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Transfer Payments, 1962-2000: PPSSCC Savings  
(\$ Billions)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Five Specially Funded Social Programs									
Fiscal Year	Social Security	Railroad Retirement	Civil Service Ret.	Unemployment Assist.	Hospital Insurance	Subtotal	Memo: Revenues	Memo: Surplus/ (Deficit)	All Other Transfers	Total Transfers
(1) 1962	\$ 13.9	\$ 1.0	\$ 1.1	\$ 3.8	-	\$ 19.8	\$ 17.0	\$ (2.8)	\$ 9.7	\$ 29.5
(2) 1965	16.9	1.1	1.4	2.8	-	22.3	22.3	-	11.4	33.7
(3) 1970	29.6	1.6	2.8	3.4	\$ 5.0	42.3	44.4	2.1	23.7	66.0
(4) 1975	65.2	3.1	7.1	13.5	10.6	99.4	84.5	(14.9)	57.2	156.6
(5) 1980	117.1	4.7	14.7	18.0	24.3	178.8	157.8	(21.0)	104.2	283.0
(6) 1981	137.9	6.0	17.6	19.7	29.2	210.4	182.7	(27.7)	119.9	330.3
(7) 1982	153.9	5.7	19.4	23.8	34.9	237.7	201.5	(36.2)	125.8	363.5
(8) 1983	170.1	6.2	20.7	29.8	38.7	265.5	208.9	(56.6)	137.3	402.8
(9) 1985	201.5	7.1	22.6	20.1	46.0	297.4	270.3	(27.1)	148.6	446.0
(10) 1990	345.1	7.3	33.0	29.0	68.4	482.9	416.5	(66.3)	195.5	678.4
(11) 1995	621.7	10.2	52.4	45.6	118.9	848.7	665.4	(183.3)	299.9	1,148.6
(12) 2000	1,107.6	15.2	90.5	65.0	223.8	1,502.1	1,118.4	(383.7)	496.3	1,998.4

Avg. Ann. %  
Inc./ (Dec.)

(13) 1962-1983	12.7%	8.9%	15.2%	10.3%	ND	13.1%	12.7%	15.4%	13.5%	13.2%
(14) 1965-1983	13.7	9.9	16.0	14.1	ND	14.8	13.2	51.0	14.8	14.8
(15) 1980-1983	13.3	9.4	12.1	18.2	16.8%	14.1	9.8	39.2	9.6	12.5
(16) 1983-2000	11.7	5.4	9.1	4.7	10.9	10.7	10.4	11.9	7.8	9.9

As a Percent of Total

(17) 1962	13.0%	1.0%	1.0%	3.6%	-	18.6%	16.0%	(2.6)%	9.1%	27.7%
(18) 1965	14.3	1.0	1.2	2.4	-	18.8	18.8	-	9.6	28.4
(19) 1970	15.1	0.8	1.4	1.7	2.5%	21.6	22.7	1.1	12.1	33.7
(20) 1975	20.1	0.9	2.2	4.1	3.3	30.6	26.1	(4.6)	17.6	48.3
(21) 1980	20.3	0.8	2.5	3.1	4.2	31.0	27.4	(3.6)	18.1	49.1
(22) 1981	21.0	0.9	2.7	3.0	4.5	32.0	27.8	(4.2)	18.2	50.3
(23) 1982	21.1	0.8	2.7	3.3	4.8	32.6	27.7	(5.0)	17.3	49.9
(24) 1983	21.4	0.8	2.6	3.7	4.9	33.4	26.2	(7.1)	17.3	50.6
(25) 1985	22.5	0.8	2.5	2.3	5.1	33.3	30.2	(3.0)	16.6	49.9
(26) 1990	28.8	0.6	2.8	2.4	5.7	40.2	34.7	(5.5)	16.3	56.5
(27) 1995	33.2	0.5	2.8	2.4	6.4	45.4	35.6	(9.8)	16.0	61.4
(28) 2000	35.8	0.5	2.9	2.1	7.2	48.6	36.2	(12.4)	16.1	64.7

As a Percent of GNP

(29) 1962	2.5%	0.2%	0.2%	0.7%	-	3.6%	3.1%	(0.5)%	1.8%	5.4%
(30) 1965	2.6	0.2	0.2	0.4	-	3.4	3.4	-	1.7	5.1
(31) 1970	3.1	0.2	0.3	0.3	0.5%	4.4	4.6	0.2	2.5	6.8
(32) 1975	4.4	0.2	0.5	0.9	0.7	6.7	5.7	(1.0)	3.9	10.6
(33) 1980	4.5	0.2	0.6	0.7	0.9	6.9	6.1	(0.8)	4.0	11.0
(34) 1981	4.8	0.2	0.6	0.7	1.0	7.3	6.3	(1.0)	4.2	11.5
(35) 1982	5.0	0.2	0.6	0.8	1.1	7.8	6.6	(1.2)	4.1	11.9
(36) 1983	5.3	0.2	0.6	0.9	1.2	8.2	6.5	(1.8)	4.3	12.5
(37) 1985	5.3	0.2	0.6	0.5	1.2	7.8	7.1	(0.7)	3.9	11.8
(38) 1990	6.1	0.1	0.6	0.5	1.2	8.5	7.3	(1.2)	3.4	11.9
(39) 1995	7.2	0.1	0.6	0.5	1.4	9.8	7.7	(2.1)	3.5	13.2
(40) 2000	8.2	0.1	0.7	0.5	1.7	11.1	8.3	(2.8)	3.7	14.8

The first seven columns refer to the five specially funded transfer programs -- Social Security, Medicare, Unemployment Insurance, Civil Service Retirement, and Railroad Retirement. Within that group, Social Security and Medicare -- by far the two largest -- are projected to grow at 11.7% and 10.9% per year, 1983-2000. At the other end of the scale, unemployment assistance -- which was exceptionally high during 1983 because of the record postwar unemployment rate of 10.2% -- is projected to increase at only 4.7% per year to 2000. After Social Security and Medicare, Civil Service Retirement -- the other major retirement program -- is projected to grow at 9.1% per year. Railroad Retirement, the smallest of the funded programs, is projected to grow at 5.4% per year, 1983-2000.

In total, these programs are projected to grow at 10.7% per year, compared to 13.1% during 1962-1983 and 14.1% per year, 1980-1983, and to reach \$1.5 trillion in 2000 -- 48.6% of total expenditures and 11.1% of GNP. Since revenues for these specially funded programs are projected to increase at 10.4% per year -- (0.3)% point slower than outlays -- the deficit incurred by these trust funds widens from \$(56.6) billion in 1983 to \$(383.7) billion in 2000 -- 10.3x the total deficit of \$(37.1) billion.

All other transfer programs are projected to grow at 7.8% per year, 1983-2000, compared to 13.5% per year, 1962-1983. In 2000, they are projected to reach \$496 billion, or 16.1% of total outlays. The following table breaks out the major unfunded transfer programs:

(Table on following page)

Unfunded Payments for  
Individuals, 1962-2000: PPSSCC Savings  
(\$ Billions)

	(1)	(2)	(3)	(4)	(5)
			*Ranked*	Average Annual % Increase/(Decrease)	
	<u>1962</u>	<u>1983</u>	<u>2000</u>	<u>1962-1983</u>	<u>1983-2000</u>
( 1) Federal Employee Retirement & Insurance Excl. Civil Service	\$3.0	\$26.7	\$96.1	11.0%	7.8%
( 2) Public Assistance, etc.	4.0	24.3	92.0	9.0	8.1
( 3) Medicaid	0.1	19.1	89.9	28.3	9.6
( 4) Supplemental Medical Insurance	-	17.7	66.4	21.4(a)	8.1
( 5) Food Stamps	0.01	12.2	62.0	38.0	10.1
( 6) Housing Assistance	0.2	9.6	34.0	21.3	7.7
( 7) Other	1.3	14.6	18.8	12.3	1.5
( 8) Child Nutrition	0.2	3.4	17.9	15.3	10.3
( 9) VA Medical Care	1.0	7.5	11.1	10.2	2.3
(10) Guaranteed Student Loans	<u>-</u>	<u>2.2</u>	<u>8.1</u>	71.5(b)	7.9
(11) Total	\$9.7	\$137.3	\$496.3	13.5%	7.8%

(a) 1967-1983 Growth Rate

(b) 1970-1983 Growth Rate

The fastest growing of these programs are expected to be Child Nutrition, Food Stamps, and Medicaid, which are projected to increase at between 9.6% and 10.3% per year, 1983-2000. Together these three programs are projected to total \$170 billion in 2000 -- equal to 96.4% of total Federal receipts except for personal and corporation income taxes and the revenues earmarked for the specially funded transfer programs.

The following table shows the outlook for transfer payments, interest, and personal income taxes:

(Table on following page)

Transfer Payments, Interest, and  
Personal Income Taxes, 1962-2000: PPSSCC Savings  
(\$ Billions)

	(1)	(2)	(3)	(4)	(5)	(6)
					Federal Contributions to Transfer Programs plus Interest	
					As a % of Personal Income Taxes	
Fiscal Year	Personal Income Taxes	Total Trans- fers	Net Inter- est	Total Interest and Transfer Payments	Amount	
( 1) 1962	\$ 45.6	\$ 29.5	\$ 6.9	\$ 36.4	\$ 19.4	42.5%
( 2) 1965	48.8	33.7	8.6	42.3	20.0	41.0
( 3) 1970	90.4	66.0	14.4	80.4	36.0	39.9
( 4) 1975	122.4	156.6	23.2	179.9	95.3	77.9
( 5) 1980	244.1	283.0	52.5	335.5	177.7	72.8
( 6) 1981	285.9	330.3	68.7	399.0	216.3	75.7
( 7) 1982	297.7	363.5	84.7	448.2	246.7	82.9
( 8) 1983	288.9	402.8	87.8	490.7	281.8	97.5
( 9) 1985	348.7	446.0	113.3	559.2	288.9	82.9
(10) 1990	551.6	678.4	89.2	767.6	351.1	63.7
(11) 1995	907.9	1,148.6	62.3	1,210.9	545.5	60.1
(12) 2000	1,546.8	1,998.4	75.1	2,073.4	955.0	61.7
Avg. Ann. % Inc./ (Dec.)						
(13) 1962-1983	9.2%	13.2%	12.9%	13.2%	13.6%	NA
(14) 1965-1983	10.4	14.8	13.8	14.6	15.8	NA
(15) 1980-1983	5.8	12.5	18.7	13.5	16.6	NA
(16) 1983-2000	10.4	9.9	(0.9)	8.8	7.4	NA

As shown in the last column, Federal contributions to transfer programs -- i.e., outlays for the unfunded programs plus an amount equal to the deficit of the funded programs -- increased from 42.5% of personal income taxes in 1962 to 97.5% in 1983, i.e., there was virtually no money left for any other government activity. If the PPSSCC recommendations are acted upon, however, this percentage is projected to drop to about 60% of personal income taxes, the lowest since 1970.

## Effects of PPSSCC Savings

Since the Status Quo of Current Policies Case and the PPSSCC Savings Case use identical assumptions relating to the economy and Federal policies -- except for the PPSSCC recommendations themselves -- the impact of implementing the recommendations can be readily determined by comparing the two cases. The following table summarizes projected Federal finances during 1983-2000 for the two cases:

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

	(1)	(2)	(3)	(4)
	Status Quo of Current Policies	PPSSCC Savings	PPSSCC Fav./ (Unfav.) to Status Quo	
Revenues			Amount	%
( 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	(514.6)	(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
Cumulative, 17 years 1984-2000				
(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

As shown in the table, the net effect of the PPSSCC recommendations would be to save the Federal government \$1.9 trillion per year by 2000 (col. 3, line 15) and \$10.5 trillion over the entire 1984-2000 period (col. 3, line 18). Initial savings would, of course be more modest. Outlays in the PPSSCC 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 due to the recommendations then increase to \$433 billion in 1990, \$994 billion in 1995, and \$2.4 trillion in 2000, and total \$13.8 trillion, 1984-2000 (lines 8-10 and 17). These outlay reductions are partially offset by lower revenue projections (lines 3-5 and 16) to arrive at the net savings figure -- which is the reduction in the deficit.

The seeming paradox of lower revenues resulting from the PPSSCC recommendations -- which include revenue enhancements -- can be explained by two factors: the loss of stimulus near term resulting from lower government spending and the lower rate of inflation in the PPSSCC Case -- 5.9% per year, 1983-2000, vs. 7.2% in the Status Quo Case. The following table shows the same annual data in constant 1983 dollars.

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

	(1)	(2)	(3)	(4)
	Status Quo of Current Policies	PPSSCC Savings	PPSSCC Fav./((Unfav.) to Status Quo	
			Amount	%
<u>Revenues</u>				
( 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
<u>Outlays</u>				
( 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
<u>Deficit</u>				
(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

By eliminating the effect of differing rates of inflation, it is made clear that in real terms the recommendations do result in higher revenues -- up by \$56 billion in 2000 (constant 1983 dollars) as shown in column 3, line 5. The \$4.0 billion increase in 1985 (col. 3, line 2) largely reflects the phased in impact of cash accelerations. The lower revenues in 1990 (line 3) result from the loss of fiscal stimulus caused by lower government spending in the late 1980's. By 2000, however, the stimulus provided to the private sector by lower interest rates more than compensates for the decreased Federal spending.

The following shows the impact of the recommendations on inflation, interest rates, and other key economic indicators.

(Table on following page)

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

	(1)	(2)	(3)	(4)
	Status Quo of Current Policies	PPSSCC Savings	PPSSCC Fav./ (Unfav.) to Status Quo	
			Amount	%
	Average Annual % Incr./ (Decr.)			
Nominal 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 in lines 1-5 of the table, nominal GNP growth in the PPSSCC Savings Case consistently runs below that in the Status Quo of Current Policies Case. This is, however, due solely to the more favorable -- i.e., lower -- rate of inflation that obtains if the PPSSCC recommendations are implemented.

Thus, as shown in lines 6-10, real GNP in the PPSSCC Savings Case grows more slowly than in the Status Quo Case through 1985, by the 1990-1995 period, it is growing 0.5% point, or 26.3%, more rapidly. For the entire 1983-2000 period, the average growth rate of 2.7% projected under the PPSSCC scenario is 0.2% point, or 8.0%, more rapid than the 2.5% of the Status Quo Case. The initially faster growth in the Status Quo Case is, as noted earlier, a result of the stimulus provided by government spending.

In both cases, inflation rekindles in the 1990's. In the Status Quo of Current Policies scenario, the renewed inflation results from continuing deficits -- which by the late 1990's are in the \$1-\$2 trillion range. This leads to inflation rising to 8.6% per year in 1995 and averaging 8.5% per year, 1995-2000. The lower deficits of the PPSSCC scenario lead to correspondingly lower inflation -- rising to only 7.3%, per year, 1995-2000. Over the entire forecast period, inflation in the PPSSCC Case averages 5.9% per year, 1.3% points, or 18.1%, favorable to the Status Quo.

As would be expected, with lower inflation, interest rates are lower as well. In the PPSSCC Case, the rate for high-grade corporates drops steadily from 11.17% in 1983 to 9.30% in 1990 before inflation pushes it back to 12.15% by 2000. The rate on T-Bills is more reactive, dropping from 8.40% in 1983 to 5.82% in 1990, then rising to 10.33% by 2000. By comparison, in the Status Quo Case, yields increase steadily to average 14.75% on corporates and 14.32% on T-Bills during 1995-2000. Real rates are also lower in the PPSSCC Case as follows:

(Table on following page)

Real Interest Rates,  
1983-2000: Status Quo of  
Current Policies vs. PPSSCC Savings  
(Avg. for Period)

	(1)	(2)	(3)	(4)
			PPSSCC Savings Fav/(Unfav) to Status Quo	
			Amount	%
	<u>High-Grade Corporate Bonds</u>	<u>Status Quo</u>	<u>PPSSCC Savings</u>	
( 1)	1983 Act.	4.45%	4.45%	-
( 2)	1984-1985	5.84	5.36	0.48% pt.
( 3)	1986-1990	6.19	4.75	1.44
( 4)	1991-1995	5.36	4.35	1.01
( 5)	1996-2000	6.89	4.66	2.23
( 6)	1984-2000	6.11	4.68	1.43
( 7)	Memo: 2000	8.21	5.24	2.97
				36.2
	<u>Treasury Bills</u>			
( 8)	1983 Act.	4.06%	4.06%	-
( 9)	1984-1985	5.16	3.95	1.21% pts.
(10)	1986-1990	4.25	1.26	2.99
(11)	1991-1995	2.87	0.53	2.34
(12)	1996-2000	6.28	1.85	4.43
(13)	1984-2000	4.55	1.54	3.01
(14)	Memo: 2000	8.86	3.19	5.67
				64.0

As shown, real interest rates on both short- and long-term debt are projected to be in a generally rising trend -- except for the early 1990's -- under the Status Quo, rising to over 8% by 2000. The decline during the early 1990's reflects the slowing down of the economy as the burden of large deficits begins to overwhelm the fiscal stimulus they provide.

In contrast, in the PPSSCC 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 Savings Case averages 4.68%, 143 basis points, or 23.4%, lower than the Status Quo.

T-Bills, on the other hand, show a sharp decline in real yields, again followed by an increase in the late 1990's. From 4.06% in 1983, the real yield on Treasury Bills drops to an average 0.53% during 1991-1995 before rising to 3.19% in 2000. Over the 1984-2000 period, the average real yield on T-Bills is 1.54% in the PPSSCC Savings Case, 301 basis points, or 66.2%, favorable to the Status Quo.

The lower real interest rates resulting from the PPSSCC recommendations lead to more rapid growth of both industrial production (lines 31-35 of the Comparison of Key Economic Variables table) and real business fixed investment (lines 36-40) than occurs

given the Status Quo of Current Policies. Industrial production, mirroring real GNP, grows more slowly at first in the PPSSCC 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 PPSSCC Case is 2.1% per year -- 0.7% point or 50% higher. Over the entire 1983-2000 period, industrial production in the PPSSCC Case grows at 3.7% per year, 0.3% point or 8.8% faster than under the Status Quo.

The pick up 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, 1.76x 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 (lines 41-45) also benefit from the lower interest rates and are consistently higher if the PPSSCC 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 PPSSCC Savings Case than under the Status Quo.

Unlike the other key economic variables, the unemployment rate (lines 26-30) 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 PPSSCC Savings Case -- 0.7% point, or 11.5%, higher than the Status Quo. It is important to realize, however, that this higher unemployment rate does not reflect fewer people working, but rather more people in the labor force, as follows:

Labor Supply and Employment, 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
 (Millions, Except Percent)

	(1)	(2)	(3)	(4)
	Status Quo	PPSSCC Savings	PPSSCC Fav/(Unfav) to Status Quo Amount	%
( 1) Population	267.6	267.6	-	-
( 2) Civilian Labor Force	136.1	138.8	2.7	2.0%
( 3) Labor Participation Rate	65.5%	66.8%	1.3% pts.	2.0
( 4) Employed	126.7	128.9	2.2	1.7
( 5) Unemployed	9.4	9.9	(0.5)	(5.3)
( 6) Unemployment Rate	6.9%	7.1%	(0.2)% pt.	(2.9)

The (0.2)% point unfavorable variance in the unemployment rate resulting from the PPSSCC recommendations reflects an additional 0.5 million people looking for work. There are, however, 2.2 million more people already at work as a result of the recommendations. This situation arises because the more rapidly growing real GNP and business fixed investment induce more people to join the labor force, as shown in the following:

Labor Force Composition, 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(Millions)

	(1)	(2)	(3)	(4)
	*Ranked*			
			PPSSCC Above/(Below) Status Quo	
	Status Quo	PPSSCC Savings	Amount	%
( 1) Females, 25-54	44.3	46.6	2.3	5.2%
( 2) Males, 55 and over	9.0	9.3	0.3	3.3
( 3) Males, 25-54	52.6	52.6	-	-
( 4) Males, 16-24	12.2	12.2	-	-
( 5) Females, 16-24	11.2	11.2	-	-
( 6) Females, 55 and over	6.8	6.8	-	-

The entry of 25 to 54 year old women and older men into the labor force reflects the large pool available. At 44.3 million in 2000, the labor force participation rate is only 75.4% for 25 to 54 year old women against 90.3% for comparably aged men. Similarly, among men who are 55 and over the participation rate is only 37.6% in the Status Quo Case.

As noted above, one of the effects of the PPSSCC recommendations is a lower rate of inflation. This has the effect of greatly distorting the apparent savings when the PPSSCC outlays are subtracted from the Status Quo outlays. To assess the impacts of the recommendations on Federal revenues and outlays accurately, this differential inflation effect has to be eliminated. The rest of the analysis in this section, therefore, is presented in constant 1983 dollars, unless stated otherwise.

The following table shows detail on Federal revenues under the Status Quo and PPSSCC Savings Cases:

(Table on following page)

Federal Receipts, 1983 and 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
 (Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)
	2000				
	<u>1983</u>	<u>Status Quo</u>	<u>PPSSCC Savings</u>	<u>PPSSCC Fav/(Unfav) To Status Quo Amount</u>	<u>%</u>
( 1) Personal Income Taxes	\$288.9	\$ 495.1	\$ 584.8	\$ 89.8	18.1%
( 2) Revenues for Five Specially Funded Transfer Programs	208.9	416.6	422.9	6.3	1.5
( 3) All Other	102.7	186.6	146.5	(40.0)	(21.5)
( 4) Total	600.6	1,098.2	1,154.3	56.0	5.1
Avg. Ann. % Inc./ (Dec.) 1983-2000					
( 5) Personal Income Taxes		3.2%	4.2%	1.0% pt.	31.3%
( 6) Revenues for Five Specially Funded Transfer Programs		4.1	4.2	0.1	2.4
( 7) All Other		3.6	2.1	(1.5)	(41.7)
( 8) Total		3.6	3.9	0.3	8.3

Thus in 2000, the PPSSCC recommendations produce \$56 billion (in 1983 dollars), or 5.1% more revenues for the Federal government than it would receive under the Status Quo. Increased personal income tax receipts of \$89.9 billion more than account for the total, and increased receipts for the specially funded transfer programs account for a further \$6.3 billion.

All other receipts are lower by \$40.0 billion in real terms, because of decreased corporation income tax collections. The drop in corporate taxes reflects sharply lower corporate profits in the PPSSCC Case -- in large measure the result of increased depreciation resulting from the increased business investment stimulated by lower interest rates. This is true both before and after adjusting for the different rates of inflation, as follows:

(Table on following page)

Corporate Profits and Taxes, 1983 and 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(\$ Billions)

	(1)	(2)	(3)	(4)	(5)
	2000				
	1983	Status Quo	PPSSCC Savings	PPSSCC Fav./ (Unfav.) to Status Quo Amount	%
Current Dollars					
( 1) Pre-Tax Profits	\$187.1	\$1,468.1	\$923.2	\$(544.9)	(37.1)%
( 2) Taxes	65.1	524.0	286.7	(237.3)	(45.3)
( 3) Profits After Tax	122.0	942.0	636.5	(305.5)	(32.4)
( 4) Memo: Cash Flow	289.3	1,464.5	1,264.1	(200.4)	(13.7)
Constant 1983 Dollars					
( 5) Pre-Tax Profits	\$187.1	\$452.1	\$350.9	\$(101.2)	(22.4)%
( 6) Taxes	65.1	161.4	109.0	(52.4)	(32.5)
( 7) Profits After Tax	122.0	290.8	241.9	(48.9)	(16.8)
( 8) Memo: Cash Flow	289.3	451.0	480.4	29.4	6.5

As shown, in 2000, pre-tax corporate profits are \$(545) billion, or (37.1)%, lower in the PPSSCC Savings Case than under the Status Quo before adjusting for inflation and \$(101) billion, or (22.4)%, lower in constant 1983 dollars. Similarly, taxes paid -- to state and local as well as to the Federal government -- are lower by (45.3)% in nominal terms, and by (32.5)% in real terms. Cash flow is also lower in the PPSSCC Savings Case, but only in nominal terms. After adjusting for inflation, net cash flow in 2000 is projected higher in the PPSSCC Savings Case than under the Status Quo by \$29.4 billion (1983 dollars), or 6.5%.

In terms of growth rates, personal income taxes are projected to increase 4.2% per year in real terms in the PPSSCC Case, 1.0% point or 31.3% more rapidly than under the Status Quo. Little variation between the two cases appears in the revenues collected for the five specially funded transfer programs, however, which increase only 0.1% point, or 2.4%, more rapidly as a result of the PPSSCC recommendations.

The higher level of real personal income tax receipts reflects both specific revenue generating recommendations made by PPSSCC and greater personal income because of the stronger economy in the PPSSCC Savings Case, as shown in the following:

(Table on following page)

Personal Income and Taxes, 1983 and 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
 (Constant 1972 \$ Billions except Per Capita)

	(1)	(2)	(3)	(4)	(5)
	2000				
	1983	Status Quo	PPSSCC Savings	PPSSCC Above/(Below) Status Quo Amount	%
( 1) Personal Income	\$1,273.0	\$2,034.1	\$2,142.6	\$108.5	5.3%
Disposable Personal Income:					
( 2) Total	1,081.8	1,704.3	1,775.3	71.0	4.2
( 3) Per Capita	4,630.0	6,369.0	6,634.3	265.3	4.2
( 4) Personal Tax and Non-Tax Payments	191.2	329.8	367.3	37.5	11.4
( 5) Effective Personal Tax Rate	17.9%	20.6%	21.2%	0.6% pt.	2.9

As shown, aggregate personal income in 2000 is projected at \$2.1 trillion in 1972 dollars -- \$108.5 billion, or 5.3%, higher as a result of the PPSSCC recommendations (line 1, cols. 3-5). The effective personal tax rate (line 5) is also higher -- by 0.6% point, or 2.9%. These result in higher tax payments of \$37.5 billion, or 11.4%, in the PPSSCC Case compared to the Status Quo. Despite this higher level of taxation, individuals are still better off, as shown in line 3, where real per capita disposable income is projected at \$6,634 in the PPSSCC Savings Case -- \$265 or 4.2% higher than under the Status Quo.

The following shows the impact of the PPSSCC recommendations on outlays by function.

(Table on following page)

Outlays by Function, 1983-2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Fiscal Year	National Defense	Education, Training, Employment & Social Services	Health	Income Security	Veterans Benefits	All Other Except Interest	Subtotal Before Interest	Net Interest	Total	Surplus/ (Deficit)
( 1) 1983	\$210.5	\$25.7	\$ 81.2	\$280.2	\$24.8	\$ 85.7	\$ 708.1	\$ 87.8	\$ 795.9	\$(195.4)
<u>Status Quo of Current Policies</u>										
( 2) 1985	\$246.3	\$25.7	\$ 90.0	\$281.0	\$25.3	\$ 82.7	\$ 751.0	\$110.8	\$ 861.8	\$(169.7)
( 3) 1990	333.3	26.9	113.1	357.8	27.5	88.3	946.8	173.0	1,119.8	(265.1)
( 4) 1995	368.8	25.0	133.4	426.0	28.7	93.5	1,075.5	250.3	1,325.8	(358.9)
( 5) 2000	396.1	25.8	162.4	520.8	29.2	101.0	1,235.3	468.2	1,703.5	(605.2)
<u>PPSSCC Savings</u>										
( 6) 1985	\$230.2	\$24.4	\$ 86.9	\$281.2	\$23.5	\$ 70.5	\$ 716.7	\$104.0	\$ 820.7	\$(124.6)
( 7) 1990	265.3	21.8	99.9	350.8	19.9	47.7	805.4	64.7	870.1	(19.3)
( 8) 1995	316.3	18.6	117.5	452.6	20.2	46.1	971.3	33.5	1,004.8	(33.6)
( 9) 2000	354.5	17.1	145.7	557.7	20.4	44.6	1,139.9	28.4	1,168.3	(14.0)
<u>Amount PPSSCC Favorable/(Unfavorable) to Status Quo</u>										
(10) 1985	\$ 16.2	\$ 1.4	\$ 3.1	\$ (0.2)	\$ 1.7	\$ 12.2	\$ 34.3	\$ 6.9	\$ 41.1	\$ 45.1
(11) 1990	68.0	5.2	13.2	6.9	7.6	40.6	141.4	108.3	249.7	245.8
(12) 1995	52.5	6.4	15.9	(26.6)	8.5	47.4	104.2	216.8	321.0	325.3
(13) 2000	41.7	8.7	16.7	(36.9)	8.8	56.4	95.4	439.8	535.2	591.2
<u>Percent PPSSCC Favorable/(Unfavorable) to Status Quo</u>										
(14) 1985	6.5%	5.3%	3.4%	(0.1)%	6.9%	14.8%	4.6%	6.2%	4.8%	26.6%
(15) 1990	20.4	19.1	11.7	1.9	27.7	45.9	14.9	62.6	22.3	92.7
(16) 1995	14.2	25.8	11.9	(6.2)	29.6	50.7	9.7	86.6	24.2	90.6
(17) 2000	10.5	33.9	10.3	(7.1)	30.3	55.8	7.7	93.9	31.4	97.7



By far, the largest savings occur in the net interest function. By 2000, net interest in the PPSSCC Savings Case is projected at \$28.4 billion in 1983 dollars -- \$(439.8) billion, or (93.9)% less than under the Status Quo (col. 8, lines 9, 13, 17). The \$440 billion in interest savings accounts for 82.2% of the reduction in total outlays of \$535.2 billion, and 74.4% of the \$591.2 billion reduction in the deficit, as shown in the following:

Interest and the Deficit, 1983-2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
 (Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Outlays		Surplus/(Deficit)		Net
		Ex-			Before	In-	Interest
Fiscal	Total	cluding	Net	Total	Net	cluding	as a %
Year	Revenues	Interest	Interest	Outlays	Interest	Interest	of the
							Deficit
( 1) 1983	\$ 600.6	\$ 708.1	\$ 87.8	\$ 795.9	\$ (107.6)	\$(195.4)	45.0%
<u>Status Quo of Current Policies</u>							
( 2) 1985	\$ 692.1	\$ 751.0	\$110.8	\$ 861.8	\$ (58.8)	\$(169.7)	65.3%
( 3) 1990	854.7	946.8	173.0	1,119.8	(92.2)	(265.1)	65.2
( 4) 1995	966.9	1,075.5	250.3	1,325.8	(108.5)	(358.9)	69.8
( 5) 2000	1,098.2	1,235.3	468.2	1,703.5	(137.1)	(605.2)	77.4
<u>PPSSCC Savings</u>							
( 6) 1985	\$ 696.1	\$ 716.7	\$104.0	\$ 820.7	\$ (20.6)	\$(124.6)	83.5%
( 7) 1990	850.8	805.4	64.7	870.1	45.4	(19.3)	335.1
( 8) 1995	971.2	971.3	33.5	1,004.8	(0.1)	(33.6)	99.7
( 9) 2000	1,154.3	1,139.9	28.4	1,168.3	14.3	(14.0)	202.1
<u>Amount PPSSCC Favorable/(Unfavorable) to Status Quo</u>							
(10) 1985	\$ 4.0	\$ 34.3	\$ 6.9	\$ 41.1	\$ 38.2	\$ 45.1	15.2%
(11) 1990	(3.9)	141.4	108.3	249.7	137.6	245.8	44.0
(12) 1995	4.3	104.2	216.8	321.0	108.4	325.3	66.7
(13) 2000	56.0	95.4	439.8	535.2	151.4	591.2	74.4
<u>Percent PPSSCC Favorable/(Unfavorable) to Status Quo</u>							
(14) 1985	0.6%	4.6%	6.2%	4.8%	65.0%	26.6%	23.3%
(15) 1990	(0.5)	14.9	62.6	22.3	ND	92.7	67.5
(16) 1995	0.4	9.7	86.6	24.2	99.9	90.6	95.6
(17) 2000	5.1	7.7	93.9	31.4	ND	97.7	96.2

Excluding interest, outlays are projected to rise to \$1.14 trillion (1983 dollars) in the PPSSCC Savings Case by 2000, \$95.4 billion or 7.7% favorable to the Status Quo (col. 2, lines 9, 13, 17). This results in a real surplus before interest of \$(14.3)

billion (col. 3, line 9) which is \$151.4 billion favorable to the Status Quo.

After interest, the largest savings in percentage terms occur in Education, Veteran's Benefits, and Other (cols. 2, 5, 6 of the Outlays by Function table) with reductions of 33.9%, 30.3%, and 55.8%, respectively, in 2000. Health programs are reduced by 10.3% in 2000, and National Defense by 10.5%.

Interestingly, income security programs (col. 4) are larger on a constant dollar basis as a result of the PPSSCC recommendations, amounting to \$557.7 billion (1983 dollars) in 2000 -- \$36.9 billion or 7.1% more than under the Status Quo. The difference between the two cases for individual income security programs is detailed in the following table:

Income Security Programs, 1983 and 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)
				2000	
				PPSSCC Above/ (Below) Status Quo	
	1983	Status Quo	PPSSCC Savings	Amount	%
( 1) Social Security	\$170.8	\$362.5	\$417.3	\$54.8	15.1%
( 2) Unemployment Compensation	29.9	23.6	24.6	0.9	4.0
( 3) Other Income Security	21.3	30.6	31.4	0.8	2.6
( 4) Housing Assistance	9.7	15.4	13.0	(2.4)	(15.7)
( 5) Food and Nutrition Assistance	18.3	38.0	31.3	(6.7)	(17.6)
( 6) Federal Employee Retirement Disability	20.6	41.7	33.7	(8.0)	(19.1)
( 7) Other General Retirement and Disability	7.9	8.9	6.4	(2.5)	(28.5)

The increased outlays for Social Security (line 1) and Other Income Security (line 3) reflect the traditional policy of the Federal government of expanding these programs as the ability to pay increases.

The lower interest rates, greatly reduced deficit, and generally stronger economy in the PPSSCC Savings Case all lead to this increased ability. This is also part of the reason for the increase in unemployment compensation, but here the higher unemployment rate -- 7.1% vs. 6.9% under the Status Quo in 2000 -- also contributes to larger outlays. The other programs all show decreased outlays as a result of the PPSSCC recommendations.

An alternative way of looking at Federal expenditures is to group them into payments for individuals, or transfer payments and other outlays -- i.e., net interest, the purchase of goods and services, etc., as follows:

Transfer Payments and Other Outlays, 1983-2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)
		<u>Other Outlays</u>			
<u>Fiscal Year</u>	<u>Total Transfer Payments</u>	<u>Net Interest</u>	<u>National Defense(a)</u>	<u>All Other Outlays</u>	<u>Total Outlays</u>
( 1) 1983	\$402.8	\$87.8	\$194.3	\$111.0	\$795.9
<u>Status Quo of Current Policies</u>					
( 2) 1985	\$415.0	\$110.8	\$229.6	\$106.4	\$ 861.8
( 3) 1990	523.8	173.0	311.3	111.7	1,119.8
( 4) 1995	619.7	250.3	343.1	112.7	1,325.8
( 5) 2000	751.2	468.2	367.8	116.3	1,703.5
<u>PPSSCC Savings</u>					
( 6) 1985	\$409.3	\$104.0	\$214.4	\$93.0	\$ 820.7
( 7) 1990	492.0	64.7	247.2	66.2	870.1
( 8) 1995	617.1	33.5	295.0	59.3	1,004.8
( 9) 2000	755.6	28.4	330.6	53.7	1,168.3
<u>Amount PPSSCC Favorable/(Unfavorable) to Status Quo</u>					
(10) 1985	\$ 5.7	\$ 6.9	\$15.2	\$13.3	\$ 41.1
(11) 1990	31.8	108.3	64.1	45.4	249.7
(12) 1995	2.6	216.8	48.1	53.4	321.0
(13) 2000	(4.4)	439.8	37.2	62.6	535.2
<u>Percent PPSSCC Favorable/(Unfavorable) to Status Quo</u>					
(14) 1985	1.4%	6.2%	6.6%	12.5%	4.8%
(15) 1990	6.1	62.6	20.6	40.7	22.3
(16) 1995	0.4	86.6	14.0	47.4	24.2
(17) 2000	(0.6)	93.9	10.1	53.9	31.4

(a) Military pensions are a transfer payment and, hence, are excluded from national defense outlays in this table.

As shown, the real value of transfer payments is projected to increase as a result of the PPSSCC recommendations. In 2000, transfer payments at \$755.6 billion (1983 dollars) are \$4.4 billion, or 0.6%, above what they would have been under the Status Quo (col. 1, lines 9, 13, 17). This increase is primarily due to larger Social Security outlays in real terms, as discussed above. As an example of how the different inflation rates in the Status Quo and PPSSCC Cases can distort comparisons, in nominal terms transfer payments are lower in the PPSSCC Case, as follows:

Transfer Payments, 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(\$ Billions)

	(1)	(2)	(3)	(4)
			PPSSCC (Above)/Below Status Quo	
	Status Quo	PPSSCC Savings	Amount	%
(1) Current Dollars	\$2,440.0	\$1,998.2	\$441.8	18.1%
(2) GNP Deflator (1983=100)	324.8	264.5	60.3	18.6
(3) Constant 1983 Dollars	\$ 751.2	\$ 755.6	\$(4.4)	(0.6)

As shown, measured in nominal dollars, there is an apparent savings of \$442 billion, or 18.1%, in transfer payments by 2000 as a result of the PPSSCC recommendations. However, because the recommendations also lead to an 18.6% reduction in total inflation over the 1983-2000 period -- equivalent to a 1.2% point per year reduction -- the real value of the payments is greater by \$4.4 billion, or 0.6%.

Other outlays all decline in real terms. As discussed above, net interest is lower by \$439.8 billion, or 93.9%, and accounts for 82.2% of the reduction in total outlays. The savings to National Defense, excluding outlays for military retirement which are included with transfers are \$37.2 billion, or 10.1%, while All Other Outlays are lower by \$62.6 billion, or 53.9%.

The following table shows details on payments for individuals:

(Table on following page)

Transfer Payments, 1983-2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Five Specifically Funded Social Programs									
Fiscal Year	Social Security	Railroad Retirement	Civil Service Ret.	Unemployment Assist.	Hospital Insurance	Subtotal	Memo: Revenues	Memo: Surplus/(Deficit)	All Other Transfers	Total Transfers
( 1) 1983	\$170.1	\$6.2	\$20.7	\$29.8	\$38.7	\$265.5	\$208.9	\$(56.6)	\$137.3	\$402.8
<u>Status Quo of Current Policies</u>										
( 2) 1985	\$183.9	\$7.0	\$21.9	\$16.0	\$43.7	\$272.5	\$249.9	\$ (22.7)	\$142.5	\$415.0
( 3) 1990	245.1	7.2	29.5	17.8	56.1	355.7	300.2	(55.4)	168.2	523.8
( 4) 1995	296.7	7.7	35.0	19.3	72.5	431.2	352.9	(78.3)	188.5	619.7
( 5) 2000	362.4	8.0	42.3	23.6	94.3	530.6	416.6	(114.0)	220.5	751.2
<u>PPSSCC Savings</u>										
( 6) 1985	\$184.9	\$6.5	\$20.8	\$18.5	\$42.3	\$272.9	\$248.1	\$ (24.9)	\$136.3	\$409.3
( 7) 1990	250.3	5.3	24.0	21.1	49.6	350.2	302.1	(48.1)	141.8	492.0
( 8) 1995	334.0	5.5	28.1	24.5	63.9	456.0	357.5	(98.5)	161.1	617.1
( 9) 2000	418.8	5.7	34.2	24.6	84.6	568.0	422.9	(145.1)	187.6	755.6
<u>Amount PPSSCC Favorable/(Unfavorable) to Status Quo</u>										
(10) 1985	\$ (1.0)	\$0.5	\$1.2	\$(2.5)	\$1.4	\$ (0.4)	\$(1.8)	\$ (2.2)	\$ 6.1	\$ 5.7
(11) 1990	(5.2)	1.9	5.6	(3.3)	6.5	5.5	1.8	7.3	26.4	31.8
(12) 1995	(37.3)	2.2	6.9	(5.2)	8.6	(24.7)	4.6	(20.1)	27.4	2.6
(13) 2000	(56.4)	2.3	8.1	(0.9)	9.6	(37.3)	6.3	(31.1)	32.9	(4.4)
<u>Percent PPSSCC Favorable/(Unfavorable) to Status Quo</u>										
(14) 1985	(0.5)%	6.9%	5.4%	(15.7)%	3.3%	(0.1)%	(0.7)%	(9.8)%	4.3%	1.4%
(15) 1990	(2.1)	26.2	18.8	(18.3)	11.6	1.5	0.6	13.2	15.7	6.1
(16) 1995	(12.6)	28.2	19.7	(26.7)	11.9	(5.7)	1.3	(25.7)	14.5	0.4
(17) 2000	(15.6)	29.5	19.1	(4.0)	10.2	(7.0)	1.5	(27.2)	14.9	(0.6)

As discussed earlier, Social Security and Unemployment Assistance outlays are higher as a result of the PPSSCC recommendations because the government is presumed to follow its traditional policy of increasing payments as its ability to pay increases. Thus, as trust fund revenues increase, so do outlays -- although after 1990 they increase more rapidly than revenues, so that the deficit for the five specially funded transfer programs expands from \$(114.0) billion (1983 dollars) under the Status Quo (col. 8, line 5) to \$(145.1) billion (col. 8, line 9).

The reductions in the other specially funded programs as a result of the PPSSCC recommendations are projected to range from 19.1% in the case of Civil Service Retirement to 29.5% for Railroad Retirement Benefits -- the smallest of the funded programs. All Other Transfer Programs -- i.e., the unfunded ones -- are projected to be cut by \$32.9 billion, or 14.9%. The following table compares the major unfunded programs:

Unfunded Payments to Individuals, 1983 and 2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)
					*Ranked*
			2000		
		Status Quo	PPSSCC Savings	PPSSCC (Above) /Below Status Quo Amount	%
	1983				
( 1) Guaranteed Student Loans	\$ 2.2	\$ 8.6	\$ 3.1	\$ 5.5	64.3%
( 2) VA Medical Care	7.5	11.0	4.2	6.8	61.8
( 3) Food Stamps	12.2	28.7	23.4	5.3	18.3
( 4) Child Nutrition	3.4	8.3	6.8	1.5	18.3
( 5) Housing Assistance	9.6	15.3	12.9	2.4	15.7
( 6) Federal Employee Retirement & Insurance, Excl. Civil Service	26.7	41.1	36.3	4.7	11.5
( 7) Medicaid	19.1	37.9	34.0	3.9	10.2
( 8) Supplemental Medical Insurance	17.7	28.0	25.1	2.9	10.2
( 9) Other	15.1	7.8	7.1	0.7	9.1
(10) Public Assistance, etc.	<u>24.3</u>	<u>34.0</u>	<u>34.8</u>	<u>(0.8)</u>	<u>(2.2)</u>
(11) Total	<u>137.3</u>	<u>220.5</u>	<u>187.6</u>	<u>32.9</u>	14.9

Guaranteed Student Loans and VA Medical Care are by far the unfunded transfer programs where the greatest percentage savings occur -- with outlays lower by 64.3% and 61.8%, respectively, as a result of the PPSSCC recommendations. These two programs also have the largest dollar savings. Most other programs have savings between 10% and 20%, but Public Assistance and Related Payments -- including AFDC and SSI -- actually increases slightly as a result of the PPSSCC recommendations. As with Unemployment Compensation, this reflects a higher unemployment rate than under the Status Quo.

The following table shows the outlook for transfer payments, interest, and personal income taxes.

Transfer Payments, Interest,  
and Personal Income Taxes, 1983-2000:  
Status Quo of Current Policies vs. PPSSCC Savings  
(Constant 1983 \$ Billions)

	(1)	(2)	(3)	(4)	(5)	(6)
					Federal Contributions to Transfer Programs plus Interest	
						As a % of Personal Income Taxes
Fiscal Year	Income Taxes	Total Trans- fers	Net Inter- est	Total Interest and Transfer Payments	Amount	
( 1) 1983	\$288.9	\$402.8	\$ 87.8	\$ 490.6	\$281.7	97.5%
<u>Status Quo of Current Policies</u>						
( 2) 1985	\$304.5	\$415.0	\$110.8	\$ 525.9	\$276.0	90.6%
( 3) 1990	379.8	523.8	173.0	696.8	396.5	104.4
( 4) 1995	446.9	619.7	250.3	870.0	517.2	115.7
( 5) 2000	495.1	751.2	468.2	1,219.4	802.7	162.1
<u>PPSSCC Savings</u>						
( 6) 1985	\$319.9	\$409.3	\$104.0	\$ 513.2	\$265.2	82.9%
( 7) 1990	400.7	492.0	64.7	556.7	254.6	63.5
( 8) 1995	484.6	617.1	33.5	650.6	293.1	60.5
( 9) 2000	584.8	755.6	28.4	784.0	361.1	61.7
<u>Amount PPSSCC Favorable/(Unfavorable) to Status Quo</u>						
(10) 1985	\$ 15.5	\$ 5.7	\$ 6.9	\$ 12.6	\$ 10.8	7.8% pts.
(11) 1990	20.9	31.8	108.3	140.1	141.9	40.9
(12) 1995	37.7	2.6	216.8	219.5	224.1	55.3
(13) 2000	89.8	(4.4)	439.8	435.4	441.6	100.4
<u>Percent PPSSCC Favorable/(Unfavorable) to Status Quo</u>						
(14) 1985	5.1%	1.4%	6.2%	2.4%	3.9%	8.6%
(15) 1990	5.5	6.1	62.6	20.1	35.8	39.1
(16) 1995	8.4	0.4	86.6	25.2	43.3	47.7
(17) 2000	18.1	(0.6)	93.9	35.7	55.0	61.9

As shown in the last column, as a result of the PPSSCC recommendations, Federal contributions to transfer programs plus interest as a percent of Personal Income Taxes is projected at 61.7% in 2000 -- (100.4)% points, or (61.9)% below the Status Quo. By comparison, in 1983 these unproductive Federal expenditures ate up 97.5% of every dollar of personal income tax.



**VIII. EXECUTIVE SUMMARIES  
OF  
PPSS REPORTS**

### VIII. EXECUTIVE SUMMARIES OF PPSS REPORTS

On June 30, 1982, President Reagan signed Executive Order 12369 formally establishing the President's Private Sector Survey on Cost Control (PPSS). Briefly stated, the President directed PPSS to:

- o Identify opportunities for increased efficiency and reduced costs achievable by Executive action or legislation.
- o Determine areas where managerial accountability can be enhanced and administrative controls improved.
- o Suggest short- and long-term managerial operating improvements.
- o Specify areas where further study can be justified by potential savings.
- o Provide information and data relating to Governmental expenditures, indebtedness, and personnel management.

To carry out this assignment, the Foundation for the President's Private Sector Survey on Cost Control was established. It formed a Survey Management Office, which organized 36 Task Forces, each of which was co-chaired by two or more members of the Executive Committee. In addition, the Management Office prepared and released 11 Management Office Selected Issues Reports.

Twenty-two of the 36 Task Forces were assigned to study specific departments and agencies, and the remaining 14 studied functions cutting across Government, such as personnel, data processing, and procurement. Management Office Selected Issues Reports focused on those issues which the Task Forces did not have time to address because of limited resources, as well as those issues which, after a review of all Task Force reports, deserved special consideration because of their considerable scope and impact.

A listing of the 36 Task Forces follows:

Agriculture	Health & Human Services-Public Health
Air Force	Service/Health Care Financing
Army	Administration
Automated Data Processing/Office Automation	Health & Human Services-Social Security
Boards/Commissions-Banking	Administration
Boards/Commissions-Business Related	Housing & Urban Development
Commerce	Interior
Defense-Office of Secretary	Justice
Education	Labor
Energy (including Federal Energy Regulatory	Land, Facilities and Personal Property
Commission and Nuclear Regulatory	Low Income Standards and Benefits
Commission)	Navy
Environmental Protection Agency/Small	Personnel Management
Business Administration/Federal	Privatization
Emergency Management Agency	Procurement/Contracts/Inventory
Federal Construction Management	Management
Federal Feeding	Real Property Management
Federal Hospital Management	Research and Development
Federal Management Systems	State/AID/USIA
Financial Asset Management	Transportation
Health & Human Services-Department Management/	Treasury
Human Development Services/ACTION	User Charges
	Veterans Administration

Management Office Selected Issues Reports were as follows:

Vol. I: Publishing, Printing, Reproduction, and  
Audiovisual Activities  
Vol. II: Travel and Traffic Management  
Vol. III: Financial Management in the Federal Government  
Vol. IV: Wage Setting Laws: Impact on the Federal  
Government  
Vol. V: Anomalies in the Federal Work Environment  
Vol. VI: Federal Retirement Systems  
Vol. VII: Information Gap in the Federal Government  
Vol. VIII: The Cost of Congressional Encroachment  
Vol. IX: Federal Health Care Costs  
Vol. X: Opportunities Beyond PFSS  
Vol. XI: Federally Subsidized Programs

Each of the Task Forces prepared a draft report and, with few exceptions, an appendix supporting the recommendations contained in the Task Force report. Those appendices are on file with the Department of Commerce's Central Reference and Records Inspection Facility. It should be noted that recommendations relating to any one Federal agency may be included not only in the appropriate agency Task Force report, but also in the reports of the functional cross-cutting Task Forces, as well as the Management Office Selected Issues Reports.

The Executive Summaries which follow represent the major findings and conclusions contained in each of the Task Force and Management Office Selected Issues Reports. In reviewing the cost saving opportunities identified in the Executive Summaries, it is important to note that cost savings, revenue, and cash acceleration opportunities may

duplicate similar opportunities reported in other reports. Thus, there may be instances of double counting of dollar opportunities between reports. These duplications have been netted out in Section III, Volume I of this Report.

PPSS believes that the majority of the recommendations contained in individual reports are fully substantiated. However, it would be misleading to allege that each and every recommendation is rooted in a uniformly high level of research, analysis, and substantiation. Various time limitations, business resources, and other constraints did not permit achievement of the desired uniformity objective.

PPSS has evaluated, therefore, the "supportability" of the recommendations on their management merits and has grouped them into the following three categories.

- o Category I -- Fully substantiated and defensible. Recommendations in this category are, in the opinion of the Task Force, convincing and deserving of prompt implementation.
- o Category II -- Substantially documented and supportable. Recommendations in this category may not be fully rationalized or documented in the report, but all indications point to the desirability and defensibility of proceeding with their implementation.
- o Category III -- Potentially justifiable and supportable. Recommendations in this category, while meritorious, are not regarded as fully supported in the report, due to time, personnel resources, and other constraints, but are deemed worthy of further analysis to determine the full extent of their merit.

These category descriptions do not take into account political, social, or economic conditions which may alter the supportability of these recommendations for implementation. Cost savings and revenue enhancements indicated in the Executive Summaries reflect only those associated with Category I and Category II recommendations.

Dollar with estimates in the reports are based on reasonable and defensible assumptions, including standard three-year projections based on when first, second, and

third year partial or full implementation will occur, and not specific fiscal years. Accordingly, estimated savings or revenue opportunities are understandably of a "planning" nature and not of a "budget" quality. Therefore, the reader should guard against drawing conclusions or making dollar projections based on the disclosures contained only in a given report.

The standard three-year projections of cost savings and revenues include 10 percent inflation in years two and three. On revenue accelerations and cash accelerations, savings are claimed on the interest avoided, which is estimated at 10 percent. These rates reflect generally prevailing rates at the time the Task Force and Management Office Selected Issues Reports were prepared, and the impact of alternative inflation rates has been indicated in the Chairman's letter to the President.

In addition to identifying specific opportunities for cost control and improved efficiency, PPSS sought to identify the appropriate implementation authority for each recommendation. Because of the complexities of the appropriations process, as well as historical precedents, however, further data could result in a change on PPSS-identified authority.

All of the PPSS reports were considered and acted upon in meetings open to the public by a Subcommittee of the Executive Committee of PPSS, along with other statements and recommendations. Written comments submitted by the public, if any, were forwarded to the White House along with the final PPSS reports.

Note: Titles and corporate affiliations of Co-chairs are current as of date of report submission and approval.

TASK FORCE ON  
THE DEPARTMENT OF AGRICULTURE\*

<u>CO-CHAIRS:</u>	William B. Graham Chairman	<u>NUMBER OF ISSUES:</u>	58
	Baxter Travenol Laboratories, Inc.	<u>NUMBER OF RECOMMENDATIONS:</u>	154
	William Wood Prince President	<u>3-YEAR COST SAVINGS:</u>	\$12.237
	F.H. Prince & Co., Inc.	(\$ billions)	
<u>PROJECT MANAGER:</u>	Clifton B. Cox Chairman of the Board	<u>3-YEAR REVENUE GENERATION:</u>	\$ .606
	Cox, Lloyd Associates, Ltd.	(\$ billions)	
		<u>3-YEAR CASH ACCELERATION:</u>	\$ 5.846
		(\$ billions)	
<u>NUMBER OF TASK FORCE MEMBERS:</u>	27		

OVERVIEW

The U.S. Department of Agriculture (USDA) assists farmers by providing research, credit, insurance, price supports, production and market information, and marketing assistance. USDA also assists consumers with nutritional information, regulations on safety and health, and food for low-income persons. In FY 1983, USDA outlays were approximately \$45.0 billion and Department employees totaled approximately 112,000.

The principal focus of the Task Force's effort was on management and administrative operations at USDA. The scope and magnitude of many USDA programs, however, necessarily led the Task Force to consider the extent to which inefficiency and duplication in the underlying policies and programs affect operations.

ISSUES AND RECOMMENDATIONS

The Task Force studied 58 issues and formulated recommendations which could result in cost savings of \$12.237 billion, revenue generation of \$606 million, and

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\* The U.S. District Court found that certain of the Task Force's recommendations exceeded the authority of the Executive Committee.

cash acceleration of \$5.846 billion over a three-year period, resulting in a 10 percent reduction in annual outlays. In addition, over \$8 billion of Government lending would be transferred to the private sector, reducing the Government risk of losses and its need to enter credit markets.

Farmers Home Administration -- The Farmers Home Administration (FmHA) administers loan and grant programs to rural Americans. FmHA has grown exponentially in the number of borrowers and outstanding loans. More than 55 percent of the agency's outstanding loans are to nonfarm borrowers.

Due to program growth and diversification, FmHA has not adequately met the needs of farmers, and an overall delinquency rate of 43 percent has developed in the farm loan programs. Task Force recommendations would result in cost savings of \$1.342 billion, revenue generation of \$141.4 million, and cash acceleration of \$821.0 million over a three-year period and included improving management information systems, upgrading the quality and management of the loan portfolio, and transferring the FmHA housing function to the Department of Housing and Urban Development.

Food and Nutrition Service -- USDA's Food and Nutrition Service (FNS) administers food assistance to families and children in cooperation with state and local governments, and includes the Food Stamp Program and the National School Lunch, School Breakfast, and Summer Food Programs. FNS expenditures account for over 50 percent of USDA's budget. The Task Force found that Congress has specified operating practices that prevent programs from evolving with economic changes and recommended updating the Thrifty Food Plan, adjusting economies-of-scale used in determination of food stamp allotments, and reducing overlaps between child nutrition benefits and food stamp benefits.

Task Force recommendations, when implemented, will result in cost savings of \$6.739 billion over a three-year period.

Foreign and Domestic Commodity Programs -- Farm price support programs have resulted in record production and stocks at a time of stagnant domestic and world demand. They have weakened the U.S. farmer's competitive position, diminished the viability of the family-owned farm, and committed funds well beyond projections.

Task Force recommendations are estimated to result in cost savings of \$1.897 billion over a three-year period. These included eliminating USDA commodity donations to



other Government agencies and the requirement that 50 percent of P.L. 480 commodity shipments be carried on U.S. flag vessels. The Task Force also recommended further study of the general area of price supports:

Forest Service -- The Forest Service, with over 190 million acres and 42,000 employees, posted losses of \$1.0 billion in FY 1983. To offset this deficit, the Task Force recommended initiatives with projected cost savings of \$1.038 billion, revenue generation of \$404.4 million, and cash acceleration of \$4.725 billion over a three-year period.

Task Force recommendations included changes in timber sales; increased recreation and grazing fees; reductions in staff, construction, and research activities; and implementation of a flat payment schedule for selected USDA goods and services where market conditions permit a realistic test.

Rural Electrification Administration -- Electricity and telephones are now available to 99 percent of rural America. Yet, the Rural Electrification Administration is still making low-interest loans.

Task Force recommendations included reductions in generation and transmission loans, Government financing of cooperatives, and USDA regulations.

Projected cost savings of these recommendations are \$102.6 million, with revenue generation of \$33.1 million and cash acceleration of \$300.0 million over a three-year period.

Other -- The Task Force also examined other relatively small but important opportunities for cost savings and revenue generation (duplication in meat, dairy, and poultry inspection requirements; changes in county office structure; and reductions in USDA research activities) which are estimated to yield \$1.146 billion in cost savings and \$27.4 million in revenue in the first three years of implementation.

#### IMPLEMENTATION

Of the 154 Task Force recommendations, 94 (61 percent) are within the purview of USDA, 17 (11 percent) involve Presidential action, and 43 (28 percent) will need Congressional approval.



TASK FORCE ON  
THE DEPARTMENT OF THE AIR FORCE

<u>CO-CHAIRS:</u>	James H. Evans Chairman and CEO Union Pacific Corp.	<u>NUMBER OF ISSUES:</u>	22
	Robert W. Galvin Chairman and CEO Motorola, Inc.	<u>NUMBER OF RECOMMENDATIONS:</u>	50
	Paul F. Orefice President and CEO Dow Chemical Co.	<u>3-YEAR COST SAVINGS:</u> (\$ billions)	
		Air Force Budget	\$12.523
<u>PROJECT MANAGER:</u>	Charles L. Eaton Senior Vice President Union Pacific Corp.	Other Agency Budgets	\$15.080
		Total Savings	\$27.603
<u>NUMBER OF TASK FORCE MEMBERS:</u>	36		

OVERVIEW

The mission of the Air Force as part of the Department of Defense (DOD) is to deter war and, if deterrence fails, to employ air power effectively to assist in concluding any conflict on terms favorable to the United States. In 1983, the Air Force employed 812,056 people and maintained and operated a fleet of 9,180 aircraft. Its FY 1983 budget was approximately \$78.4 billion.

The Task Force focused on inefficiencies associated with the implementation of policy, not the shaping of policy. Improvements in management and operating procedures were seen as opportunities to help reduce budget deficits, fund additions to America's defense system, and finance other high priority nondefense programs.

ISSUES AND RECOMMENDATIONS

The Task Force examined 22 specific issues and made 50 recommendations broadly grouped into four categories. Three-year projected cost savings totalled \$27.603 billion, of which \$12.523 billion pertains directly to the Department of the Air Force.

Pay, Personnel, and Retirement -- The Task Force concluded the Air Force retirement system is too liberal in its benefit provisions. For example, officers who retired in 1972 receive more retirement pay today than officers of

the same rank on active duty. The Task Force identified opportunities to reduce DOD retirement costs paid to Air Force retirees by an estimated \$4.550 billion annually. Cost savings would be reflected in the DOD budget.

The Task Force also found that current Air Force severance pay far exceeds that of the private sector and that, unlike the private sector, Federal employees receive full salary as well as military pay while on annual Air Guard/Reserve active duty. The Task Force recommended that Air Force severance pay be adjusted to more closely reflect private sector practices and that Federal employees receive either full Federal pay or Air Guard/Reserve active duty pay, whichever is higher.

Total three-year cost savings from all recommendations pertaining to pay, personnel, and retirement issues amount to \$15.271 billion.

Financial Management -- The Air Force has no periodic, formal, high-level review of spending performance against budget commitments despite its sophisticated Planning, Programming, and Budget System (PPBS) and Program Objective Memorandum (POM). To correct the accounting problems and eliminate duplicate efforts, the Task Force recommended that funds be appropriated on an accrual basis and that the program and budget reviews be consolidated. The Task Force also recommended that the Comptroller's Office be reduced in size and that per diem travel expenses be revised.

Implementation of these recommendations would result in cost savings of \$1.213 billion over a three-year period.

Procurement, Contracting, and Weapons Systems Acquisition -- In general, the Task Force found that additional costs were imposed on the Air Force by the Davis-Bacon, Walsh-Healey, and Service Contract Acts, which contain provisions outdated by social and economic trends. Repeal or amendment could reduce costs significantly, increase competition, and improve productivity. The Task Force also recommended improvements in the Small Business Act dealing with awarding of Section 8(a) contracts to economically and socially disadvantaged small firms.

Based on its analysis of specific procurement practices, the Task Force recommended a formal weapons systems acquisition process which allows for selection of spare parts contractors and increasing the use of multiyear procurement. The Task Force also emphasized the cost advantages of dual sourcing between contractors and awarding production quantities on the basis of product quality and cost.

Although the Air Force leads other agencies in contracting out and implementation of OMB Circular A-76, the Task Force found it nonetheless did not fully implement the FY 1983 objectives for contracting out and that it lacked effective controls and uniform management of OMB Circular A-120, which regulates the procurement of consulting, research, management, and advisory services. Concerted compliance with these two directives and the implementation of internal controls would result in improved cost savings.

Implementation of all Task Force recommendations in the procurement area would result in three-year cost savings of \$10.307 billion.

Organizational Management -- The Task Force identified improvements related to travel, automated data processing (ADP) systems at the Air Force Logistics Command (AFLC), and consolidation of the Air Reserve and Air National Guard. Three-year cost savings of \$69.5 million could result by simplifying travel reimbursement procedures, levying fines for no-shows, and requiring non-DOD agencies to use Military Air Command (MAC) overseas services and to negotiate additional route discounts with US flag carriers. With respect to AFLC and its inventory of 900,000 items, the Task Force projected that three-year net savings of \$580.6 million would occur by implementing a comprehensive ADP modernization program. Finally, preliminary review of Air National Guard and Air Reserve facilities and overall operations indicated potential three-year cost savings of \$163.8 million.

#### IMPLEMENTATION

Of the 50 recommendations formulated by the Task Force, 12 are within the authority of the Agency, 2 require Presidential involvement, and 36 will need Congressional approval.

TASK FORCE ON  
THE DEPARTMENT OF THE ARMY

<u>CO-CHAIRS:</u>	Roger E. Birk Chairman, President, and CEO Merrill Lynch & Co., Inc.	<u>NUMBER OF ISSUES:</u> 21
	John L. Horan Chairman Merck & Co., Inc.	<u>NUMBER OF</u> <u>RECOMMENDATIONS:</u> 78
	William A. Marguard Chairman, President, and CEO American Standard Inc.	<u>3-YEAR</u> <u>COST SAVINGS:</u> \$13.400* (\$ billions)
	Lewis T. Preston Chairman Morgan Guaranty Trust Co. of New York	*Includes \$.692 billion in cost savings which will accrue to the Department of Defense, rather than to the Department of the Army.
<u>PROJECT</u> <u>MANAGER:</u>	Richard H. Francis Vice President and Chief Financial Officer American Standard Inc.	
<u>NUMBER OF</u> <u>TASK FORCE</u> <u>MEMBERS:</u>	51	

OVERVIEW

The Department of the Army was created to contribute to the deterrence of warfare and, if deterrence fails, to contribute to concluding any conflict on terms favorable to the United States. In FY 1983, the Army had a budget of approximately \$60 billion and over 1,785,000 full-time Government employees.

The Task Force identified several key factors that affect the Army's ability to carry out its mission, including: Army tradition; the issue of combat readiness; transition to high technology; management structure; visibility to outside experts; accountability to Congress, including the annual budget process; and Administration control vs. policy management.

ISSUES AND RECOMMENDATIONS

The Task Force studied 21 issues from which 78 specific recommendations were formulated. These recommendations are projected to result in cost savings of \$13.4 billion over three years, including savings of \$692.2

million that will accrue to the Department of Defense (DOD) rather than to the Department of the Army. Recommendations were broadly grouped into three areas: personnel, materiel, and administrative management.

Personnel -- In FY 1983, personnel compensation by the Army totaled \$17.5 billion or 29 percent of its FY 1983 budget. In its review of Army personnel policies, the Task Force found that Army training programs and their requirements are not adequately coordinated, resulting in underutilization and shortages of trained personnel in designated skill areas. Certain personnel policies, including family moves in European tours, 20-year retirement, and "up-or-out" promotion systems; regimental rotation; staffing of mandated programs; and use of learning resource centers were found to foster inefficient use of resources.

To redress identified deficiencies in the Army's personnel systems, the Task Force recommended improved procedures in the recruitment, training, and assignment of new enlistees; an increase in the length of overseas tours for new enlistees, as well as for accompanied and unaccompanied officers; and a reduction in family moves related to overseas tours. The Task Force also recommended that the Army study options for modifying the current "up-or-out" retirement policy, as well as the retirement system as a whole, and recommended changes in the current accrued annual leave policy.

Implementation of these recommendations would result in better management and improved efficiency of personnel resources, with projected cost savings of \$1.293 billion over a three-year period.

Materiel -- During the next four years, it is expected that the Army will spend more than \$100 billion to acquire modern weapons and meet its readiness goals. In its review of the Army's weapons procurement and management programs, the Task Force found that failure to incorporate realistic cost estimates in the budget of major weapons systems results in the postponement of difficult affordability decisions and creates instability in the Army's procurement programs. The Task Force also found that the storage of idle equipment is excessive, with 30-40 percent of stored weaponry inoperable or obsolete, and that war reserve inventories are poorly designed and managed.

Accordingly, the Task Force recommended that the Army incorporate cost growth data and sound technical management in new weapons system decision-making and that the cost of equipment storage and the size of war reserve stockpiles be

reduced by eliminating unnecessary items and contracting with private vendors. The Task Force also identified cost control opportunities which would result from identifying and selling excess real estate, improving the maintenance of combat vehicles, and modernizing and streamlining the Corps of Engineers.

Implementation of these recommendations is projected to result in cost savings of \$10.262 billion over a three-year period, of which \$692 million will accrue to DOD rather than to the Department of the Army.

Administrative Management -- In its analysis of Army support services, the Task Force found them to be neglected relative to combat-related activities, resulting in the use of obsolete and inefficient systems when new, cost-effective administrative support systems are available. To provide more cost-effective management support, the Task Force recommended that the Army modernize management equipment and coordinate its application, particularly in the areas of data processing, cost containment programs, and cash management.

Implementation of these recommendations would result in cost savings of \$1.845 billion over a three-year period.

#### IMPLEMENTATION

Of the 78 Task Force recommendations, 52 (67 percent) fall within the implementation authority of the Department of the Army and 26 (33 percent) require Congressional action. Congressional influence is felt acutely in the review of Army budgeting processes where policymaking occurs through control of national budget allocations. For the most part, recommendations aimed at reorganizing personnel and management systems can be implemented directly by the Army. Those recommendations which fall under Congressional purview involve increasing funding, revision of public law, or approval of extensive reorganization across agency boundaries.

TASK FORCE ON  
AUTOMATED DATA PROCESSING/OFFICE AUTOMATION

<u>CO-CHAIRS:</u>	William Agee Former Chairman Bendix Corporation	<u>NUMBER OF ISSUES:</u> 18
	Joseph Alibrandi President and CEO Whittaker Corp.	<u>NUMBER OF RECOMMENDATIONS:</u> 58
	Donald E. Procknow President Western Electric Co., Inc.	<u>3-YEAR COST SAVINGS:*</u> \$19.063 (\$ billions)
<u>PROJECT MANAGER:</u>	John K. Kerr President Medicus Systems Corporation	*Note: In addition to specific cost savings opportunities, the Task Force also identified ADP/OA recommendations in other PPSS reports that would result in additional three-year cost savings/revenue generation/ cash acceleration of \$11.316 billion.
<u>NUMBER OF TASK FORCE MEMBERS:</u>	42	

OVERVIEW

With over 17,000 computers and a work force of more than 250,000, Federal automated data processing operations dwarf those of even the largest private sector users. Key legislation involving Federal automated data processing/office automation (ADP/OA) operations include the Brooks Act (P.L. 89-306) and the Paperwork Reduction Act (P.L. 96-511), both of which require the Office of Management and Budget (OMB) to develop a policy for the Government's management of information.

ISSUES AND RECOMMENDATIONS

As a result of its review, the Task Force formulated 58 recommendations which, when fully implemented, will result in three-year cost savings of \$19.063 billion. The Task Force also prepared a compendium issue of ADP-related recommendations contained in other PPSS reports which result in additional three-year cost savings/revenue generation/cash acceleration totaling \$11.316 billion.

Administrative Management -- The Federal Government has failed to develop a coherent system for ADP planning and management and, as a result, has not capitalized on substantial opportunities for cost savings and improved effectiveness. The Task Force recommended that the

position of Federal Information Resource Manager (FIRM) be established within the PPSS-recommended Office of Federal Management to oversee ADP/OA throughout the Government. Serving as a Presidential appointee, the FIRM would be responsible for establishing and chairing a Government-wide Information Technology Steering Committee, which would be the primary body for establishing Federal goals and directives in ADP, developing short- and long-term plans for upgrading information technology, and addressing the challenges and opportunities posed by emerging new technologies. The Task Force also recommended that a qualified Senior Executive Service career professional oversee ADP/OA management in each department or agency.

Precise quantification of savings from management recommendations is difficult, if not impossible. However, the magnitude of savings will outweigh any requisite resource allocation.

Resource Management -- The average age of Government computers is six to seven years, almost twice the private sector experience, which requires many of them to be maintained by specially trained Federal personnel rather than the manufacturer. Upgrading Government ADP systems or replacing them with current technology would reduce operating expenses, enhance revenue collection, and facilitate sharing technical resources. To address this problem, each department and agency should examine the obsolescence of its ADP operations, how well these operations serve the agency mission, and available means of consolidating and enhancing the ADP systems within the agency. Implementation of Task Force recommendations in the area of resource management would result in three-year savings of \$4.030 billion.

In reviewing teleprocessing (TP) activities, the Task Force found that TP costs generally are not clearly identified apart from overall telecommunications costs and are not allocated to end users. The Task Force recommended that OMB Circular A-121 on TP policies and procedures be amended to require more precise delineation of TP expenditures. Implementation of Task Force recommendations would result in three-year cost savings of \$517.0 million.

In assessing the Government's management of OA resources, the Task Force recommended improved management of OA and stressed its use by managerial/professional personnel. It found that individual agencies suffer from one or more of the following OA problems: procurement of duplicate and/or incompatible systems; underused OA equipment; fragmented planning and procurement; focus on clerical rather than professional staff; and no inventory of existing OA equipment to allow coordination with new procurements.



Task Force recommendations to address these problems included requiring departments to prepare annual OA plans and status reports and asking GAO to perform independent reviews, and would result in three-year savings of \$6.537 billion.

Personnel Recruitment and Management -- Central to the Task Force's recommendations was the need to improve salaries and hiring procedures for ADP personnel. Government ADP salaries, work environment, and technical sophistication are currently insufficient to attract the quantity and quality of ADP personnel needed. For example, applicants with college degrees in computer fields typically are hired by the Government at a starting salary of \$12,854. Entry-level ADP positions in the private sector frequently pay in excess of \$20,000. Government salaries at the upper levels are now 25 percent below those of the private sector.

Although the Task Force did not attempt to quantify specific savings, it was convinced that problems in ADP resource allocation and management cannot be resolved without attracting and retaining high quality personnel.

Agency-Specific Recommendations -- In addition to its Government-wide recommendations, the Task Force studied in-depth ten agency-specific issues and prepared a compendium consisting of an additional 49 issues contained in other PPSS reports. Three-year cost savings from the ten in-depth agency-specific issues total \$7.979 billion, with the compendium accounting for an additional \$11.316 billion in three-year cost savings/revenue generation/cash acceleration. Recommendations at the agency-specific level included increased use of ADP systems at the Customs Service, Internal Revenue Service, and Department of Defense; consolidation of ADP activities at the Department of Transportation, Environmental Protection Agency, and Health Care Financing Administration; and improved systems management procedures at the Department of the Army, Department of Transportation, and Health Care Financing Administration.

#### IMPLEMENTATION

Of the 57 major Task Force-specific recommendations (excluding the compendium), 43 (75 percent) can be implemented directly by Agency officials, 10 (18 percent) will require Presidential action, and 4 (7 percent) will require Congressional authorization.

TASK FORCE ON  
BOARDS/COMMISSIONS - BANKING

<u>CO-CHAIRS:</u>	Fletcher L. Byrom Retired Chairman Koppers Co., Inc.	<u>NUMBER OF ISSUES:</u>	41
	John H. Tyler McConnell Chairman and CEO Delaware Trust Co.	<u>NUMBER OF RECOMMENDATIONS:</u>	84
	Robert T. Powers Chairman Nalco Chemical Co.	<u>3-YEAR COST SAVINGS:</u> (\$ billions)	\$1.617
<u>PROJECT MANAGER:</u>	Donald R. Caldwell Executive Vice President and COO Atlantic Financial Federal	<u>3-YEAR REVENUE GENERATION:</u> (\$ billions)	\$7.782
		<u>3-YEAR CASH ACCELERATION:</u> (\$ billions)	\$ .554
<u>NUMBER OF TASK FORCE MEMBERS:</u>	34		

OVERVIEW

The Task Force reviewed 13 agencies associated with banking and investment: the five financial industry regulatory bodies -- the Federal Reserve System (Bank Regulation Section only), the Office of Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration; the three secondary mortgage-related agencies -- Federal National Mortgage Association (FNMA), Government National Mortgage Association, and the Federal Home Loan Mortgage Corporation; as well as the Farm Credit Administration; the Pension Benefit Guaranty Corporation; the Railroad Retirement Board; the U.S. Synthetic Fuels Corporation; and the Export-Import Bank.

The overall objective was to identify opportunities for cost control and improved management effectiveness. The Task Force also sought to (1) generate revenue where it appeared a group was receiving favored status, and (2) decrease the overall burden of Government that the regulatory approaches represent.

ISSUES AND RECOMMENDATIONS

The Task Force reviewed 41 issue areas and made 84 recommendations. These recommendations would result in

three-year cost savings of \$1.617 billion, revenue generation of \$7.782 billion, and cash acceleration of \$554.3 million.

The single most significant suggestion was the privatization of the quasi-governmental agencies which retain special privileges such as favored tax status (except FNMA) and the ability to borrow either from the Federal Financial Bank (FFB), the Treasury, or in the public markets with agency status. The Task Force recommended that such quasi-private bodies be subject to some form of income tax; a user charge on borrowing with agency status or from the FFB or the Treasury; and a restriction on investment alternatives to Treasury obligations to eliminate any opportunity for arbitrage.

Other principal findings and recommendations, grouped by principal agency, follow.

Pension Benefit Guaranty Corporation (PBGC) -- The Task Force identified an inadequacy in premium levels, loopholes in Title IV of the Employees Retirement Insurance Security Act (ERISA), and the need for accelerated collection of insurance premiums and effective administration of pension plans. Task Force recommendations included increasing single-employer premiums to \$6, amending ERISA to prevent abusive claims and adverse selection, accelerating and improving premium collection, and developing a risk-related premium structure.

Implementation of these recommendations would result in three-year cost savings of \$84.2 million, revenue generation of \$3.651 billion, and cash acceleration of \$262.0 million.

Export-Import Bank (Eximbank) -- Opportunities exist for reducing Eximbank's exposure and costs by promoting private sector involvement in export credit insurance, reviewing interior rate structures and avoiding exposure to interest rate fluctuations, reducing space usage, and establishing formal management planning. Although savings were quantified only for space utilization (\$1.6 million over three years), significant management efficiencies could result from all recommendations.

Railroad Retirement Board (RRB) -- The RRB has two principal components: a private pension/unemployment program, which has a \$30 billion unfunded liability, and a separately administered social security system. The former should be privatized and the latter be turned over to the Social Security Administration. The Task Force also recommended an increase in tax rates, a reduction in

benefits, the placing of Medicare beneficiaries under the Health Care Financing Administration, and the restructuring of disability programs. Implementation would result in three-year cost savings of \$1.375 billion, revenue generation of \$2.319 billion, and cash acceleration of \$259.0 million.

Federal Reserve System (FRS), Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Federal Home Loan Bank Board (FHLBB), and the National Credit Union Administration (NCUA) -- The Task Force identified the need for more uniform and systematic policies and procedures, as well as structural changes in the regulatory system itself. Specifically, it called for consolidating the regulatory arm of FRS, OCC, and FDIC on the grounds that, with minor exceptions, their mission is the same, differing only in the corporate structure of the banks they regulate.

Task Force recommendations called for the FHLBB system to be charged a user fee for its agency status, a limit on district bank investments to Treasury obligations, and a reduction in the number of district banks. Recommendations stressed the need also to re-evaluate the tax-exempt status of credit unions.

Implementation of recommendations pertaining to the regulatory bodies would result in three-year cost savings of \$136.8 million, revenue generation of \$379.0 million, and cash acceleration of \$33.3 million.

Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) -- The Task Force recommended the elimination of FHLMC's Federal tax exemption, the establishment of a fee for use of agency status by FNMA and FHLMC, a phasing-out by GNMA of the FNMA servicing of the Mortgage Backed Securities Program, and an increase in GNMA fees. Implementation of these recommendations would result in three-year cost savings of \$0.4 million and revenue generation of \$61.0 million.

Farm Credit Administration (FCA) -- The Task Force called for elimination of the Federal tax exemption for certain entities of the Farm Credit System and, based on its review of FCA, establishing a Government-wide fee for use of agency status. Implementation would result in revenue generation of \$1.372 billion over a three-year period.

U.S. Synthetic Fuels Corporation (SFC) -- As a result of its survey of SFC, the Task Force concluded that administrative expenses could be reduced via a more efficient use of personnel resources and by changing to an "outreach type" procurement process. Three-year cost savings from such an approach would be \$18.2 million.

#### IMPLEMENTATION

Of the 84 recommendations formulated by the Task Force, 34 (41 percent) are within the purview of the agencies, 2 (2 percent) involve Presidential action, and 48 (57 percent) require Congressional approval.

TASK FORCE ON  
BOARDS/COMMISSIONS - BUSINESS

<u>CO-CHAIRS:</u>	George H. Dixon President First Bank System, Inc.	<u>NUMBER OF TASK FORCE MEMBERS:</u>	84
	Edward Donley Chairman and CEO Air Products and Chemicals, Inc.	<u>NUMBER OF ISSUES:</u>	96
		<u>NUMBER OF RECOMMENDATIONS:</u>	289
	Robert A. Pritzker President The Marmon Group, Inc.	<u>3-YEAR COST SAVINGS:</u> (\$ billions)	\$2.367
	John M. Regan, Jr. Chairman and CEO Marsh & McLennan Companies, Inc.	<u>3-YEAR REVENUE GENERATION:</u> (\$ billions)	\$ .929
	Thomas I. Storrs Chairman NCNB Corp.	<u>3-YEAR CASH ACCELERATION:</u> (\$ billions)	\$ .034
	Rawleigh Warner, Jr. Chairman and CEO Mobil Corporation		
<u>PROJECT MANAGER:</u>	William Duggan, Jr. Vice President Marsh & McLennan Companies, Inc.		

OVERVIEW

The Boards and Commissions - Business Task Force studied the U.S. Postal Service, the Tennessee Valley Authority, eight business-oriented regulatory commissions -- the Civil Aeronautics Board, Commodity Futures Trading Commission, Consumer Product Safety Commission, Federal Communications Commission, Federal Maritime Commission, Federal Trade Commission, Interstate Commerce Commission, and Occupational Safety and Health Review Commission -- and selected Federal insurance programs. Task Force recommendations to improve the operations of the business-related boards and commissions are agency or program specific and focus on human resource management, fiscal management and control, organizational management, and automated data processing (ADP).

ISSUES AND RECOMMENDATIONS

The Task Force studied 96 issue areas and formulated 289 recommendations which, when fully implemented, will result in cost savings of \$2.367 billion, revenue

generation of \$929.0 million, and cash acceleration of \$33.5 million over a three-year period.

U.S. Postal Service (USPS) -- Changes in planning, organizational structure, and systems could produce significant cost savings and management efficiencies at USPS. Specifically, USPS needs improved use of hurdle rates in working capital investment decisions; the development of a comprehensive human resources plan; and the establishment of centralized organizations for marketing, procurement, and transportation.

Although the Task Force found most aspects of USPS financial operations to be sound, borrowing restrictions, cash management practices, and erosion of equity have weakened USPS's financial position. Given that 84 percent of USPS operating expenses are personnel related, recommendations were offered in the use of overtime and sick leave, comprehensive personnel planning to ensure the proper skills mix, and greater involvement of postal workers in Postal Service decisions. The Task Force called for USPS to devote more attention to product management, account management, new product research, and increased internal and external marketing to improve acceptance of the ZIP+4 program, presort programs, central delivery, and other special services.

Implementation of Task Force recommendations pertaining to USPS would result in three-year cost savings of \$2.031 billion, revenue generation of \$369.8 million, and cash acceleration of \$23.5 million.

Tennessee Valley Authority (TVA) -- As a result of its review of the TVA, the Task Force recommended elimination of duplications within the Office of Engineering Design and Construction, reductions in personnel support staff, improved efficiencies in generating plants and related support systems, and changes in compensation and benefit plans. The Task Force also recommended a three-year phase-in of user charges for services currently provided under the National Fertilizer Development Center program.

Implementation of the above recommendations would result in three-year cost savings of \$214.0 million and revenue generation of \$83.8 million.

Regulatory Commissions -- The Task Force formulated over 100 recommendations calling for changes in the organization, systems, and staffing levels of the regulatory commissions, particularly in light of recent Government regulatory reforms. Recommendations included changes in personnel management, improved cost accounting



systems, consolidation of offices, streamlined adjudicatory and rulemaking processes, and the institution of user fees.

Implementation of Task Force recommendations pertaining to regulatory commissions would result in three-year cost savings of \$27.6 million and revenue generation of \$178.0 million.

Federal Insurance Programs -- The Task Force recommended relating insurance premiums to risk, thereby building reserves against catastrophic loss; using guaranteed loans rather than direct lending; and abandoning certain Federal reinsurance practices. Program-related recommendations included the phasing out of certain insurance programs which, in the view of the Task Force, should be left to the private sector; increasing premiums; and improving financial management and personnel systems.

Insurance program changes would produce cost savings of \$93.9 million, revenue generation of \$297.4 million, and cash acceleration of \$10 million over three years.

#### IMPLEMENTATION

Of the 289 recommendations made by the Task Force, 232 (80 percent) can be implemented by the respective boards and commissions, 6 (2 percent) require Presidential action, and 51 (18 percent) need Congressional approval.



TASK FORCE ON  
THE DEPARTMENT OF COMMERCE

<u>CO-CHAIRS:</u>	Amory Houghton, Jr. Chairman and CEO Corning Glass Works	<u>NUMBER OF ISSUES:</u>	12
	Robert V. Van Poyssan Chairman and CEO Mutual Benefit Life Insurance Co.	<u>NUMBER OF RECOMMENDATIONS:</u>	29
<u>PROJECT MANAGER:</u>	George B. Bennett Chairman Braxton Associates	<u>3-YEAR COST SAVINGS:</u>	\$ .259 (\$ billions)
		<u>3-YEAR REVENUE GENERATION:</u>	\$ .471 (\$ billions)
<u>NUMBER OF TASK FORCE MEMBERS:</u>	27	<u>3-YEAR CASH ACCELERATION:</u>	\$ .015 (\$ billions)

OVERVIEW

The Department of Commerce (DOC) encourages, serves, and promotes the nation's international trade, economic growth, and technological advancement, and fosters the national interest through a competitive free enterprise system. In FY 1983, it had a staff of 34,000 and a budget of approximately \$1.4 billion. Included within the Department are the International Trade Administration (ITA), the Bureau of the Census, the Economic Development Administration (EDA), the Patent and Trademark Office (PTO), the National Bureau of Standards (NBS), and the National Oceanic and Atmospheric Administration (NOAA).

Although the Secretary of Commerce and his staff are making important efforts to reduce waste and inefficiency, opportunities exist for improvement. The Task Force also concluded that the Department's role in the formulation and implementation of domestic and international economic policy is an issue of critical importance.

ISSUES AND RECOMMENDATIONS

The Task Force studied 12 issues and formulated 29 recommendations which, when fully implemented, will result in cost savings of \$259.0 million, revenue generation of \$471.0 million, and cash acceleration of \$15 million over a three-year period.

The Task Force identified five areas of opportunity: organizational and human resources management, research and development, procurement of equipment and automated data processing (ADP) systems, financial management, and revenue generation and privatization.

Organization and Human Resources Management -- The Task Force focused particular attention on the need to reorganize as well as restructure staff and staff operations in ITA so as to achieve a substantial gain in overall effectiveness while significantly reducing the budget allocated to its activities. Specific recommendations included integrating the Office of Trade Development and the U.S. Commercial Service into a single organization structured around industry sectors; integrating the functions of the International Economic Policy Group and the Foreign Commercial Service into a single organization responsible for developing country-specific and multilateral trade policies and negotiating positions from a Washington, D.C. base; and appointing a Presidential Task Force to develop a restructuring plan and implementation schedule for the recommended reorganization. Implementation of the Task Force's recommendations would result in three-year cost savings of \$68.3 million.

Other organizational and human resources management recommendations focused on the NBS and Patent Office. With respect to the NBS, the Task Force recommended increasing the ratio of technicians to professionals in NBS laboratories, using more university students as NBS technicians, and developing a system for private sector evaluation of NBS. Task Force recommendations pertaining to the PTO called for a reduction in the proposed PTO hiring goals and increasing instead the use of industrial engineering techniques to reduce patent pendency time. Implementation of the Task Force recommendations would result in three-year cost savings of \$9.4 million.

Research and Development Activities -- NBS managers must contend with several sources of policy direction from within the Government, with resulting confusion over the expansion of NBS program activity beyond traditional areas of measurement science. Reasonably so, the NBS technically trained staff is not capable of independent assessment of the appropriateness of NBS research activity based solely upon technical explanations. To remedy this problem, the Task Force proposed that a three-year review process and a private sector Project Evaluation Committee be established. Implementation of the Task Force recommendations would result in cost savings of \$45.0 million.

Procurement of Equipment and Automated Data Processing Systems -- The Census Bureau's present plan for information technology improvements is estimated to cost \$95.3 million through FY 1988. It is recognized that the agency needs to take advantage of new computer technology and provide greater automation and integration of various operations. After reviewing the Census Bureau's plan, however, the Task Force concluded that the proposed procurement is too large in scope and includes unnecessary costs. The Task Force also found planned equipment procurements for the PTO excessive.

Based on its review, the Task Force recommended adopting an alternative procurement plan for the Census Bureau, reassessing work station needs for the PTO, and ranking technology projects according to cost/benefit analysis results.

Implementation of the Task Force recommendations would result in cost savings of \$14.8 million over a three-year period.

Financial Management -- EDA is responsible for ten different grant, loan, and loan guarantee programs. The Task Force studied the Public Works Program, a collection of four grant programs, and found that of \$3.5 billion in grants, over \$600 million in grant projects have not been completed. The Task Force also found a delinquent loan rate of 41 percent in 1981. To redress this situation, the Task Force recommendations included separating EDA credit granting and collection functions, formalizing debt collection procedures, improving pre- and post-approval financial analysis, and returning loan approval authority to regions.

Implementation of Task Force recommendations pertaining to EDA would result in three-year cost savings of \$63.3 million and cash acceleration of \$15.0 million.

Revenue Generation and Privatization -- The Task Force also examined the possibility of NOAA's recovering a substantial portion of the Government's investment in civilian land remote sensing satellite systems (LANDSAT) and the phasing out of the NOAA Weather Radio Program. The Task Force recommended that the Government sell LANDSAT data and pricing rights and eliminate Federal funding for the NOAA Weather Radio Program.

Implementation of these recommendations would result in cost savings of \$58.0 million and revenue generation of \$471.0 million over a three-year period.

## IMPLEMENTATION

Of the 29 recommendations made by the Task Force, 24 (83 percent) can be implemented by the Agency, 3 (10 percent) require Presidential action, and 2 (7 percent) need Congressional approval.