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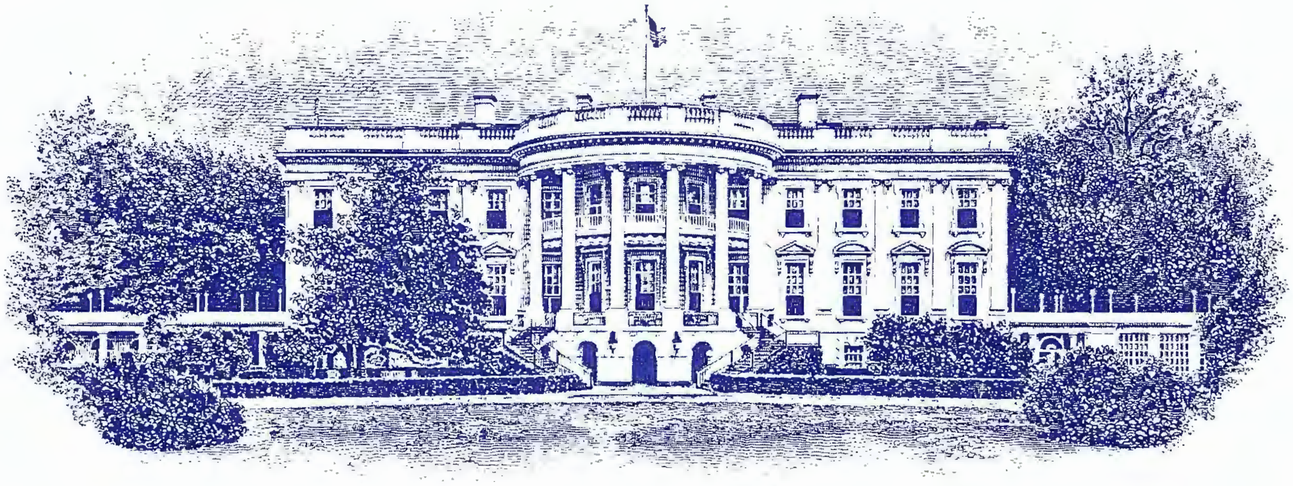


PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

A REPORT TO THE PRESIDENT

SUBMITTED TO THE EXECUTIVE COMMITTEE FOR
CONSIDERATION AT ITS MEETING ON JANUARY 15, 1984

VOLUME I OF II

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

A REPORT TO THE PRESIDENT

VOLUME I

SUBMITTED TO THE FULL EXECUTIVE COMMITTEE
FOR CONSIDERATION AT ITS MEETING, JANUARY 15, 1984

THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

January 12, 1984

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

Dear Mr. President,

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

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

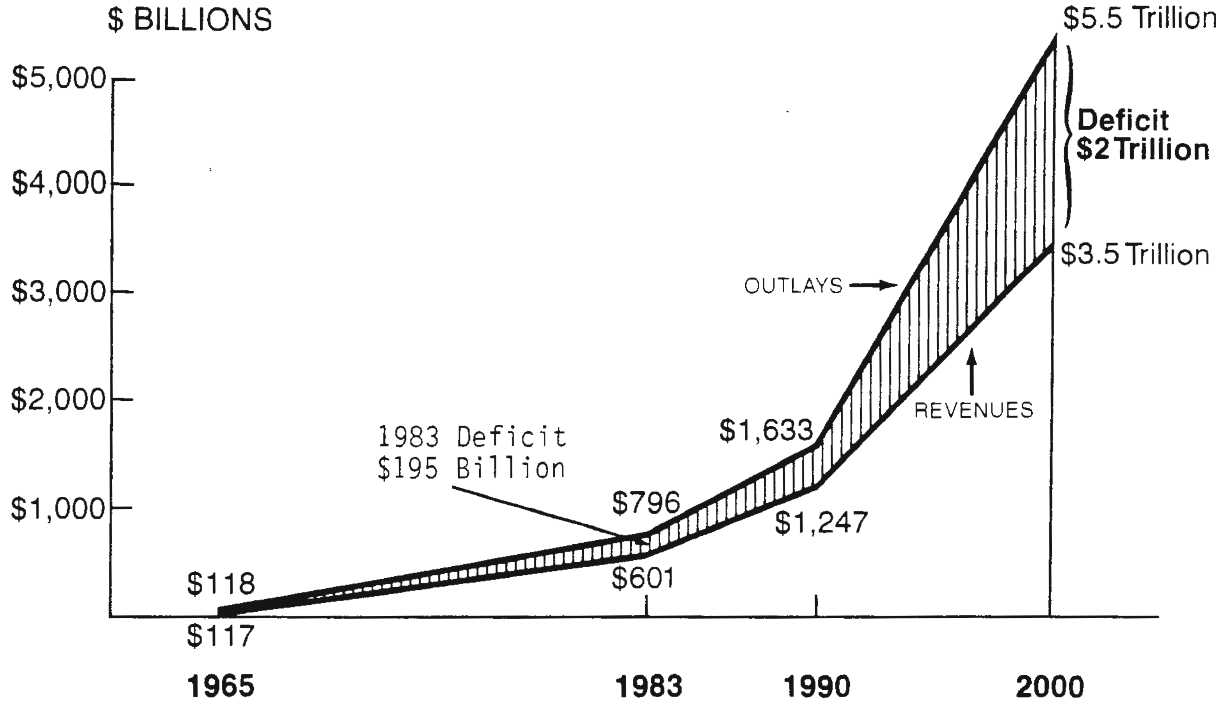
These proposals would transform the Federal debt situation as follows:

	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:

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

Federal Revenues, Outlays and Deficits



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

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

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

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

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

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

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

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

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

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

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

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

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

- 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 circle that must be broken.

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

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

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

PPSS Savings Recommendations

	$ 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 OMB, 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

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

A REPORT TO THE PRESIDENT

VOLUME I

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I. PREFACE

I. PREFACE

Most reports of Presidential Commissions begin with lengthy introductions detailing the origins, premises, and methodologies of their studies before focusing on the results of the study. We are omitting such matters because we do not want to risk losing even one reader who might be turned away by having to wade through such preliminary material.

Those of us who worked on PPSS took seriously the President's call for a thoroughgoing survey of the Federal Government's operations to identify opportunities for cost savings and improved management efficiencies. We welcomed the chance to bring to bear on the Executive Branch of Government our experience and expertise acquired in managing private sector business enterprises. There were 161 of us who came from top corporate, academic, and labor positions all across America, and we were assisted by more than 2,000 capable volunteers from virtually every segment of the private sector. The time, money, and materials needed for us to conduct this survey, estimated at more than $75 million, were provided at no cost to the Federal Government. It was funded and staffed entirely by the private sector.

Our work has resulted in 2,478 recommendations designed to bring about cost savings of $424.4 billion over three years, cash accelerations of $66 billion over a similar period, and overall managerial improvements. The ultimate impact of what we have proposed will depend on whether the American taxpayer can be persuaded that the problems are real and serious, the need for action pressing, the possibilities for reform promising, and the time for action at hand. If successful, then those same citizens can be depended upon to let their elected representatives and appointed officials know that "business as usual" in the Federal Government can no longer be tolerated, and that rapid and extensive reforms must be instituted.

In hopes of stimulating just such a broadly based consensus for change, we turn at once to the substance of our findings and recommendations.

II. THE URGENT NEED FOR CHANGE

II. THE URGENT NEED FOR CHANGE

This chapter (1) summarizes the economic impact of implementing PPSS's recommendations, particularly the results of a Data Resources Inc. (DRI)/PPSS cooperative project to forecast the course of Federal expenditures, revenues, and deficits to the year 2000; (2) highlights the cost savings and revenue enhancement opportunities PPSS has developed; and (3) details the adverse effect that certain kinds of Congressional involvement have on cost savings initiatives similar to those reported here.

It is abundantly clear to anyone who reads through the 47 PPSS reports and this Report to the President that the Federal Government is suffering from a critical case of inefficient and ineffective management, evidenced particularly by the hemorrhaging of billions of tax dollars and mounting deficits. For decades the Federal Government has not managed its programs with the same eye to innovation, productivity, and economy that is dictated by private sector P&L statements and balance sheets.

It is with private sector management tenets in mind that the PPSS findings have been developed. PPSS reports contain 2,478 specific recommendations, covering 784 issues, whose implementation could result in net savings of $424.4 billion over three years and prevent the accumulation of <u>$10.5 trillion</u> of additional deficits over the 17 years to year 2000.

None of the PPSS recommendations endanger the substance or legislated intent of Federal programs, although few programs and major functions would remain unaffected in their implementation methodologies. The overwhelming majority of the actions involve reductions in outlays made possible by improved management practices, more efficient methods of operation, and better direction of spending on program targets.

The cooperative DRI/PPSS project was undertaken to translate into dollars a view of the future if current trends in Federal revenues and outlays continue -- and to portray, as well, what the alternative would be if PPSS recommendations were implemented.

Simply stated, the DRI analysis revealed that the economic problems the Nation now faces will be completely out of control over the next two decades if we go about business as usual. These projections show <u>annual</u> Federal deficits approaching a staggering <u>$2 trillion</u> by the end of the century -- in only 17 years.

The upside of this special DRI analysis is that, if PPSS recommendations are adopted in full, the fiscal crisis can be overcome, with the resulting benefits of favorable non-inflationary growth. Instead of reaching new highs, budget deficits would soon begin to decline and become manageable (in the $26 billion to $62 billion range) during 1990-2000. This would also depend, of course, on maintaining a cost conscious and fiscally responsible attitude throughout the Government, so that other economic hemorrhages do not develop while we are staunching the flow from those that afflict us now.

In this regard, this section includes a discussion of the current involvement of the Congress in the day-to-day management of the Federal Government -- and of the adverse impact this has on the cost of Government. Without disputing the constitutional right of the Congress to become engaged in dealing with the smallest of operational matters, it needs to be recognized that this often entails massive dollar costs in unnecessary spending and lost savings opportunities. Every billion dollars of such activity wastes (squanders) the Federal income taxes of 450,857 medium income families.

The American taxpayers will continue to have to shoulder the burden of the deficient management of the Federal Government until the Congress and the Executive Branch begin to work together more effectively to achieve the common purpose of bringing the cost of Government under control.

A. ECONOMIC IMPACT OF PPSS

A. The Economic Impact of PPSS

The need for a major undertaking to reduce government spending is widely perceived as witnessed by the public's present concern that budget deficits are out of control and are expected to run at about $200 billion a year indefinitely. In fact, an analysis undertaken by the respected economic consulting firm Data Resources, Inc. (DRI) in collaboration with PPSS shows that the problem in both the short and long run will considerably worsen.

The following table, derived from the DRI study, indicates that current government policies will lead to deficits approaching $2 trillion by the end of the century with spending at between 34% and 35% of GNP.

Summary of Federal Finances,
1962-2000: Status Quo of Current Policies
($ Billions)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
				Outlays		Deficit		
							As a % of	
	Fiscal Year	Money GNP	Revenues	Amount	% of GNP	Amount	Outlays	GNP
(1)	1962	$ 548.2	$ 99.7	$ 106.8	19.5%	$ (7.1)	(6.6)%	(1.3)%
(2)	1980	2,575.8	517.1	576.7	22.4	(59.6)	(10.3)	(2.3)
(3)	1983	3,229.5	600.6	795.9	24.6	(195.4)	(24.6)	(6.1)
(4)	1985	3,852.5	754.8	939.9	24.4	(185.1)	(19.7)	(4.8)
(5)	1990	6,110.5	1,246.5	1,633.3	26.7	(386.7)	(23.7)	(6.3)
(6)	1995	9,946.9	2,089.2	2,864.6	28.8	(775.4)	(27.1)	(7.8)
(7)	2000	16,066.1	3,567.3	5,533.3	34.4	(1,966.0)	(35.5)	(12.2)
Avg. Ann. % Inc./(Dec.)								
(8)	1962-1983	8.8%	8.9%	10.0%	0.2%pt	17.1%	0.9%pt	0.2%pt
(9)	1980-1983	7.8	5.1	11.3	0.7	48.6	4.8	1.3
(10)	1983-2000	9.9	11.0	12.1	0.6	14.5	0.6	0.4

Note: Totals and percentages in this and subsequent tables in this section have been calculated using unrounded numbers.

The projected deficit of $2.0 trillion in 2000 equates to 35.5% of projected Federal spending (24.6% now) and 12.2% of projected GNP (6.1% now), and up from 2.3% in 1980.

The all-time record levels projected for the period through 2000 will slow economic growth, reallocate funds away from investment, and feed inflation. And that is only part of the story, as shown in the following:

[Table on following page]

The "True" Federal Deficit, 1976-2000
($ Billions)

		(1)	(2)	(3)	(4)	(5)
			Unfunded Past Service Liabilities		Memo: Civil Service and Military Retire-ment Outlays	
	Fiscal Year	Reported Deficit	Amount	Annual Charge to Amortize Over 40 Years		The "True" Deficit
(1)	1976	$ (66.4)	$ 1,010.5	$ (67.2)	$ 15.6	$ (133.6)
(2)	1980	(59.0)	2,205.5	(146.6)	26.6	(205.6)
(3)	1983	(195.4)	2,880.6	(186.1)	36.9	(381.5)
(4)	1984	(197.2)	3,051.3	(202.8)	39.2	(400.0)
(5)	1985	(185.1)	3,502.9	(232.8)	42.2	(417.9)
(6)	1990	(386.7)	6,984.5	(464.2)	95.1	(850.9)
(7)	1995	(775.4)	13,926.6	(925.6)	131.3	(1,701.0)
(8)	2000	(1,966.0)	27,768.7	(1,845.5)	229.4	(3,811.5)

The annual charges required to amortize the unfunded liabilities of Social Security and government pension plans shown in column 3 are rarely, if ever, mentioned in the media. In 1983, these charges amounted to $186.1 billion (up by $118.9 billion from $67.2 billion in 1976), which, when added to the regular deficit of $195.4 billion, produced a "true" deficit of $381.5 billion. By 2000, this "true" deficit is projected to reach $3.8 trillion -- almost twice the regular deficit -- making it imperative for the PPSS recommendations on personnel and retirement systems to be acted on.

These annual charges represent what the government should -- but does not -- set aside each year in order to liquidate or amortize existing (for prior years' service) Social Security and pension liabilities over 40 years. Until 1976, the government itself did not even know the true magnitude of these future liabilities, which had been completely ignored -- yet another example of the "information gap" encountered throughout PPSS.

The DRI study indicates that a major turnaround in this outlook can be achieved by the implementation of the PPSS recommendations. Apart from the total three-year saving of $424 billion projected by PPSS through implementing its recommendations, the PPSS recommendations are of such scope that savings will tend to expand throughout the projection period, and have significant impacts throughout the economy. Highlights of the DRI study include:

- If PPSS recommendations are implemented, $424 billion in cost savings can be achieved in the first three years after implementation commences. These savings will increase through the year 2000 when they will have reached over $1.9 trillion a year and will have accumulated to $10.5 trillion in the 17-year period (excluding the unfunded past service pension and Social Security liability).

- In the "PPSS Case", by 2000, the deficit will have been reduced to essentially zero versus nearly $2 trillion if the "Status Quo" is maintained.

- Implementation of PPSS recommendations will result in the following projected benefits by 2000:

  - 31% decline in real Federal spending

  - 5% higher revenues in real dollars

  - 36% higher rate of real economic growth

  - 14% lower inflation rate

  - 23%-37% lower interest rates

  - 64% higher rate of growth of industrial production

  - 60% faster rate of growth of real business fixed investment

  - 38% more housing starts

  - 2% larger civilian labor force and 2 million more people employed.

These highlights are discussed in the remainder of this section.

The following table, based on the DRI analysis, compares Federal finances projected on a current policies basis to the end of the century -- the Status Quo Case -- with the PPSS Savings Case in which the only changes from the Status Quo Case are the implementation of the PPSS recommendations.

[Table on following page]

Summary of Federal Finances, 1983-2000: Status Quo of Current Policies vs. PPSS Savings

($ Billions)

	Fiscal Year	(1) Status Quo of Current Policies	(2) PPSS Savings	(3) PPSS Fav./(Unfav.) to Status Quo: Amount	(4) PPSS Fav./(Unfav.) to Status Quo: %
	Revenues				
(1)	1983A	$ 600.6	$ 600.6	-	-
(2)	1985	754.8	758.5	$ 3.6	0.5%
(3)	1990	1,246.5	1,173.2	(73.4)	(5.9)
(4)	1995	2,089.2	1,807.8	(281.4)	(13.5)
(5)	2000	3,567.3	3,052.7	(541.6)	(14.4)
	Outlays				
(6)	1983A	$ 795.9	$ 795.9	-	-
(7)	1985	939.9	894.2	$ 45.7	4.9%
(8)	1990	1,633.3	1,199.8	433.5	26.5
(9)	1995	2,864.6	1,870.3	994.3	34.7
(10)	2000	5,533.3	3,089.9	2,443.4	44.2
	Deficit				
(11)	1983A	$ (195.4)	$ (195.4)	-	-
(12)	1985	(185.1)	(135.7)	$ 49.3	26.7%
(13)	1990	(386.7)	(26.6)	360.1	93.1
(14)	1995	(775.4)	(62.6)	712.8	91.9
(15)	2000	(1,966.0)	(37.1)	1,928.8	98.1
		17 Years, 1984-2000			
	Cumulative				
(16)	Revenues	$29,731.5	$ 26,479.1	$(3,252.4)	(10.9)%
(17)	Outlays	41,370.5	27,585.9	13,784.6	33.3
(18)	Deficit	(11,639.0)	(1,106.9)	10,532.2	90.5
	Average Per Year				
(19)	Revenues	$ 1,748.9	$ 1,557.6	$ (191.3)	(10.9)%
(20)	Outlays	2,433.6	1,622.7	810.9	33.3
(21)	Deficit	(684.6)	(65.1)	619.5	90.5

17 year deficit -- $(11.64) trillion ex PPSS and $(1.1) trillion with PPSS -- saving $10.5 trillion or $620 billion per year for 17 years

As shown, the net effect of the PPSS recommendations would be to save the Federal government $1.9 trillion per year by 2000 (col.3, line 15) and $10.5 trillion cumulatively over the period. Initial savings would, of course, be more modest. Outlays in the PPSS Savings Case are lower than those in the Status Quo Case by $46 billion in 1985 (line 7) -- while recommendations are still being implemented. The savings then increase to $433 billion in 1990, $994 billion in 1995, and $2.4 trillion in 2000. These outlay reductions are partially offset by lower revenue projections to arrive at the net savings figure -- i.e., the reduction in the deficit.

Accumulating these savings over the projection period (lines 16-21) tells a very compelling story indeed. Implementing the PPSS recommendations will save U.S. taxpayers:

- A total of over $10.5 trillion -- or about $130,000 per taxpayer -- over the 1984-2000 period.

- Over $619 billion -- or about $7,700 per taxpayer -- per year.

The total savings of $10.5 trillion are the net of outlays being reduced by $13.8 trillion, or 33.3%, and revenues being reduced by $(3.3) trillion, or about (10.9)%. On an annual basis, the $810.9 billion per year average saving in outlays is $15 billion more than total U.S. outlays of $795.9 billion in 1983 (col. 1, line 6), while the $619.5 billion average annual reduction in the deficit is $18.9 billion more than total 1983 revenues of $600.6 billion (col.1, line 1).

The seeming paradox of lower revenues resulting from the PPSS recommendations -- which include revenue enhancements -- can be explained by two factors: the loss of stimulus resulting from lower government spending, at least in the early years of the projections, and the lower rate of inflation brought about by the savings in the PPSS Case -- 5.9% per year, 1983-2000, vs. 7.2% in the Status Quo Case. It should be noted that a lower inflation rate reduces Federal revenues, even though personal income taxes are indexed, because of its impact on corporate profits and taxes and on ad valorem excise taxes and duties. The following shows the same data in constant 1983 dollars.

[Table on following page]

Summary of Federal Finances, 1983-2000:
Status Quo of Current Policies vs. PPSS Savings
(Constant 1983 $ Billions)

	Fiscal Year	(1) Status Quo of Current Policies	(2) PPSS Savings	(3) PPSS Fav./(Unfav.) to Status Quo Amount	(4) PPSS Fav./(Unfav.) to Status Quo %
	Revenues				
(1)	1983A	$ 600.6	$ 600.6	-	-
(2)	1985	692.1	696.1	$ 4.0	0.6%
(3)	1990	854.7	850.8	(3.9)	(0.5)
(4)	1995	966.9	971.2	4.3	0.4
(5)	2000	1,098.2	1,154.3	56.0	5.1
	Outlays				
(6)	1983A	$ 795.9	$ 795.9	-	-
(7)	1985	861.8	820.7	$ 41.1	4.8%
(8)	1990	1,119.8	870.1	249.7	22.3
(9)	1995	1,325.8	1,004.8	321.0	24.2
(10)	2000	1,703.5	1,168.3	535.2	31.4
	Deficit				
(11)	1983A	$ (195.4)	$ (195.4)	-	-
(12)	1985	(169.7)	(124.6)	$ 45.1	26.6%
(13)	1990	(265.1)	(19.3)	245.8	92.7
(14)	1995	(358.9)	(33.6)	325.3	90.6
(15)	2000	(605.2)	(14.0)	591.2	97.7

In real terms, the recommendations do result in higher revenues -- with the PPSS Case yielding $56 billion (constant 1983 dollars) more than the Status Quo Case in 2000 as a result of the stronger economy brought on by the savings. The $4.0 billion improvement in 1985 over the Status Quo reflects the phased-in impact of cash accelerations. The lower revenues in the early 1990's result from the loss of fiscal stimulus provided by government spending at a time when the long-term benefits of investment, employment, etc. from such lower spending are not yet fully felt.

Thus, the PPSS recommendations, if adopted in full, can effectively overcome the prospective budget crisis. As shown in the following table which gives DRI's estimates of future budgets, the deficits, instead of rising to new highs, begin to decline as a result of the PPSS recommendations -- to $136 billion by 1985 and to $37 billion by 2000.

[Table on following page]

Summary of Federal Finances,
1962-2000: PPSS Savings
($ Billions)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Outlays		Deficit		
						As a % of	
Fiscal Year	Money GNP	Revenues	Amount	% of GNP	Amount	Outlays	GNP
(1) 1962	$ 548.2	$ 99.7	$ 106.8	19.5%	$ (7.1)	(6.6)%	(1.3)%
(2) 1980	2,575.8	517.1	576.7	22.4	(59.6)	(10.3)	(2.3)
(3) 1983	3,229.5	600.6	795.9	24.6	(195.4)	(24.6)	(6.1)
(4) 1985	3,793.3	758.5	894.2	23.6	(135.7)	(15.2)	(3.6)
(5) 1990	5,694.7	1,173.2	1,199.8	21.1	(26.6)	(2.2)	(0.5)
(6) 1995	8,671.4	1,807.8	1,870.3	21.6	(62.6)	(3.3)	(0.7)
(7) 2000	13,541.1	3,052.7	3,089.9	22.8	(37.1)	(1.2)	(0.3)
Avg. Ann. % Inc./(Dec.)							
(8) 1962-1983	8.8%	8.9%	10.0%	0.2%pt	17.1%	0.9%pt	0.2%pt
(9) 1980-1983	7.8	5.1	11.3	0.7	48.6	4.8	1.3
(10) 1983-2000	8.8	10.0	8.3	(0.1)	(9.3)	(1.4)	(0.3)

As shown, the budget deficit drops to 3.6% of GNP by 1985 and to a virtual balance by 1990 and subsequent years. At the same time, Federal expenditures ease to a range of 21%-23% of GNP in the period 1990-2000, a level well below the range of 27%-34% projected for the 1990-2000 decade in the Status Quo Case, as shown in the following which compares the above data on Federal finances with comparable data from the Status Quo Case:

[Table on following page]

Comparison of Federal Finances, 1983 and 2000:
Status Quo of Current Policies vs. PPSS Savings
($ Billions)

		(1)	(2)	(3)	(4)	(5)
			2000			
					PPSS Fav/(Unfav) To Status Quo	
		1983	Status Quo	PPSS Savings	Amount	%
(1)	Revenues	$ 600.6	$3,567.3	$3,052.7	$ (514.6)	(14.4)%
	Outlays					
(2)	Amount	$ 795.9	$5,533.3	$3,089.9	$2,443.4	44.2%
(3)	% of GNP	24.6%	34.4%	22.8%	11.6%pts	33.7
	Deficit					
(4)	Amount	$(195.4)	$(1,966.0)	$(37.1)	$1,928.8	98.1%
(5)	% of Outlays	(24.6)%	(35.5)%	(1.2)%	34.3%pts	96.6
(6)	% of GNP	(6.1)	(12.2)	(0.3)	12.0	97.8

As shown, in 2000 outlays in the PPSS Savings Case are $2.4 trillion, or 44.2%, favorable to the Status Quo. Expressed as a percentage of GNP, the improvement is 11.6% points, or 33.7%. The comparison between the deficits in the two cases is even more striking -- virtually 100%. As a percent of total outlays, the deficit in 2000 is projected at 1.2% in the PPSS Case -- 34.3% points, or 96.6%, favorable to the Status Quo. As a percent of GNP, the deficit in 2000 is only 0.3% in the PPSS Case, a 97.8% improvment from the 12.2% under the Status Quo.

The salutary economic effects of the Federal spending cuts on the U.S. economy as projected by the DRI model are summarized in the table on the following page.

[Table on following page]

Comparison of Key Economic Variables,
Status Quo and PPSS Savings Cases

		(1)	(2)	(3)	(4)
		Status Quo of Current Policies	PPSS Savings	PPSS Fav./(Unfav.) to Status Quo Amount	%
		Average Annual % Increase/(Decrease)			
	Money GNP				
(1)	1983-1985	9.2%	8.4%	(0.8)% pts.	(8.7)%
(2)	1985-1990	9.7	8.5	(1.2)	(12.4)
(3)	1990-1995	10.2	8.8	(1.4)	(13.7)
(4)	1995-2000	10.1	9.3	(0.8)	(7.9)
(5)	1983-2000	9.9	8.8	(1.1)	(11.1)
	Real GNP				
(6)	1983-1985	4.6%	3.8%	(0.8)% pts.	(17.4)%
(7)	1985-1990	3.5	3.5	-	-
(8)	1990-1995	1.9	2.4	0.5	26.3
(9)	1995-2000	1.4	1.9	0.5	35.7
(10)	1983-2000	2.5	2.7	0.2	8.0
	Inflation				
(11)	1983-1985	4.4%	4.4%	-	-
(12)	1985-1990	6.0	4.8	1.2% pts.	20.0%
(13)	1990-1995	8.2	6.2	2.0	24.4
(14)	1995-2000	8.5	7.3	1.2	14.1
(15)	1983-2000	7.2	5.9	1.3	18.1
	High-Grade Corporate Bond Rate	Average for Period			
(16)	1984-1985	11.68%	11.19%	0.49% pts.	4.2%
(17)	1986-1990	11.88	9.95	1.93	16.2
(18)	1991-1995	12.38	10.05	2.33	18.8
(19)	1996-2000	14.75	11.33	3.42	23.2
(20)	1984-2000	12.85	10.53	2.32	18.1
	3-Month T-Bill Rate				
(21)	1984-1985	9.37%	8.09%	1.28% pts.	13.7%
(22)	1986-1990	10.21	6.22	3.99	39.1
(23)	1991-1995	10.77	6.78	3.99	37.1
(24)	1996-2000	14.32	8.99	5.33	37.2
(25)	1984-2000	11.48	7.42	4.07	35.4
	Unemployment Rate				
(26)	1984-1985	8.30%	8.65%	(0.35)% pts.	(4.2)%
(27)	1986-1990	6.46	7.40	(0.94)	(14.6)
(28)	1991-1995	5.82	6.68	(0.86)	(14.8)
(29)	1996-2000	6.50	7.10	(0.60)	(9.2)
(30)	1984-2000	6.50	7.25	(0.75)	(11.5)
	Industrial Production	Average Annual % Incr./(Decr.)			
(31)	1983-1985	7.8%	6.4%	(1.4)% pts.	(18.0)%
(32)	1985-1990	4.8	4.9	0.1	2.1
(33)	1990-1995	2.2	2.9	0.7	31.8
(34)	1995-2000	1.4	2.3	0.9	64.3
(35)	1983-2000	3.4	3.7	0.3	8.8
	Real Business Fixed Investment				
(36)	1983-1985	5.3%	4.9%	(0.4)% pts.	(7.6)%
(37)	1985-1990	2.9	5.1	2.2	75.9
(38)	1990-1995	1.8	3.1	1.3	72.2
(39)	1995-2000	1.5	2.4	0.9	60.0
(40)	1983-2000	2.4	3.7	1.3	54.2
	Housing Starts	Average for Period (000 Units)			
(41)	1984-1985	1,704	1,728	24	1.4%
(42)	1986-1990	1,587	1,690	103	6.5
(43)	1991-1995	1,357	1,606	249	18.4
(44)	1996-2000	1,101	1,521	420	38.2
(45)	1984-2000	1,390	1,620	230	16.6

As shown, real GNP in the PPSS Savings Case gets off to a relatively slow start compared to the Status Quo Case -- growing at 3.8% per annum, 1983-1985, compared to 4.6% for the Status Quo Case -- as a result of the reduction in the stimulus provided by government spending. Thereafter, however, longer run elements begin to fall into place -- e.g., lower interest rates, which stimulate investment, and a greater share of resources devoted to growth of the private sector. Growth under the PPSS Savings assumptions accelerates and runs 0.5% point higher than the Status Quo Case during the 1990's -- a gain of 26.3% over the Status Quo for 1990-1995, and 35.7% for 1995-2000.

Although inflation tends to accelerate under both cases, the large deficits in the Status Quo Case lead to a rate of inflation of 8.6% in 1995 and averaging 8.5% per year, 1995-2000. By comparison, inflation in the PPSS Savings Case rises to 7.3%, 1995-2000 -- 1.2% points, or 14.1%, less than the Status Quo. For the period 1983-2000 as a whole, the PPSS Savings Case at 5.9% a year is 1.3% points, or 18.1%, below the 7.2% inflation rate projected by DRI for the Status Quo Case.

Despite the greater growth of real GNP in the PPSS Savings Case, the more favorable -- i.e., lower -- rate of inflation which accompanies it results in slower growth of money, or nominal, GNP than under the Status Quo. Over the 1984-2000 projection period, nominal GNP rises an average of 8.8% per year in the PPSS Savings Case compared to 9.9% per year in the Status Quo Case.

As would be expected, with lower inflation, interest rates in the PPSS Case are lower as well. The rate for high grade corporates is projected to drop from an 11.19% average, 1984-1985, to 9.95% in 1986-1990 before inflation pushes it back to 11.33% in 1996-2000. The rate on T-Bills is more reactive, dropping from 8.09% in 1984-1985 to 6.22% in 1986-1990, and then rising to 8.99% for 1996-2000. By comparison, in the Status Quo Case, yields increase steadily to average 14.75% on corporates, and 14.32% on T-bills during 1996-2000. Real rates -- i.e., interest rates after adjusting for inflation -- are also lower in the PPSS Case.

Real interest rates on both short and long-term debt are projected to be in an uptrend under the Status Quo, rising to over 8% by 2000, as the continually growing deficits and rekindling of inflation lead to expectations of even higher rates of inflation. In contrast, in the PPSS Savings Case, the real rate on high grade corporates remains in a fairly narrow range, with no discernable trend until the late 1990's when it rises to 5.24% in 2000. For the entire 1984-2000 period, the real rate in the PPSS Case averages 4.68%, 143 basis points, or 23.4%, lower than the Status Quo. Similarly, in the PPSS Case, the average real yield on T-Bills over the 1984-2000 period is 1.54% in the PPSS Savings Case, 301 basis points, or 66.2%, favorable to the Status Quo.

The lower real interest rates resulting from the PPSS recommendations lead to more rapid growth of both industrial production and real business fixed investment than occurs given the Status Quo of Current Policies. As shown in the Comparison of Key Economic Variables table, industrial production, mirroring real GNP, grows more slowly at first in the PPSS Case, although growth of 6.4% per year, 1983-1985, is still healthy. By the late 1990's, however, when the economy stalls under the Status Quo, industrial production growth in the PPSS Case is 2.1% per year -- 0.7% point, or 50% higher. Over the entire 1983-2000 period, industrial production in the PPSS Case grows at 3.7% per year, 0.3% point, or 8.8%, faster than under the Status Quo.

The pickup in industrial production has a multiplier effect on real business fixed investment. From 1983 to 1985, fixed investment grows 4.9% per year, (0.4)% point slower than under the Status Quo. This accelerates to 5.1% per year, 1985-1990, 1.76 times the Status Quo rate. During the 1990-1995 period, investment growth slows to 3.1% per year, but this is still 1.3% points, or 72.2%, faster than under the Status Quo.

Housing starts also benefit from the lower interest rates and are consistently higher if the PPSS recommendations are implemented. The difference is slight at first -- just 24,000 starts per year -- or 1.4% -- during 1984-1985. By 1996-2000, however, there are an average 420,000 more starts per year -- 38.2% higher -- in the PPSS Savings Case than under the Status Quo, and the average improvement of 230,000 starts per year translates into 3.9 million more houses over the entire 1984-2000 period in the PPSS Case than under the Status Quo.

Unlike the other key economic variables, the unemployment rate is higher as a result of the recommendations than it would have been under the Status Quo. This is true for all periods shown, with unemployment averaging 7.2%, 1984-2000, in the PPSS Savings Case -- 0.7% point, or 11.5%, higher than under the Status Quo. However, this higher unemployment rate does not reflect fewer people working, but rather more people in the labor force.

As a result of the more rapidly growing real GNP and business fixed investment that follow from the PPSS recommendations, by 2000, 2.2 million jobs are created that would not have been under the Status Quo. Also, as a result of the improved economy, 2.7 million more people are induced to join the labor force than would have been under the Status Quo. The unfavorable variance in the unemployment rate resulting from the PPSS recommendations reflects the difference between these numbers, and should be considered in the context of 2.2 million additional people at work.

In net, as analyzed by DRI in a Federal budget model specifically designed for this analysis and by use of its large econometric model of the U.S. economy, the PPSS savings have a broadly positive effect on the growth and development of the U.S. economy. Apart from reducing the deficit to near balance, it results in greater overall economic growth, lower inflation, lower interest rates, increased housing, and greater investment in the economy over the period to the end of this century than would result from sticking with the trend of current policies. Further details on the methodology and data used in the analysis are contained in Volume II.

B. HIGHLIGHTS OF COST SAVING AND REVENUE ENHANCEMENT OPPORTUNITIES

B. Highlights of Cost Saving and Revenue Enhancement Opportunities

The 47 PPSS reports contain 2,478 specific recommendations on 784 different issues. Their implementation could result in net savings and revenue enhancements of $424.4 billion over three years, after eliminating about $120.6 billion in savings and revenue overlap.

The opportunities for realizing these savings pervade the entire structure of the Federal Government. They involve better management through introduction of proven business techniques. They include provision of more timely data focused for use in decision-making. They concern every major management function, especially human resources, fiscal affairs, procurement, facilities, and organization management. Nearly three-quarters (72.5 percent) of the projected savings require Congressional action if they are to be realized. Another 19.6 percent can be acted on by individual departments and agencies, while 7.9 percent require Presidential action.

Virtually every department and agency in the Federal Government is involved in some way, especially when considering such cross-cutting functional areas as personnel management, automated data processing, and financial management. The projected savings are big where expenditures are big, and thus they are concentrated in such departments as Defense and Health and Human Services, and in Government-wide functions involving personnel, procurement, and financial management.

There are some striking "big ticket" items included in the total. One such item deals with the need for improved management of subsidized programs. Currently, some 79 percent of all the taxes collected, including personal and corporate, are used by Government contributions to transfer payments ($408 billion in FY 1983) and pay interest on the Federal debt ($88.9 billion in net interest in FY 1983). That leaves only 21 percent of taxes collected available to run the Government, and some $60 billion of that goes for the administrative costs of delivering these subsidized programs. PPSS estimates that three-year savings of $59 billion could be achieved in the area of means-tested subsidy programs alone.

In addition to the projected savings and revenue enhancements, PPSS has projected cash acceleration opportunities totalling some $66 billion over three years. These have to do with situations in which monies due the Government can be collected more expeditiously, thereby reducing the requirement for Government borrowings. Consequent savings in interest costs have been tallied with overall projected savings and revenue enhancements.

In the chapters that follow, there will be discussions of duplicated and unduplicated savings and revenues. Duplicated savings refers to the aggregation of gross cost saving and revenue enhancement opportunities identified by the 47 individual reports. Since some of the Task Forces looked at cross-cutting issues that involve more than one Governmental department or agency, they have, in some cases, identified savings that were also claimed by the agency-focused Task Forces. This overlap has been netted out in this Report to arrive at unduplicated savings totals.

Table II-1, on the following page, identifies total cost saving and revenue enhancement opportunities over three years of $545.0 billion (duplicated) for each of the 47 reports released by PPSS. Table II-2, following Table II-1, shows a breakdown of the $120.6 in overlapping savings, by major functional area, that are contained within the gross amount of $545.0 billion. The difference between the gross reported three-year savings/revenue opportunities of $545.0 billion and the overlap of $120.6 billion is the net (unduplicated) three-year savings and revenue opportunities reported by PPSS of $424.4 billion.

[Tables on the following pages]

TABLE II-1
PPSS REPORTS
SAVINGS AND REVENUE ENHANCEMENT OPPORTUNITIES
THREE YEAR TOTALS (Duplicated)
($ Billions)

REPORTS	(1) SAVINGS	(2) REVENUE	(3) TOTAL
1. Program Subsidies	$58,900.0	$ 0.0	$58,900.0
2. Federal Retirement Programs	58,100.0	0.0	58,100.0
3. Defense-OSD	44,508.4	248.2	44,756.6
4. Personnel Management	39,270.1	0.0	39,270.1
5. Federal Health Care Costs	28,900.0	0.0	28,900.0
6. Privatization	11,190.9	17,226.2	28,417.1
7. Air Force	27,603.7	0.0	27,603.7
8. Financial Asset Management	13,776.7	9,726.2	23,502.9
9. Procurement	20,271.0	0.0	20,271.0
10. Automated Data Processing/OA	19,062.6	0.0	19,062.6
11. Beyond PPSS	10,773.2	5,174.0	15,947.2
12. Army	13,400.3	0.0	13,400.3
13. Health & Human Svcs/HCFA/PHS	12,676.5	662.0	13,338.5
14. Agriculture	12,237.3	606.3	12,843.6
15. Research & Development	12,089.8	0.0	12,089.8
16. Federal Hospital Management	9,191.4	2,721.1	11,912.5
17. Wage Setting Laws	11,650.0	0.0	11,650.0
18. Treasury	2,366.8	9,139.5	11,506.3
19. User Charges	0.0	10,210.9	10,210.9
20. Banking	1,616.6	7,782.0	9,398.6
21. Health & Human Svcs/SSA	8,407.0	980.0	9,387.0
22. Congressional Encroachment	7,755.3	1,070.0	8,825.3
23. Navy	7,185.0	0.0	7,185.0
24. Low Income Standards	5,887.3	0.0	5,887.3
25. Federal Construction	5,446.0	0.0	5,446.0
26. Transportation	2,712.5	1,705.3	4,417.8
27. Energy	2,789.6	1,290.9	4,080.5
28. Labor	3,718.2	0.0	3,718.2
29. Business	2,366.6	929.0	3,295.6
30. Veterans Administration	2,120.0	953.3	3,073.3
31. Education	2,827.8	0.0	2,827.8
32. Housing & Urban Development	2,460.3	357.5	2,817.8
33. Real Property	2,361.9	0.0	2,361.9
34. EPA/SBA/FEMA	1,660.3	199.3	1,859.6
35. Travel & Transportation Mgmt.	1,850.0	0.0	1,850.0
36. Publ's, Printing & Audio Visual	1,463.0	264.8	1,727.8
37. Interior	271.2	1,022.1	1,293.3
38. Justice	183.2	666.9	850.1
39. State/U.S. Information Agency	382.8	360.0	742.8
40. Commerce	258.8	471.0	729.8
41. Land & Facilities Management	200.7	426.2	626.9
42. Health & Human Services/Other	601.7	0.0	601.7
43. Federal Feeding	259.6	38.8	298.4
44. Information Gap	0.0	0.0	0.0
45. Federal Financial Management	0.0	0.0	0.0
46. Federal Management Systems	0.0	0.0	0.0
47. Anomalies	0.0	0.0	0.0
TOTALS: Duplicated	$470,754.1	$74,231.5	$544,985.6
LESS: Duplicated Amounts	(112,786.1)	(7,848.2)	(120,634.3)
TOTALS: Unduplicated	$357,968.0	$66,383.3	$424,351.3

TABLE II-2
PPSS REPORTS
DUPLICATED SAVINGS AND REVENUE ENHANCEMENT OPPORTUNITIES
THREE YEAR TOTALS BY FUNCTION
($ Billions)

	FUNCTIONAL AREAS AFFECTED	(1) SAVINGS	(2) REVENUE	(3) TOTAL
1.	Federal Retirement Programs	$37,322.2	$ 0.0	$37,322.2
2.	Weapons Systems Acquisition	14,351.6	0.0	14,351.6
3.	Medicare/Medicaid	8,940.0	0.0	8,940.0
4.	OMB Circular A-76	8,807.7	0.0	7,964.0
5.	Automated Data Processing/OA	7,964.0	0.0	7,964.0
6.	Power Marketing Administration	785.3	5,833.8	6,619.1
7.	Federal Subsidies	6,392.5	0.0	6,392.5
8.	Inventory Management-Military	6,033.0	0.0	6,033.0
9.	Commissary Operations	3,481.7	0.0	3,481.7
10.	Davis-Bacon Act	3,330.5	0.0	3,330.5
11.	Service Contract Act	2,383.0	0.0	2,383.0
12.	Research and Development	2,286.6	0.0	2,286.6
13.	Weapons Systems Cost Estimating	1,883.0	0.0	1,883.0
14.	Coast Guard Services-User Fees	1,259.4	418.2	1,677.6
15.	Walsh-Healey Act	1,671.5	0.0	1,671.5
16.	Veterans Admin. Hospitals	1,436.5	0.0	1,436.5
17.	Military Base Support	918.0	0.0	918.0
18.	Military Health Care	744.7	0.0	744.7
19.	Spare Parts Break-out	689.4	0.0	689.4
20.	Tax Exempt Bonds	0.0	662.0	662.0
21.	Cash Management	492.2	0.0	492.2
22.	Unnecessary Military Bases	337.0	30.0	367.0
23.	Cargo Preference Act	457.5	0.0	357.5
24.	Foreign Military Sales	0.0	248.2	248.2
25.	Recreation Fees	0.0	226.9	226.9
26.	Debt Collection Management	180.0	19.3	199.3
27.	FCC User Charges	0.0	132.4	132.4
28.	Freight Transportation Audit	130.2	0.0	132.2
29.	Public Rangelands/Grazing Fees	0.0	125.4	125.4
30.	Direct Lending Phaseout-SBA/FMHA	100.0	0.0	86.5
31.	Government Printing Offices	99.3	0.0	99.3
32.	Vehicle Fleet Management	86.5	0.0	86.5
33.	Small Business Act Sec 8(a)	76.8	0.0	76.8
34.	Military Moves to Alaska & Hawaii	69.5	0.0	69.5
35.	Military Reserves Dual Pay	66.2	0.0	66.2
36.	Firewood Fees	0.0	63.6	63.6
37.	Government Employee Travel	51.5	0.0	51.5
38.	Annual Loan Guaranty Fee	0.0	42.7	42.7
39.	Direct Loan Application Fees	0.0	23.2	23.2
40.	Soil Survey Fees	0.0	22.5	22.5
41.	Consumables Management-Military	20.0	0.0	20.0
42.	Purchase of Foreign Currency	17.1	0.0	17.1
43.	Max Loan Guaranty Rate-SBA/FMHA	11.2	0.0	11.2
44.	Military Accrued Leave Pay	6.3	0.0	6.3
45.	Certified Lenders' Program	4.2	0.0	4.2
	TOTALS	$112,786.1	$7,848.2	$120,634.3

The overriding theme of the recommendations in these Task Force reports is that the Federal Government has significant deficiencies from managerial and operating perspectives, resulting in hundreds of billions of dollars of needless expenditures that taxpayers have to bear each year. The reports make clear that these deficiencies are not the result of a lack of competence or enthusiasm on the part of Federal employees. Rather, responsibility rests squarely on the Executive Branch and the Congress, which in the final analysis are the joint architects of the Federal Government's management systems, policies, and practices.

It is, admittedly, a staggering task to manage an organization whose size dwarfs even the largest private sector corporations. Still, the Federal Government is also an organization with human and financial resources of gigantic dimensions, and it would appear that one Administration after another has simply not been as effective as it should have been in productively employing those resources. The thousands of PPSS recommendations attest to the work that can be done -- and needs to be done right now -- to bring the management of the Federal Government under control.

At the same time, it is important to recognize that inefficient management practices and procedures in the Federal Government are not always the result of short-comings in the Executive Branch. Indeed, Congressional involvement in day-to-day management decisions has frequently delayed or prevented achievement of efficiencies proposed by program managers, thus costing the taxpayers billions of dollars in unnecessary expense. Congress may have every constitutional right to involve itself in the details of routine Government operations; PPSS certainly has no competence or desire to argue such constitutional issues. It is critical for the Congress to realize, however, that exercising this right can prove costly, counterproductive, and ultimately disabling to Executive Branch managers -- who are trying to employ as they see best the personnel and other resources allocated to them to accomplish their missions.

Why does Congressional micro-management occur? Primarily, of course, it is because the American political system places members of the Congress in the very difficult position of balancing the local concerns of their constituents with the overall needs of the entire Nation -- interests that are not always congruent. It is hardly surprising that in such an environment Senators and Congressmen generally make every effort to keep Federal funds, Federal offices, and military bases firmly ensconced in their particular states and districts, even if shifting them elsewhere (or cutting them out of the budget entirely) would make better sense from a managerial, and a national, perspective.

Because of the complex interactions in our checks and balances system, it is not always easy to identify which branch of Government has been responsible for individual shortfalls in Federal operations. Nor is it particularly fruitful to try to make such distinctions. However, it is a relatively straightforward matter to determine which branch has the authority to implement the PPSS recommendations designed to remedy these shortfalls. Congress has primary authority to take action that could realize 72.5 percent of the PPSS savings, the President has authority over 7.9 percent, and agencies/departments (over which the President obviously exerts considerable influence) have over 19.6 percent. Their willingness to exercise that authority, and to work together in doing so, will determine how quickly the potential savings will begin having an impact on Federal deficits.

Ultimately, of course, it is the American voter who will decide whether we continue along the same overcommitted path we have been on for the past two decades -- and thereby court fiscal disaster -- or make the significant changes required to put our fiscal house in order. Some, but by no means all, of those changes are imbedded in the 2,478 recommendations put forward by PPSS which have the potential to save taxpayers $424.4 billion over three years. The extent to which the public impresses on both the Executive Branch and the Congress the importance of implementing these recommendations will perhaps give some indication of how committed we are to practicing as a Nation the same prudence we seek to bring to the management of our businesses and our individual financial affairs. Our survival as a free and prosperous Nation depends upon it.

Before turning to the detailed descriptions of the PPSS findings, conclusions, and recommendations, it is perhaps useful to give some "reality" to the PPSS savings figures because it is difficult for any of us to understand exactly what it means to have $10 million, much less $1 billion or more. One way of getting a handle on these vast sums is to consider that instances of unnecessary expenditures identified by PPSS mean that the equivalent of the following tax revenues are being wasted:

- $10 million = Federal income taxes paid in 1983 by about 4,509 median income families

- $100 million = Federal income and Social Security taxes paid in 1983 by 26,089 median income families

- $500 million = enough to reduce Federal income taxes by 31.3% for each of the lowest 23.5 million returns in 1981

- $1 billion = total Federal income taxes paid in 1981 by residents in either Alaska, Maine, or Rhode Island; and more than paid by residents in any of 7 other states

- $20 billion = total Federal income taxes paid in 1981 by individuals in all eight Rocky Mountain states plus Washington state -- a total of 5.4 million tax returns

- $50 billion = total Federal income taxes paid in 1981 by all taxpayers earning under $20,000

- $100 billion = almost all the Federal income taxes paid in 1981 by individuals residing in states west of the Mississippi

III. WHAT WE FOUND AND WHY

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III. WHAT WE FOUND AND WHY

This chapter includes savings and revenue enhancement opportunities which could result in three year savings of $424 billion, equivalent to the three year tax liability of 63.8 million median income families.

PPSS, in collaboration with Data Resources, Inc. (DRI), the largest economic forecasting firm in the United States, projected the outlook for Federal finances, assuming a continuation of present policies through the 17 years ending in the year 2000. Details on this projection may be found in Section VII, Volume II, "Long-Term Economic Impact of PPSS Savings." The net of the forecast is as follows:

Federal Deficit
Debt, and Interest, 1980-2000
($ Billions)

		(1)	(2)	(3)
	Year	Deficit	Debt	Interest on Debt
(1)	1980	$ (59.6)	$ 914.3	$ 52.5
(2)	1983	(195.4)	1,381.9	87.8
(3)	1985	(185.1)	1,764.1	120.9
(4)	1990	(386.7)	3,211.0	252.3
(5)	1995	(775.4)	6,156.7	540.9
(6)	2000	(1,966.0)	13,020.9	1,520.7
(7)	2000 as a Multiple of 1980	33.0X	14.2X	29.0X

Present policies are driving the deficit from $59.6 billion in 1980 to 33 times that level, or to almost $2 trillion in the year 2000. This escalation of the deficit would bring the Public Debt to an incredible $13.0 trillion in 2000, about four times our entire 1983 GNP. The interest burden alone would be over $1.5 trillion in the year 2000.

With that background, it was the judgment of PPSS that the United States, as we enter the mid-1980's, is in a new ballgame -- one where many of the old rules no longer apply and where many of the "sacred cows" will have to be sacrificed. It is the PPSS view that, if the taxpaying public were to realize how serious the condition of Federal Government finances is, they would demand drastic action from their elected representatives. American taxpayers, however, are not aware of the crisis proportions of the impending deficits and, therefore, have never seriously questioned the need for and effectiveness of the myriad programs for which hard-earned tax dollars are expended.

For example, it is certain that the average American family, paying income taxes of $2,218/year, would not tolerate retirement benefits to Government employees which are from 3 to 6 times what is offered in the best private sector plans and which provide lifetime benefits of up to $1.5 million to Government annuitants.

The all important point in the entire PPSS effort is the context in which its recommendations are considered. If the situation is not very crucial, why touch, for example, Federal pensions? On the other hand, if the taxpayers see a financial debacle, everything will be looked at and, if unfairness exists -- injustice that hurts the average taxpaying American family -- it will be redressed.

Further, the taxes of all families would have to be increased by 38% to offset the average annual Federal deficits of the years 1980-1983. With the DRI forecast of a deficit approaching $2 trillion in the year 2000, personal income taxes would have to be increased by 122% to balance the budget in that year.

Clearly, it is inconceivable that American taxpayers would permit themselves to be subjected to near confiscatory tax rates. That is why PPSS has felt that there should be no holds barred -- no "sacred cows" -- with reference to what it should study or what it should recommend.

Indeed, it is hoped and expected that the American taxpayer will address this issue in correspondence with his or her legislative representative and that the latter will carefully consider all of the PPSS recommendations within the context of the realities of the next 17 years.

In addressing Government operations, major focus has been on restoring financial stability, and not on whether the identified opportunity is old or new, controversial or acceptable. PPSS believes that opportunities viewed as controversial and unacceptable in the past can give rise to public debate which will result in:

- Better ideas, which can stimulate
- New approaches, and provide
- Answers to long-standing problems, while gaining
- Acceptance of needed corrective measures.

Efficiency and effectiveness have long been recognized as the essence of any well managed operation. PPSS recommendations are designed to increase efficiency with improved effectiveness while continuing to be fully responsive to the needs of the Nation. Specifically, the PPSS opportunities stress the need for cost savings, particularly in this period of heightened concern about Federal deficits. This focus on efficiency however, is coupled with the recognition that promoting greater competence and incentives in Government, i.e., improving effectiveness, is as important as holding the line on expenditures. The opportunities in this chapter are grouped under the major management headings of structure, systems, programs, and people for ease of implementation and follow-up control.

To implement PPSS recommendations and to achieve resulting savings will require a continuing, organized, and systematic process. Since money, manpower, and time are always limited, priorities must be established and adhered to. The work of individuals and organizations assigned responsibility for implementing PPSS recommendations will require coordination, communication, and control and will be dependent on:

- The concurrence of Administrative and Congressional leaders; and

- The cooperation and hard work of Government employees at all levels.

The opportunities described in the following pages are the most pressing, telling stories across Government. They require immediate attention. Many are dependent on institutional changes to bring about long-term improvement. If the problems identified are left uncorrected, they can only deteriorate and result in "opportunities lost", leading to the loss of national vitality and the erosion of freedoms.

They are the savings and revenue opportunities that can:

a) reduce Federal Debt in the year 2000, just 17 years from now, from an estimated $13 trillion to $2.5 trillion, a reduction of $10.5 trillion.

b) reduce the annual interest expense in 2000 from $1.5 trillion to $75 billion.

c) reduce the Federal Deficit in 2000 from $2.0 trillion to $37 billion.

d) reduce the percent increase in Federal income taxes necessary to balance the budget from 122% to 2%.

A. THE FEDERAL STRUCTURE: WHY IT PRODUCES INEFFICIENCY AND WASTE AND WHAT MUST BE DONE

III-A. The Federal Structure: Why It Produces Inefficiency and Waste and What Must Be Done

PPSS in analyzing Federal Government operations and seeking and identifying opportunities to cut costs, concluded that a major obstacle to improving the efficiency and effectiveness of the Government is the Federal structure itself. PPSS identified the need for a mechanism at the top level of the Government to provide much greater emphasis on management improvement. Accordingly, PPSS recommended the establishment of an Office of Federal Management (OFM) in the Executive Office of the President, responsible for policies and programs throughout the Government to improve financial management information systems, to coordinate reporting policies and procedures, to assure effective management of human resources and for planning and budgeting.

In FY 1983, the Government spent $19.8 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $96.6 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $56.9 billion in 2000, a saving of $39.7 billion or 41.1%.

No single department or agency is responsible for overall Executive Branch administrative direction and policy setting. Responsibilities for property, financial management, human resources, and ADP management are distributed among many agencies. This condition results from a long history of uncoordinated and often conflicting legislation and administrative actions. Major structural defects include:

- Lack of centralized financial and administrative management;
- Lack of government-wide management information; and
- Lack of continuity in key management positions.

There is no centralized management for financial and accounting functions. The Federal Government accounts for more than one-quarter of all economic activity in the United States. No agency, however, is clearly responsible, for example, for developing and coordinating financial management policies. As a result, the

Government has experienced significant difficulties in establishing procedures for effective cash management, debt and receivables collection, inventory management, and financial reporting.

The lack of government-wide management information inhibits the ability of central agencies to improve administrative functions. Without key indicators of performance, agencies tend to "control" operations by standardizing procedures and promulgating regulations. Problems are obscured because the information that would identify them is not available.

Tenure in key management positions is short, resulting in a lack of continuity in management. The average tenure for political appointees in agencies and departments is 18 months. In the General Services Administration, for example, there have been nine administrators, ten deputy administrators, and 14 commissioners for procurement activities in the past ten years.

Improving the management of administrative activities should be based on (a) centralized responsibility for policy development and direction in the areas of financial management, and budgeting and planning; (b) effective management information systems; and (c) the appointment of senior officials with extensive managerial experience for long-term service.

Q. What conclusions were reached and what recommendations did PPSS propose to overcome these problems?

A. PPSS concluded that resolution requires establishment of an Office of Federal Management with responsibilities and authorities that would enable it to introduce management changes throughout the Government.

Q. What are some specific examples of recommendations PPSS made regarding the structure of the Federal Government?

A. Examples of cost savings that could be achieved through modification of the structure include the following:

- The Department of Agriculture has three agencies that perform duplicative research analysis. Consolidation of the Economic Research Service, the Foreign Agricultural Service, and the World Agricultural Outlook Board into a single entity and elimination of the overlap in functions could save $22 million over three years.

- Three agencies of the Department of Agriculture--the Soil Conservation Service, the Agriculture Stabilization and Conservation Service, and the Farmers Home Administration--often have separate offices in the same counties. Consolidation could save $194 million over three years.

- The structure of an organization is, of course, frequently determined by the nature of the services they are charged to deliver. Thus, changes of mission can result in scaled back requirements for services and facilities, permitting structural changes that can produce economies. For example, administration of the Railroad Retirement Board's (RRB) field offices can be transferred to the Social Security Administration; the RRB would then no longer require a separate field service and could consolidate other functions, resulting in savings over three years of $26 million.

- Reorganization of the structure of the Federal Home Loan Bank Board, reducing the number of district banks in the system, would increase efficiency and effectiveness and produce savings of $20 million over three years.

- Air passengers and cargo entering the United States are inspected at their ports of entry by as many as six Federal agencies. Consolidation of port-of-entry inspection services would eliminate duplications in overhead, improve coordination of functions, and produce economies of scale for savings of $48 million over three years. Improved service to travelers could also eliminate delays that have been estimated to cost more than $80 million.

- Consolidating Department of Transportation (DOT) regions from ten to six and reducing related staffs would produce savings of $45 million in three years without reduction in effectiveness.

- Even more significant savings could be achieved in DOT through consolidation of certain Federal Aviation Administration activities, reducing the number of regions from nine to seven and the number of air traffic control centers from 22 to 15 with total three year savings of $445 million.

- Closing or restructuring the operation of low-volume air traffic control towers, to include defederalization of certain low and moderate activity facilities, would save the FAA an additional $151 million over three years. Similarly, consolidation of Flight Service Stations, closing approximately 100 in the process, would save FAA another $40 million over three years.

Q. Are these savings likely to be achieved, since they require Congressional action?

A. The GAO, Congress' own investigative agency, has issued numerous reports urging Congress to streamline the structure of agencies. Two examples were an April 1979 study suggesting that the Agriculture Department consolidate many of its field offices, and an October 1978 study suggesting that the Customs Service reduce the number of regional offices. Congress has not acted on GAO recommendations for structural reorganization.

GAO has documented that in some cases the opposition to structural reform comes from Government employees directly affected by reorganization. Employees encouraged Congressional intervention using such tactics as: emphasizing human and financial losses when an office within their district is closed or consolidated; applying pressure through protest marches, letters and telephone calls; using alliances between Congressional staff and agency personnel; and enlisting support and influence of former employees of affected agencies.

Q. What conclusions and recommendations did PPSS draw from analysis of Federal regulatory processes?

A. Certain regulatory procedures and processes could be made more effective, for example:

- Mitigation policies are intended to avoid or reduce environmental damage. Costs of mitigation can be a substantial addition to Federal construction expenditures. Although some mitigation is desirable, excesses occur due to overlapping and duplicative regulations and jurisdictional authorities. PPSS recommended that these practices and policies be reviewed to eliminate unnecessary mitigation and establish a systematic and consistent enforcement policy. Savings over three years are estimated at $993 million.

- Construction costs and time delays can be reduced by integrating National Environmental Policy Act (NEPA) reviews with other special purpose environment review requirements. These special reviews sometimes duplicate the NEPA reviews. By integrating the special purpose environmental reviews into the NEPA process, PPSS estimates savings of $339 million over three years.

Q. What recommendations did PPSS make in streamlining the structure of the Department of Defense?

A. Opportunities for cost savings through structural reform of defense activities include:

- The Department of Defense (DOD) distribution system includes 30 wholesale depots with a total attainable storage capacity of 665 million cubic feet, of which only 499 million cubic feet is occupied, for a 68% utilization rate. While some allowance must be made for necessary surge capacity to accommodate changes in demand, significant opportunities for depot consolidation exist. Upgrading the reporting system so that the department has accurate data on warehouse capacity and utilization, and consolidation as recommended, would produce savings of $116 million over three years.

- o The Department of Defense operates 29 depot-level maintenance facilities, where heavy maintenance on a variety of systems is performed. The work requires extensive investment in fixed facilities, specialized tools, and complex test equipment. In FY 1983, expenditures for the maintenance performed at such facilities amounted to $12.4 billion. Yet, despite an apparent consensus in DOD that consolidation of depot maintenance facilities offers cost savings opportunities, progress in implementing such changes in the management and delivery of heavy maintenance services has been unsuccessful because of the reluctance of individual Services to give up control. The savings which could be achieved through elimination of redundant management and systems overhead, greater professionalism in the management of industrial activities, and better utilization through elimination of excess capacity amount to $589 million over three years.

- o The DOD maintains some 5,600 separate installations and properties worldwide. While the department's military and civilian employee population has decreased from roughly five million people to about three million since 1968, significant base realignments and closures have virtually ceased since the mid-1970s.

Q. Don't base realignments and closures require Congressional action?

A. Every state and almost 60% of all Congressional districts contain, or are adjacent to, military bases or other installations. The payrolls and procurement from these bases provide extensive benefits to the communities.

Few would argue that all of DOD's 5,600 installations and properties worldwide are necessary, efficient or economical. In fact, some proportion of these facilities and the estimated $20 billion a year spent to operate them could be better utilized elsewhere.

Congress has restricted DOD's control of facilities by imposing restrictions which, per DOD, make it "virtually impossible to close any military installation in the country".

The CBO has issued studies and reports suggesting Congress pursue base realignments and closings. The GAO has made similar suggestions. Congress, however, has not acted.

PPSS recommended establishment of a Presidentially appointed bipartisan commission to study the opportunities for base realignments and closures, and estimated that $2.732 billion could be saved in this area over three years by effective action without weakening our defense capabilities.

Q. How will the proposed Office of Federal Management compare with the present management structure, and what will be its new responsibilities?

A. On the following pages are shown the current functional organization of the Office of Management and Budget and the PPSS-recommended functional organization of an Office of Federal Management, followed by a discussion of its responsibilities.

[Charts on the following pages]

Office of Management and Budget
Current Functional Organization

EXECUTIVE OFFICE OF THE PRESIDENT

- White House Office
- Office of Policy Development
- Office of Administration
- Council on Environmental Quality
- Regulatory Information Service
- Council of Economic Advisors
- National Security Council
- Office of the U.S. Trade Representative
- Office of Science and Technology Policy

OFFICE OF MANAGEMENT AND BUDGET

OTHER
- Leglislative Review/Reference
- Public Affairs
- Other

FEDERAL PROCUREMENT POLICY
- Procurement

MANAGEMENT
- PCIE
- Intergovernmental Affairs
- Coordination of Selected Financial Functions
- Other Management Improvements

MANAGEMENT REFORM TASK FORCE
- Reform 88

INFORMATION AND REGULATORY AFFAIRS
- Regulatory Review
- Implementation of Paperwork Reduction Act

BUDGET
- Budget Preparation and Analysis
- Other Budget Responsibilities

Cabinet Level Departments

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury

Independent Establishments, Corporations, Boards and Commissions

Civil Aeronautics Board
Environmental Protection Agency
Federal Emergency Management Agency
General Services Administration (GSA)
Office of Personnel Management (OPM)
Etc.