
The Problem of BIG Government

“... Astonishing statistics for a country that claims to be guided by the principle that government ought to play an extremely limited role in men’s lives.”

by J. Peter Grace

There are 2.7 million federal employees in the United States, occupying 2.61 billion square feet of office space, the equivalent of all of the office space in our ten largest cities multiplied by four. These are astonishing statistics for a country that claims to be guided by the principle that government ought to play an extremely limited role in men’s lives. It is even more surprising that we tolerate such an enormously bloated bureaucracy when everywhere in America it is recognized that the public sector simply does not work as well as the private sector, and furthermore, it is small private organizations that work better than big ones.

Solutions Not Lacking . . .

With all the serious problems we must face today, the problem of big government is among the most critical. Yet solutions are not lacking; most of them are readily understandable and of a practical rather than an ideological nature. For instance, at least 600,000 civil service jobs are completely unnecessary, and the President’s Private Sector Survey on Cost Control recommended in 1984 that they be privatized immediately. The survey recommended a few other reforms, too—2,478 of them to be precise. But only a small

number of these have been implemented. Why? One of the reasons lies in the fact that the federal government is controlled by Congress. Rarely do people realize how many day-to-day actions of the government are affected by the 535 elected members of Congress who micromanage each agency and thus exert a powerful influence beyond their legislative function.

The SEC...

Let me illustrate. Several years ago, John Shad, head of the Securities and Exchange Commission, was able to streamline the time-consuming and labor-intensive registration process for the corporations it regulates. Consequently, he was also able to cut his staff, or RIF (reduction-in-force, as it is commonly called); 230 employees. Two days later, he was summoned before the congressional subcommittee responsible for overseeing the SEC.

“Why are you RIFing 230 people” he was asked. He gave them a reasonable explanation.

“Come back to the chairman’s office, and we’ll talk about this for a few minutes.” He was presented with a list of items he had included in his agency’s operating budget for the next year. “Do you want cooperation on this budget?”

“Yeah, I have to have this budget.”

“All right, then cancel the RIFs.”

“Okay, I’m learning.”

So it goes in Washington, D.C. Look at the exorbitant freight rates for the Defense Department’s operations in Alaska and Hawaii: \$68 million was spent over a recent three-year period. Why? Congress does not permit competitive bidding for shipping military freight to and from the mainland for these two states. The average middle-American pays \$2,218 in taxes, so it is fair to assume that 34,000 families are working all year to pay that \$68 million.

NASA puts out a highly successful magazine which is over-subscribed (General Electric, alone, requests 5,000 copies each month), but the Office of Management and Budget (OMB) insists upon limiting production. Some time ago, the editors declared their intent to solicit advertising in order to print the magazine privately. Going private would also mean a great savings—proofreaders from the Government Printing Office are paid \$32,000 a year and can look forward to retiring on 82 percent of their final salary. Ordinary proofreaders, in comparison make about \$15,000 and have little or no pension benefits outside of Social Security. But another subcommittee reared its head and prevented NASA from going ahead. Coincidentally, most of the subcommittee members who decided against privatizing the magazine were senators whose constituents included a disproportionate share of civil service employees, many of whom worked for the Government Printing Office.

The Veterans . . .

The head of the Veterans Administration is also under the thumb of Congress. Changing the jobs of three employees requires that a written request be submitted by February 1, and Congress has until October 1 to respond. Micromanagement is, perhaps, too mild a term to describe what Congress is doing to our government.

The Defense Department has certified that the United States needs 326 military bases: We have 4,000. These include Fort Collins, built to protect Salt Lake City from the Indians, and

another installation in Virginia which still has a moat around it. A move to turn it into a museum was blocked by the congressional delegation from . . . need I tell you? Virginia. Typically, the congressmen who complain loudest about the defense budget are the same ones who cavil at such sensible ideas as reducing the number of active military bases. Absurdity leads to absurdity. You have undoubtedly heard of two-cent screws bought for \$91.00, \$7.50 hammers for \$435.00, and toilet seat covers for \$678.00—all due to the specifications which Congress has imposed. The Defense Department makes roughly 1.5 million purchase decisions each year. It hardly needs the kind of help Congress has to offer.

Perpetual Debt and Deception . . .

Pertinent today is Thomas Jefferson’s warning, “To preserve our independence, we must not let our rulers load us with perpetual debt.” He added, “We must make our election between economy and liberty . . . or profusion and servitude.” We are spending \$220 billion more than we accumulate in revenues each year. We face a debt of \$2.2 trillion. Now, you cannot really conceive of a trillion dollars and neither can I. We can figure out the calculations, of course—a million million, a thousand billion—but that is not really going to help us to understand. If someone starts ticking off the seconds since the time of Christ’s birth, today the count would be a little over 65 billion, with less than seven percent of the task finished. It takes 31,700 years to count to a trillion, or 317 centuries, and we are only in the 20th. But in Washington, D.C. “trillions” is a commonly used term and some of our civil servants don’t even bother with that; they casually refer to “trills.”

Unbridled Government . . .

I’ve been a businessman long enough to have experienced the horrors of unbridled government indirectly for years, but since 1982, when President Reagan approached me about heading up the Private Sector Survey on Cost Control, later known as the Grace Commission, I have been able to relate

many incidents firsthand. At the outset, he asked me to discover the answers to a series of questions. One of the primary ones was prompted by his former governorship in California. During his own tenure, he knew that federal employees outnumbered state employees but was unable to discover anything more concrete. As president, he felt that it was important to pursue the issue and find out not only how many federal employees there were but where they were located and what they were doing. The day after our conversation, I went to the OMB and asked those three simple questions.

"We don't know" was the answer, and I could not get any specific data. So I changed my tactics.

"If I can't present the White House with a complete report by next week, I will hold a press conference and tell the American people that there are 2.7 million federal employees in the United States and that the OMB hasn't got the slightest idea of where they are

or what they're doing."

The bureaucracy relented and I received a massive computerized listing of the number of federal employees in each state, but that was all. I went to Edwin Meese, then the Counselor to the President for Domestic Affairs, who earnestly tried to help, but more than three years later, I am still waiting for the answer to the other questions President Reagan asked.

I made other sallies at the OMB in the meantime, asking logical questions like, "How many social programs does the government sponsor?"

The answer was "110 to 130."

Fat City . . .

One of our staff visited a bookstore soon after that and came across a revealing volume called *How To Get Yours In Fat City*. In the appendix, 300 government social programs were featured. We took this interesting information back to our OMB

sources, but they were unimpressed. We conducted our own research and dug up a total of 963 social programs. They are all formularized in Congress and many of them are called "entitlements." Keep that word "entitlement" in mind because, if you're not getting anything, you're a sucker-you're "entitled" to a lot of these programs. You can enroll in 17 of them simultaneously and draw 160 percent of the minimum wage.

Now, W.R. Grace & Co. owns, among other things, 740 restaurants. One waitress I visited with in New Orleans makes \$130 a day just in tips. Not everyone who waits tables makes this much, but say they make \$50 per day, three days a week. That amounts to \$150 a week in tax-free income, and if they are making 160 percent of the minimum wage from government social programs to boot, they are enjoying a very tidy setup. For those of us who declare our incomes, the underground economy is an affront, not only

because it means a loss of over \$100 billion in tax revenues a year, but because these people are on the dole at the same time they are evading taxes.

Student Loans . . .

Student loan programs are also a haven for fraud. Our Commission decided to investigate and found that there are three separate student loan programs. "Why have three?" we asked. "How much is their overhead? Is it possible for them to merge into one program?" Aside from the usual recalcitrance displayed by federal agencies, we came up against another obstacle, one which we have encountered in every one of our investigations: the federal government's 332 incompatible accounting systems and 319 payroll systems, all handled by 17,500 computers, 12,000 of which were obsolete. When I found that out, my reaction was "Let's get Frank Gary down

here"—the chief executive officer of IBM at the time, a businessman known for his expertise and his integrity.

I called Frank up and he said, "sure I'll be there."

Conflict of Interest . . .

Congress cried "Conflict of interest! He knows too much!" and Frank Cary, along with many other committed, expert volunteers like him, were denied the chance to help our Commission. But eventually we were able to determine that approximately \$2.5 billion in defaulted student loans had not been collected. Who owed the money? People like a Mets' pitcher and a Honolulu land developer and, among others, 46,000 federal employees. Now maybe \$2.5 billion does seem like a small percentage of the \$850 billion in outstanding loans owned to the government at the time, but it is certainly not outrageous to suggest that these folks

ought to make good on their legal obligations.

Earlier, I noted that the debt stands at \$2.2 trillion, but I was lying to you, just as Congress always does. Another trillion dollars in the Social Security system and \$1.1 trillion in military and civil service pensions account for past liabilities which have not been recognized or provided for. Social Security is a nightmare you probably already know a lot about, but did you know that the military retirement program is exactly six times as generous as comparable private programs? A man or woman entering at age 17 can retire in 20 years with 50 percent of his or her salary indexed, of course, to inflation. During President Carter's term, we endured two years of 13.2 percent followed by two years of 11.6 percent inflation. Let us estimate that over an extended period inflation levels out to about 7 percent. In ten years, a pension settlement will double. At age 47,

a military retiree will receive 100 percent of his final salary each month; at age 57, it becomes 200 percent; at age 67, doubling to reach 400 percent, and so on. This is not a pension plan; it is a bonanza.

Civil Service . . .

Federal civil service employees may retire with very similar benefits, so it is no wonder that unfunded pension liabilities exceed \$1 trillion. Added to all the other hidden debts Congress refuses to tell its citizens about, the real debt is between \$4 and \$5 trillion. When President Lyndon Johnson launched the Great Society he was already committed to a war in Vietnam. His administration spent \$158 billion. Now, that sum is only the interest on the national debt. That is some "legacy" for our children. I saw a cartoon recently which featured a bunch of politicians having a meal in a restaurant. The headwaiter brought the bill and they replied, "Stick it on the kids' tab." And that's what we are doing. We are just sticking it on the kids's tab. What right do we have to live this way? How can we go on spending so much (\$400 billion more than we took in last year including all the off-budget expenditures, when we know where our folly will lead?)

The head of the Veterans' Department is also under the thumb of Congress.

The Real Job of Government . . .

The Grace Commission effectively demonstrated that \$424.4 billion could be saved over a three-year period by following its 2,478 specific recommendations. Moreover, the Commission showed its own commitment to

cost-cutting by raising \$76 million from private organizations to underwrite all of its own expenses. It did not cost the government a nickel, unless of course, you agree with Ralph Nader. He claims that at least half of the study was paid for by the government because the donors were able to deduct their contributions, costing millions in lost tax revenues. Tax evasion does account for lost revenue as I indicated in the case of the underground economy, but Ralph Nader is unsafe at any speed when he suggests that your pre-tax income belongs to the government and that by giving any of it away to a commission, a church, or any other charity you are bilking the government out of its rightful due. That is socialism, plain and simple.

Unfortunately, socialism has far too great a hold on us already, and anybody who disagrees ought to look at those 963 social programs the government has burdened us with.

When Kennedy was President, he was our King Arthur and he reigned over Camelot, but Camelot's social programs, \$38.5 billion worth, were only 5.8 percent of the Gross National Product (GNP). Reagan, who has been called Scrooge, presides over a \$486 billion social agenda which swallows up 13.5 percent of GNP.

Kennedy spent 9.4 percent of the GNP on defense and Reagan, by contrast, spends less than 7 percent. In the last 70 years, the communists have succeeded in subjugating 1 billion people, or 36.1 percent of the world's population. They have taken over 18.7 million square miles of territory—that is 32.5 percent of the earth's land surface—in the process. Reagan's commitment to defense notwithstanding, 7 percent of the GNP seems wholly inadequate.

The Soviets have produced twice as many fighter aircraft as we have together with our NATO allies. They have also manufactured four times as

many helicopters, five times as many artillery pieces, 12 times as many ballistic missiles and 50 times as many bombers. In the area of short-range missiles, Soviet forces have a 14.6 to 1 advantage. In intermediate-range missiles, the ratio is 1.2 to 1, and in strategic missiles it is 1.5 to 1. Remember the awful destruction caused by Hitler's 43 submarines in World War II? Well, Russia has 300, 150 of which are nuclear. Eight are circling off the coast of Florida right now.

Freedom Throat . . .

In short, the threat to our freedom is not diminishing. The real job of government is not to give us 963 social programs but to protect our life. We ought to be living up to the principles of our forefathers. We ought to be vocal about waste and fraud in government. We ought to be asking each and every one of our representatives in Congress: "Why are we keeping 4,000 military bases open? How many federal

employees work in my state and what are they doing? What are you voting for and voting against?"

Our Future Is At Stake . . .

In 1984, when the Commission officially presented its findings to President Reagan, it was during a White House conference. One of the questions addressed to me from the group of nearly 200 reporters on hand was "Why isn't there anything in your report about taxing the rich?"

I explained that we were not asked to examine the tax structure, that it was not within the perimeters of our investigation. I asked my interrogator a question in return.

Who's rich?"

"Anybody who makes more than \$75,000 a year," she replied.

"I said, "You're right; \$75,000 is rich."

But at the Democratic Convention that same year, many of the candidates were calling for a 10 percent subcharge

on the incomes of those who they claimed were rich—the people earning \$60,000 a year. At the time, our Commission figured that this initiative would collect only \$1.65 billion a year, or eight-tenths of one percent of the deficit. Why were the Democrats cheering in the aisles at this kind of talk? Because economic illiteracy, jealousy and envy are the fuel that politicians run on.

I told the reporter about what the Democrats had pledged and I said I would go them one better. "Let's put a 100 percent tax on all incomes over \$75,000 a year."

She said, "That would be good."

Seven Days . . .

And I replied, "Fine. Now we'll be able to run the government for 7.2 days."



Taxing the rich is not the solution adopting waste-cutting measures like the ones the Grace Commission proposed is. When New York City went bankrupt, it had no choice but to attempt to put its fiscal house in order. But the trouble with the federal government is that it simply cannot go bankrupt; it will just print more money or borrow more. Now, if I'm having an argument with a congressman and we talk about spending \$1.00 and I say "You can knock it out" and he says, "no, I'm leaving it in," I respond, "Where do you get that buck?"

He says, "Tell Jim Baker to borrow it over at the Treasury."

"Where does he get the interest?"

"Borrows it."

"Where does he get the interest on the interest?"

"Borrows it."

"Next year it's \$1.05. Where does he get that?"

"Borrows it."

Interest . . .

Well, take a little calculator out and figure out what happens when you borrow something, then you borrow the interest, and then you borrow the interest on the interest. In our report to President Reagan, we warned that one dollar borrowed now will have cost \$71.00 by the year 2000. In a little more than 12 years, the debt will be \$13 trillion and the interest on that will be \$1.5 trillion. By the same token, if the Commission's recommendations were followed, we could save \$9.9 trillion.

We need a knowledgeable, informed electorate that doesn't depend on the nightly news for what it knows about what goes on in this country. We need citizens willing to make Congress accountable for the travesty which passes for democratic government today. Until we have them, we will continue to be bamboozled by Congress which in its turn, knuckles under to the bureaucratic establishment and the 500 special interest groups entrenched on Capitol Hill. We can start by making the government fiscally responsible, but whether we can muster the political will to do so is up to us alone.



The stakes are high; what kind of future can we build for ourselves unless we mend our ways? What kind of future for our children and their heirs will big government and their institutionalized fiscal irresponsibility yield? What we are committing now is child abuse on an unimaginable scale. When our sons and daughters grow up and realize what we've done to them, will they ever forgive us?

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