



# IMPRIMIS

Hillsdale College, Hillsdale, Michigan 49242

January 1988 Volume 17, No. 1

## The Problem of Big Government

By J. Peter Grace

Editor's Preview: "With all the serious problems we face today, the problem of big government is among the most critical." So says J. Peter Grace, undoubtedly the single most effective spokesman for reducing the size and influence of government in the business community today. The highly-publicized Grace Commission, charged by President Reagan with the task of reporting on government waste and inefficiency, made 2,478 specific recommendations and demonstrated how more than \$400 billion could be saved in the first few years after their implementation. Furthermore, the Commission found that these cutbacks would actually improve public services, rather than curtail them. Some of the recommendations were followed; most have been ignored. The peril, masquerading under the term "intergenerational inequity" means that politicians continue to load our children and grandchildren with unbearable debt while refusing to reform our current spending policies. Such fiscal and philosophical irresponsibility will inevitably lead to monetary and moral bankruptcy unless we are willing to take action along the lines suggested by Mr. Grace.

There are 2.7 million federal employees in the United States, occupying 2.61 billion square feet of office space, the equivalent of all of the office space in our ten largest cities multiplied by four. These are astonishing statistics for a country that claims to be guided by the principle that government ought to play an extremely limited role in men's lives. It is even more surprising that we tolerate such an enor-



mously bloated bureaucracy when everywhere in America it is recognized that the public sector simply does not work as well as the private sector, and furthermore, it is small private organizations that work better than big ones.

than an ideological nature. For instance, at least 600,000 civil service jobs are completely unnecessary, and the President's Private Sector Survey on Cost Control recommended in 1984 that they be privatized immediately. The survey recommended a few other reforms, too — 2,478 of them to be precise. But only a small number of these have been implemented. Why? One of the reasons lies in the fact that the federal government is controlled by Congress. Rarely do people realize how many day-to-day actions of the government are affected by the 535 elected members of Congress who micromanage each agency and thus exert a powerful influence beyond their legislative function.

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

---

“Added to all the other hidden debts Congress refuses to tell its citizens about, the real debt is between \$4 and \$5 trillion.”

---

With all the serious problems we must face today, the problem of big government is among the most critical. Yet solutions are not lacking; most of them are readily understandable and of a practical rather

the congressional subcommittee responsible for overseeing the SEC.

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

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

"Yeah, I have to have this budget."

"All right, then cancel the RIFs."

"Okay, I'm learning."

So it goes in Washington, D.C. Look at the exorbitant freight rates for the Defense

NASA puts out a highly successful magazine which is oversubscribed (General Electric, alone, requests 5,000 copies each month), but the Office of Management and Budget (OMB) insists upon limiting production. Some time ago, the editors declared their intent to solicit advertising in order to print the magazine privately. Going private would also mean a great savings—proofreaders from the Government Printing Office are paid \$32,000 a year and can

for \$91.00, \$7.50 hammers for \$435.00, and toilet seat covers for \$678.00—all due to the specifications which Congress has imposed. The Defense Department makes roughly 1.5 million purchase decisions each year. It hardly needs the kind of help Congress has to offer.

## Perpetual Debt and Deception

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

I've been a businessman long enough to have experienced the horrors of unbridled government indirectly for years, but since 1982, when President Reagan approached me about heading up the Private Sector Survey on Cost Control, later known as the Grace Commission, I have been able to relate many incidents firsthand. At the outset, he asked me to discover the answers to a series of questions. One of the primary ones was prompted by his former governorship of California. During his own tenure, he knew that federal employees outnumbered state employees but was unable to discover anything more concrete. As president, he felt that it was important to pursue the issue and find out not only how many federal employees there were but where they were located and what they were doing. The day after our conversation, I went to the OMB and asked those three simple questions.

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

"If I can't present the White House with

---

“. . . Ralph Nader is unsafe at any speed when he suggests that your pre-tax income belongs to the government and that by giving any of it away to a commission, a church, or any other charity you are bilking the government out of its rightful due. That is socialism, plain and simple.”

---

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

### About the Author

J. Peter Grace is chairman and chief executive officer of W. R. Grace & Co., a New York corporation dealing primarily with chemicals, natural resources and consumer-oriented businesses. Mr. Grace has held his position at W. R. Grace for more than four decades, the longest tenure for a chief executive officer of any major industrial concern. Throughout his career, Mr. Grace has maintained an active role in public affairs. A registered Democrat, he has served as a bipartisan advisor to Presidents Eisenhower, Kennedy and Reagan. His most recent assignment was as head of the President's Private Sector Survey on Cost Control, popularly known as the Grace Commission. He presented this paper at Hillsdale College during the April 1987 Ludwig von Mises Lecture Series, "Privatization: Some Practical Applications and Prescriptions."

look forward to retiring on 82 percent of their final salary. Ordinary proofreaders, in comparison, make about \$15,000 and have little or no pension benefits outside of Social Security. But another subcommittee reared its head and prevented NASA from going ahead. Coincidentally, most of the subcommittee members who decided against privatizing the magazine were senators whose constituents included a disproportionate share of civil service employees, many of whom worked for the Government Printing Office.

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

The Defense Department has certified that the United States needs 326 military bases: We have 4,000. These include Fort Collins, built to protect Salt Lake City from the Indians, and another installation in Virginia which still has a moat around it. A move to turn it into a museum was blocked by the congressional delegation from . . . need I tell you? Virginia. Typically, the congressmen who complain loudest about the defense budget are the same ones who cavil at such sensible ideas as reducing the number of active military bases. Absurdity leads to absurdity. You have undoubtedly heard of two-cent screws bought

a complete report by next week, I will hold a press conference and tell the American people that there are 2.7 million federal employees in the United States and that the OMB hasn't got the slightest idea of where they are or what they're doing."

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

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

The answer was "110 to 130."

One of our staff visited a bookstore soon after that and came across a revealing volume called *How to Get Yours In Fat City*. In the appendix, 300 government social programs were featured. We took this interesting information back to our OMB sources, but they were unimpressed. We conducted our own research and dug up a total of 963 social programs. They are all formularized in Congress and many of them are called "entitlements." Keep that word "entitlement" in mind because, if you're not getting anything, you're a sucker—you're "entitled" to a lot of these programs. You can enroll in 17 of them simultaneously and draw 160 percent of the minimum wage.

Now, W. R. Grace & Co. owns, among other things, 740 restaurants. One waitress I visited with in New Orleans makes \$130 a day just in tips. Not everyone who waits tables makes this much, but say they make \$50 per day, three days a week. That amounts to \$150 a week in tax-free income, and if they are making 160 percent of the minimum wage from government social programs to boot, they are enjoying a very tidy setup. For those of us who declare our incomes, the underground economy is an affront, not only because it means a loss of over \$100 billion in tax revenues a year, but because these people are on the dole at the same time they are evading taxes.

Student loan programs are also a haven for fraud. Our Commission decided to investigate and found that there are three separate student loan programs. "Why have three?" we said. "How much is their overhead? Is it possible for them to merge into one program?" Aside from the usual recalcitrance displayed by federal agencies, we came up against another obstacle, one

which we had encountered in every one of our investigations: the federal government's 332 incompatible accounting systems and 319 payroll systems, all handled by 17,500 computers, 12,000 of which were obsolete. When I found that out, my reaction was "Let's get Frank Cary down here"—the chief executive officer of IBM at the time, a businessman known for his expertise and his integrity.

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

Congress cried "Conflict of interest! He knows too much!" and Frank Cary, along with many other committed, expert volunteers like him, was denied the chance to help our Commission. But eventually we were able to determine that approximately \$2.5 billion in defaulted student loans had not been collected. Who owed the money? People like a Mets pitcher and a Honolulu land developer and, among others, 46,000 federal employees. Now

to reach 400 percent, and so on. This is not a pension plan; it is a bonanza.

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

---

"The real job of government is not to give us 963 social programs but to protect our liberty.""

---

maybe \$2.5 billion does seem like a small percentage of the \$850 billion in outstanding loans owed to the government at the time, but it is certainly not outrageous to suggest that these folks ought to make good on their legal obligations.

Earlier, I noted that the debt stands at \$2.2 trillion, but I was lying to you, just as Congress always does. Another trillion dollars in the Social Security system and \$1.1 trillion in military and civil service pensions account for past liabilities which have not been recognized or provided for. Social Security is a nightmare you probably already know a lot about, but did you know that the military retirement program is exactly six times as generous as comparable private programs? A man or woman entering at age 17 can retire in 20 years with 50 percent of his or her salary indexed, of course, to inflation. During President Carter's term, we endured two years of 13.2 percent followed by two years of 11.6 percent inflation. Let us estimate that over an extended period inflation levels out to about 7 percent. In ten years, a pension settlement will double. At age 47, a military retiree will receive 100 percent of his final salary each month; at age 57, it becomes 200 percent at age 67, doubling

last year including all the off-budget expenditures) when we know where our folly will lead?

### The Real Job of Government

The Grace Commission effectively demonstrated that \$424.4 billion could be saved over a three-year period by following its 2,478 specific recommendations. Moreover, the Commission showed its own commitment to cost-cutting by raising \$76 million from private organizations to underwrite all of its own expenses. It did not cost the government a nickel, unless, of course, you agree with Ralph Nader. He claims that at least half of the study was paid for by the government because the donors were able to deduct their contributions, costing millions in lost tax revenue. Tax evasion does account for lost revenue as I indicated in the case of the underground economy, but Ralph Nader is unsafe at any speed when he suggests that your pre-tax income belongs to the government and that by giving any of it away to a commission, a church, or any other charity you are bilking the government out of its rightful due.

That is socialism, plain and simple.

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

earth's land surface—in the process. Reagan's commitment to defense notwithstanding, 7 percent of the GNP seems wholly inadequate.

The Soviets have produced twice as

not diminishing. The real job of government is not to give us 963 social programs but to protect our liberty. We ought to be living up to the principles of our forefathers. We ought to be vocal about waste and fraud in government. We ought to be asking each and every one of our representatives in Congress: "Why are we keeping 4,000 military bases open? How many federal employees work in my state and what are they doing? What are you voting for and voting against?"

---

“Taxing the rich is not the solution; adopting waste-cutting measures like the ones the Grace Commission proposed is.”

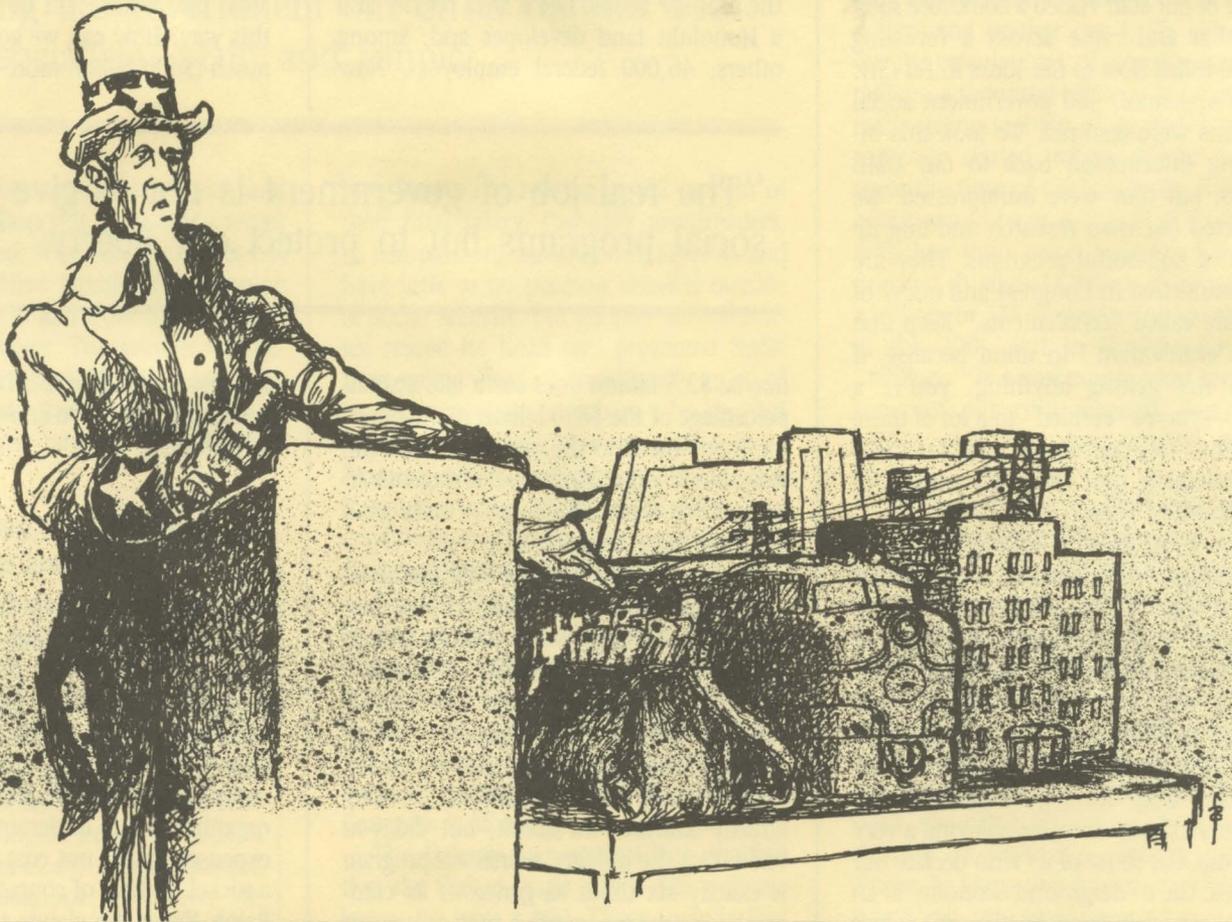
---

### Our Future Is At Stake

with. When Kennedy was President, he was our King Arthur and he reigned over Camelot, but Camelot's social programs, \$38.5 billion worth, were only 5.8 percent of the Gross National Product (GNP).

many fighter aircraft as we have together with our NATO allies. They have also manufactured four times as many helicopters, five times as many artillery pieces, 12 times as many ballistic missiles

In 1984, when the Commission officially presented its findings to President Reagan, it was during a White House conference. One of the questions address-



Reagan, who has been called Scrooge, presides over a \$486 billion social agenda which swallows up 13.5 percent of GNP.

Kennedy spent 9.4 percent of the GNP on defense and Reagan, by contrast, spends less than 7 percent. In the last 70 years, the communists have succeeded in subjugating 1,727 billion people, or 36.1 percent of the world's population. They have taken over 18.7 million square miles of territory—that is 32.5 percent of the

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

In short, the threat to our freedom is

ed to me from the group of nearly 200 reporters on hand was "Why isn't there anything in your report about taxing the rich?"

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

"Who's rich?"

(continued on page 7)

# Thoughts...

## Rare Heroes and Special Efforts

I'm very concerned with heroism these days.

I recently wrote a book called *A World Without Heroes* (emphasis on the word "without"), in which I observed that it's becoming ever more difficult to stand up for principle in a world where principle is so frequently suppressed, devalued, mocked or confused with concepts like "self-expression," "fulfillment" or—God forbid!—"lifestyle."

Rare indeed are there those willing to subject themselves to the criticism, and even derision, which seems to be the lot of people who speak uncomfortable truths. But one of those rare individuals is J. Peter Grace, the man whose remarks during the most recent of Hillsdale's Ludwig von Mises Lectures are reproduced in this issue of *IMPRIMIS*.

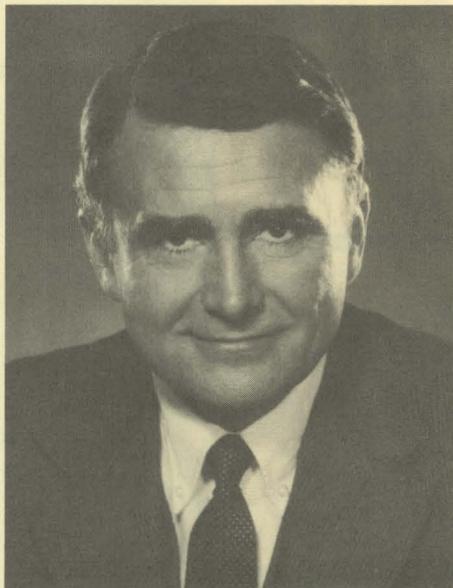
Grace has taken his share of flak for the devastating critique of our overblown federal bureaucracy put forth by the presidential panel he chaired. But he is undeterred. Since completing the report of the Grace Commission, he has spearheaded an independent campaign to publicize its findings about massive government waste and get the American people behind the group's recommendations for cutting the federal budget.

It is a particularly depressing thought that the effects of all his efforts—which I do not consider it an overstatement to call "heroic"—are still very much in doubt.

Long after the Grace Commission, long after the so-called "Reagan Revolution," it has taken a fall in the value of the stock market greater than that which occurred in the crash of '29 to get our nation's leaders thinking seriously about the implications of our profligate economic ways. And even now, one fears that the right lessons have not been learned.

Despite all the hand wringing, the intricate maneuvers and wheeling-dealing to craft budget plans acceptable to all political sides in an election year, we keep hearing about unassailable "entitlements," the "pent-up demand" for government services, and the call for federal economic "leadership." Indeed, it looks like the stage

by George Roche



is being set for even more government intrusion into the economy. And that makes for confusion—and considerable anxiety—among those charged with planning for the future of America's businesses.

One group especially vexed by the current situation is the people planning, or considering, the start of new business ventures. And as Hillsdale has so often analyzed the economic climate, we are undertaking a project which should have special—and timely—significance to entrepreneurs.

On Saturday, February 13, Hillsdale College will present a national teleconference called *Against All Odds: Entrepreneurship In A Changed America*.

This program, which will be broadcast live via satellite throughout North America, will feature several truly outstanding business spokesmen—people who have started their own companies, who have made existing firms more successful or who are knowledgeable about finding the money that makes new businesses possible.

Best-selling author George Gilder will look at opportunities for entrepreneurs in high-tech fields. Kenneth Iverson, chairman of the Nucor Corporation, will explain how he created one of the rare success stories in the generally crippled steel industry. And venture capital specialist Francine Sommer, president of Gabelli Value, Inc., will assess the prospects for finding start-up money on the post-stock crash financial scene. In

addition, industrial psychologist and personnel consultant Albert De Voogd will examine the difficulties of balancing the demands of business development and family life.

Also, Hillsdale economics department chairman and nationally syndicated columnist Charles Van Eaton will host a noteworthy panel of business analysts examining the climate for entrepreneurship. Taking part in the discussion will be *Forbes* senior editor Peter Brimelow, Patricia Harrison, president of the National Women's Economic Alliance, James Thomson, regional director for the Small Business Administration, Lee Walker, president of the Chicago New Coalition for Economic and Social Change, and entrepreneurship analyst Clark Cassell, author of the forthcoming book, *The Opportunity Society*.

Finally, the flamboyant Wally Amos, founder of Famous Amos Cookies and entrepreneurship booster par excellence, will cap off the day with what he calls his "recipe for success." It should be a varied, fascinating and useful program. And it represents an important development for Hillsdale.

We have been involved with several television projects. Episodes of Bill Buckley's *Firing Line* have been shot on our campus, for instance, and the Shavano Institute produced its own successful public affairs series called *Counterpoint*. But this teleconference extends our outreach in an exciting new way.

It is part of a four-day seminar on entrepreneurship which will be held February 10 to 13, sponsored jointly by Hillsdale's Center for Constructive Alternatives and The Family Business Institute. It's the first time a CCA seminar has ever been broadcast, and it will allow viewers to call in questions to the speakers from throughout the U.S. and Canada.

This program is inspired by Shavano's ACTION-2000 initiative, under which we are launching more aggressive efforts to identify the key issues of the post-Reagan era and influence the thinking behind policy development into the next century.

There is no concern more basic to the nature of our country than the encouragement of new enterprise and, thus, the strengthening of the private sector. It is, after all, the only possible antidote to the government excesses which Peter Grace's essay describes so accurately. We hope this teleconference can make a worthwhile contribution to that goal at a time when special efforts are needed.

(continued from page 4)

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

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

But at the Democratic Convention that same year, many of the candidates were calling for a 10 percent subcharge on the incomes of those who they claimed were rich—the people earning \$60,000 a year. At the time, our Commission figured that this initiative would collect only \$1.65 billion a year, or eight-tenths of one percent of the deficit. Why were the Democrats cheering in the aisles at this kind of talk? Because economic illiteracy, jealousy and envy are the fuel that politicians run on.

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

She said, "That would be good."

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

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

"You can knock it out" and he says, "No, I'm leaving it in," I respond, "Where do you get that buck?"

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

"Where does he get the interest?"

"Borrows it."

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

"Borrows it."

“...one dollar borrowed now will have cost \$71.00 by the year 2000.”

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

"Borrows it."

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

We need a knowledgeable, informed electorate that doesn't depend on the night-

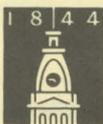
ly news for what it knows about what goes on in this country. We need citizens willing to make Congress accountable for the travesty which passes for democratic government today. Until we have them, we will continue to be bamboozled by Congress which, in its turn, knuckles under to the bureaucratic establishment and the 500 special interest groups entrenched on Capitol Hill. We can start by making the

government fiscally responsible, but whether we can muster the political will to do so is up to us alone.

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

**For more information, please contact  
J. Peter Grace, c/o PPSS,  
1511K Street, N.W. Suite 600  
Washington, D.C. 20005  
(202) 628-6428**

IMPRIMIS (im-pri-mes), taking its name from the Latin term for "in the first place," is the publication of Hillsdale College's Center for Constructive Alternatives and the Shavano Institute for National Leadership. Circulation 132,000 worldwide, established 1972. Complimentary subscriptions available.



Editor, Joseph S. McNamara, Managing Editor, Lissa Roche, Assistant, Patricia A. DuBois. The opinions expressed in IMPRIMIS may be, but are not necessarily, the views of Hillsdale College and its External Affairs division. Copyright © 1987. Permission to reprint in whole or in part is hereby granted, provided a version of the following credit line is used: "Reprinted by permission from IMPRIMIS, the monthly journal of Hillsdale College, featuring presentations at Hillsdale's Center for Constructive Alternatives and at its Shavano Institute for National Leadership." ISSN 0277-8432.



## ORDER FORM

Enclosed is my tax-deductible contribution to help Hillsdale College continue to provide seminars, **IMPRIMIS**, and other publications to an international audience and to help Hillsdale maintain its independent stand in the field of liberal arts education, free of government funds.

Please begin a free subscription to **IMPRIMIS** for the name(s) enclosed.

Please send me information about:

- Center for Constructive Alternative seminars
- Shavano Institute for National Leadership seminars
- Family Business Institute Programs
- Hillsdale College Press (catalog and price list)
- Admissions Procedures
- Pooled Income and Planned Giving Program**

Enclosed is my check (payable to Hillsdale College) for:

**IMPRIMIS** reprints Vol. \_\_\_\_\_ No. \_\_\_\_\_ Author \_\_\_\_\_

### IMPRIMIS REPRINT PRICES (postpaid):

- \_\_\_\_\_ 1-10 copies \$ .75 each
- \_\_\_\_\_ 25 copies \$10.00
- \_\_\_\_\_ 50 copies \$15.00
- \_\_\_\_\_ 100 copies \$30.00

**PLEASE DON'T FORGET TO ENCLOSE YOUR ORDER FORM.**

(Indicate any address changes next to your mailing label on the reverse side of the order form.)

—Please enclose order form inside envelope provided—





# HILLSDALE COLLEGE

PURSuing TRUTH · DEFENDING LIBERTY SINCE 1844

33 EAST COLLEGE STREET  
HILLSDALE, MICHIGAN 49242

HILLSDALE.EDU | (517) 437-7341