A Citizen AGAINST WASTE


You've been hearing a lot lately about J. Peter Grace. Chances are, you'll be hearing a lot more—and feeling the effects—of him and his work.

J. Peter Grace, keynote speaker at next month's AWCI convention in Kansas City, MO, March 10-14, 1985, is chairman and chief executive officer of W.R. Grace & Company, of Cambridge, MA. A chief executive officer who has held his position longer than any other chief executive officer in a major U.S. industrial concern, Grace has led his company into imminence in chemicals, natural resources and selected consumer services from its start as a Latin American steamship line.

Throughout his career, he has been actively associated with numerous other business organizations and public service groups as well as charitable and educational institutions. But it was his recent involvement with the now-famous Private Sector Survey on Cost Control in the Federal Government. His influence has been so powerful on this group that it has come to be identified as the "Grace Commission."

The Grace Commission recently presented its report and findings to the federal government. Distilled down into nearly 2,500 recommendations, the report shows how some $424 billion can be saved in the next three years by the federal government.

Opponents claim the accuracy of the commission’s figures are worthy of

To J. Peter Grace, merely recommending ways to decrease government waste isn’t the end-all. He is prepared to work hard to see that his committee’s suggestions are implemented—and grass roots support is the key.
On the occasion of the presentation of the final report, President Reagan and counsellor, Edwin Meese, Ill, were on hand to accept from and thank J. Peter Grace for the work that he and some 2,000 businessmen devoted. Reagan had successfully used this same businessman approach to solve similar financial problems in California.

challenge. Responds Grace and his aids: even if a small fraction of the recommendations get implemented the savings would still be enormous.

What's caught bureaucrats slightly off guard is the fact that they've not dealt with someone like J. Peter Grace before. He doesn’t just throw his report on the President's desk and walk away. He’s now launched a multi-million dollar advertising and promotion program to help sell the country on his committee’s work. The appearance at the AWCI convention is just one of the mechanisms Grace is using to reduce the deficit through his committee’s efforts.

He has published a book on his experiences with the cost-cutting panel, and has joined forces with the conservative Citizens for America to lobby Congress, which would have to approve of the measures.

DIMENSIONS: Briefly, Mr. Grace, what was the objective of the Grace Commission?

GRACE: In February, 1982, President Reagan asked me to conduct a study to identify waste and inefficiency in the Federal government. The President cited a similar study he had done in California that was successful in eliminating that state’s $180 million deficit and wanted to do the same thing for the Federal government.

When the President asked us to come down here to study the Federal government, he said:

“Search out inefficiency, waste, and abuse. Pretend that you are going to merge with these departments and agencies. Tell us what’s wrong and work like tireless bloodhounds.”

DIMENSIONS: How did you personally become so involved?

GRACE: I have nine children and 12 grandchildren and I am very concerned about their future and the future of other young people in this country.

When my generation came out of World War II, we bought our homes for $8000/$12,000 with 4%/5% mortgages-monthly charge of about $35. Now the typical house costs $80,000/$100,000 and, if you want a fixed-rate mortgage, it’s a monthly charge of about $900. This is 26 times the amount my generation paid. Remember, the median family’s income in 1983 was only 7.6 times the level of 1948.

Compounding the problem, only a fraction of the actual deficit and debt of the Federal government is shown in the official figures. The $195 billion deficit reported in 1983 was just the on-budget deficit. It’s a wonderful game that the Federal accounting systems play-if you don’t want an expenditure to show up in the budget, poof, just manipulate it into the off-budget account. So we must add $12.4 billion in off-budget outlays to the reported $195 billion deficit in 1983. Also, since the government doesn’t bother to set up adequate reserves for the over $3 trillion in past service liabilities of future civil-service and military pensions and social security, you must add the annual charge of $186.1 billion required to amortize these liabilities over 40 years. With all the pieces, the real deficit in 1983 was $393.9 billion, more than twice the reported $195.4.

This hocus pocus, or Mickey-Mouse bookkeeping, runs throughout the government and must be fixed.

DIMENSIONS: As you fully realize, this is not the first commission that has looked into government management practices and issued a series of recommendations. How will the Grace Commission’s impact differ that much from previous attempts?

GRACE: Given the backdrop I gave you in your earlier question, coupled with President Reagan’s support, the 535 members of Congress must sit down and address themselves to the
2,478 specific recommendations of the President’s Private Sector Survey on Cost Control which will lead to savings of $424.4 billion over three years. They will find that they can improve the situation in the next 17 years by $10.5 trillion. Instead of having a debt of $13 trillion, it will only be $2½ trillion—I say “only” with tongue in cheek. Instead of having an annual deficit in the year 2000 of $1966 trillion, we and DRI (Data Resources, Inc.) show that it would be only $37 billion.

That’s a long term solution, not just a “fix.” The present situation can’t go on—

DIMENSIONS: —if all these recommendations were implemented, would it really produce a savings of the $400 billion that has been announced?

GRACE: It would produce savings of $424.4 billion over three years without raising taxes, without weakening America’s defense build-up and without in any way harming necessary social welfare programs.

A joint study by the Congressional Budget Office and the General Accounting Office (CBO-GAO) estimated $97.9 billion savings over the next three fiscal years from just 11% of our recommendations. If the savings from all the recommendations which the CBO-GAO did not review or could not relate to the deficient Federal accounting system are added, the total comes to $437.9 billion over three years, or 3.2% more than estimated by our Commission.

DIMENSIONS: The Commission is now advertising its work and its recommendations. Certainly this is a new technique for such a commission. What has prompted you—and I refer to you personally because I’ve read that your own personal funds are involved—to adopt the public advertising strategy?

GRACE: While I have expended much time and energy toward seeing the Commission’s work implemented, I have not put personal funds in the effort as was recently erroneously reported in the press.

The “advertising” of the work of the President’s Private Sector Survey on Cost Control is probably something of a misnomer, since the only advertising to date has been TV and print ads on the deficit and the fact that we have some specific ways to address the problem. But, we have been on a campaign to bring to the attention of the American taxpayer the extent of waste and inefficiency in the Federal government.

DIMENSIONS: What is the reaction of government bureaucrats to the Grace Commission? So many times in the past they’ve seen commissions come and go and they’ve succeeded admirably in closeting away the temporary repercussions and going on with business as usual.

GRACE: We’ve found most government employees to be very positive toward our recommendations. Generally, Federal employees are very capable people working under difficult constraints imposed on them by Congress. It’s in the Congress that we’ve run into problems. About a third of the Congress is in favor of our recommendations, about a third are against them and the last third have their antennae in the air trying to determine
“How big is a trillion? Well, one trillion seconds is equal to 317 centuries, and we are only in the 20th century since the birth of Christ.”

which way the wind will blow. This is the reason for our extensive educational program, because it is only by pressure from the electorate that Congress will ever move to start working for the national interest as opposed to the special interest.

DIMENSIONS: What kind of time frame are you dealing with here . . . 5 years . . . 10 years . . . tomorrow morning? How soon do you feel that the various recommendations—at least the major ones—can be implemented?

GRACE: Overall, I would expect 60% of the 2,478 recommendations or about $250 billion over three years will have been implemented within five years. The reason I believe this is that, if the government does not act we will have an annual deficit in the year 2,000 at $1.966 trillion and the Federal debt at $13 trillion, the annual interest on the debt at $1½ trillion; the government will be forced to act soon to avoid those financial consequences.

You may not believe these numbers, but if you have your pocket calculator handy, you can verify the fact that every dollar that the government stops spending now translates to a cumulative $71 saved over 17 years—assuming 6% per year inflation and 11% nominal interest rates over the period. That shows the power of compounding, starting with $1 now and going to $71 by the end of the century.

Since our commission recommended savings amounting to $128 billion a year—go or no go with them means $9.1 trillion through the year 2000.

It is only recently that numbers in the trillions have entered a discussion of federal finances. How big is a trillion?

Well, one trillion seconds is equal to 317 centuries, and we are only in the 20th century since the birth of Christ.

Actually, the White House has already started the implementation process and has already implemented or agreed to implement $103.5 billion over three years. So far, the White House has accepted 85% of the Private Sector Survey recommendations which it has reviewed.

DIMENSIONS: Is the work of the Commission finished? Now that your proposals have been formally presented, is there further need for the commission and/or its members to follow up on the implementation?

GRACE: The formal study of the Federal government that produced some 20 thousand pages of specific material in 47 reports plus the summary report to the President, with 1.5 million pages of back-up documentation, is completed. The work of educating the American public, as outlined above, needs to be addressed. Congressional action is still needed for almost three-quarters of the recommendations.

DIMENSIONS: From a realistic viewpoint, how much help do you feel implementation of the Grace Commission proposals will provide to the deficit problem?

GRACE: As I said before, Congress will find that they can improve the situation in the next 17 years by $10.5 trillion. Instead of having a debt of $13 trillion, it will only be $21% trillion. Instead of a $1.966 trillion annual deficit in the year 2000, it will only be $37 billion. We can virtually eliminate the deficit by implementing Private Sector Survey recommendations. You hint in your question with the word
“realistic,” which other people have described as “what is politically feasible.” To that I say our recommendations ought to be put through a national referendum to determine whether taxpayers want to continue subsidizing power users in the north-west who pay 2.5¢ per KWH, compared to the 12¢ per KWH paid in New York and San Diego; do the taxpayers wish to continue subsidizing rich yacht owners who are towed in, free of charge, by the United States Coast Guard in non-life-threatening situations; to subsidize federal workers who are over 50% more likely to retire on disability than their private sector counterparts. Why? In the government, dishpan hands can be considered a totally disabling condition.

I could go on and on and on, 2,478 times.

DIMENSIONS: Republican stretch in the Congress was increased in the recent presidential election. What impact will this have on implementing the recommendations?

GRACE: Ours is not a partisan issue. Huge government deficits hurt everyone regardless of their political or ideological affiliation. Our new Foundation, Citizens Against Waste, includes on its Board of Directors people who would hardly impose a Republican or Democratic tilt.

DIMENSIONS: Will the Citizens for America to Lobby Congress play much of a role in all this?

GRACE: I think all of these efforts will help. However, speaking for Citizens Against Waste, I am convinced that we will play a role and have an impact.

DIMENSIONS: Is the group I just inquired about connected in any way with the nationwide organization, Citizens Against Waste? I understand the plan here is to mobilize as many as 50 million taxpayers throughout the 435 congressional districts.

GRACE: No, Citizens for America is not connected in any way with Citizens Against Waste. You are also correct in that the first priority in Citizens Against Waste is to get 50 million Americans to sign a petition to our government demanding action, not discussion, to stop the excessive and unnecessary squandering of government funds for foolish projects,
wasteful programs and inefficient operations.

**DIMENSIONS:** Can the Commission’s recommendations head off the need for tax increases as an answer to the growing deficit? No one doubts the preference for growth—not taxes—but is it realistic to try to eliminate this huge deficit merely by removing governmental waste and inefficiency?

**GRACE:** Yes, The Private Sector Survey recommendations, if implemented in full, would eliminate the need for tax increases. You use the words “...merely by removing governmental waste and inefficiency...?” This is probably a bit unfair, because some of our Commission’s recommendations will not be easy, but must be done to alter the disastrous trends of increasing dominance of government spending.

Let me add that implementing our Survey’s recommendations will result in the following projected benefits by the year 2000:
- 5% higher revenues in real dollars;
- 36% higher rate of real economic growth;
- 14% lower inflation rate;
- 38% more housing starts;
- 2 million more people employed.

**DIMENSIONS:** Where to from here? What can small construction contractors expect in the way of policy or operations as a result of the Commission’s work and the implementation process?

**GRACE:** Smaller construction contractors will be affected as any other hard-working American taxpayer would through more efficient use of tax dollars. But specifically, probably the most pertinent aspect of the President’s Private Sector Survey on Cost Control, that relates to your industry, is our report on wage-setting laws which concluded that three major Federal wage-setting laws drive up government costs for construction, manufacturing, and service-supplied contracts, and are long overdue for repeal by Congress. The Davis-Bacon Act, for example, was originally intended to protect small contractors from cutthroat competition during the Depression. Today, though, small contractors have been found to participate in 47% of contracts where Davis-Bacon does not apply, and in only 28% of contracts where it does apply. Our study found that if the Davis-Bacon Act, the Walsh-Healy Act and the Service Contract Act were repealed, $11.7 billion could be saved over three years.

**DIMENSIONS:** Should many of the recommendations go into effect, would this change anything for a construction contractor? Would be still be doing business with the government in the same, old way? Or would there be some requirement for the contractor to adjust his way of doing business to accommodate new techniques and approaches?

**GRACE:** The most noticeable effect would be a dramatic reduction in paperwork. Meeting Davis-Bacon requirements results in an estimated $200 million annually in administrative expenses. Repeal of this obsolete law, which duplicated wage protection found in other legislation, would free up a lot of time for contractors so they can build instead of shuffling papers.

Another major change recommended by the Survey would be to allow contractors to meet performance specifications rather than rigid standard specifications which are currently mandated. Performance specifications require that the finished product meet certain guidelines, but allow the contractors flexibility in deciding what materials and methods are most cost-effective in meeting these guideline-s. Standard specifications allow little flexibility and are thus more costly.