

The Civil Service and Military Retirement Systems provide to participants three times and six times the benefits, respectively, of the best private sector plans. The Government's civilian and military employees retire at an earlier age, typically age 55 and 40, respectively, versus 63 to 64 in the private sector, with substantially more liberal benefit formulas than their private sector counterparts. In addition, the pensions of Federal retirees are fully indexed for inflation-a rarity in the private sector. Modifying major Federal pensions to provide benefits comparable to those of the best private sector plans, slightly better in the case of military pensions, would result in three-year savings of $60.9 billion, equivalent to the three-year income taxes of 9.2 million median income families.

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

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

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

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

PPSS has submitted 36 major Task Force reports and II studies on special subjects such as subsidies and retirement. In total, these reports substantiate three-year ongoing savings of $424.4 billion, plus cash accelerations of $66 billion.

These are all analyzed and supported in great detail. Capsuled in terms of the functional problems to which they relate, the savings are as follows:

PPSS Savings Recommendations

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

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

The above underscores one of our most important recommendations, which is the establishment of an Office of Federal Management in the Executive Office of the President. This Federal Government top management office would include 0MB, GSA and OPM and have Government-wide responsibility for establishing, modernizing, and monitoring management systems.

If it is set up and staffed properly, it could go a long way to avoid in the future the thousands of deficiencies and examples of waste that we have identified. We would not feel our task complete if we just identified past deficiencies without recommendations for a management and organizational structure that would be best suited for preventing the errors of the past.

Additionally, the establishment of this new office would be beneficial in the implementation process of the PPSS recommendations.

In this regard, we believe that your Cabinet Council on Management and Administration, working in concert with the Office of Cabinet Affairs, is uniquely suited to lead a Government-wide effort to restore sound principles of management and efficiency to the Federal Government. While the Cabinet Council already has taken a leadership role in this regard, we urge you to call upon it to make implementation of the PPSS recommendations Government-wide its highest priority.

Mr. President, it was a great honor to have been asked by you to engage in this effort to identify ways to eliminate inefficiency, waste and abuse in the Federal Government. The

project was structured and staffed to effect enduring improvement so that our children and grandchildren would not inherit a situation that would be devastating to them and to the values of our economic and social system. It was in this vein that we were able to enlist the 161 top executives from private business and other organizations to chair and to staff our 36 Task Forces at a cost to the private sector of over $75 million and at no cost to the Government.

All the participants join with me in thanking you for the opportunity to be of service and in looking forward to whatever additional help we may be able to provide to assure that the greatest practical results are obtained from the work of this Commission.

Respectfully,

Peter

J. Peter Grace
Chairman