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How to Make Government Fatter

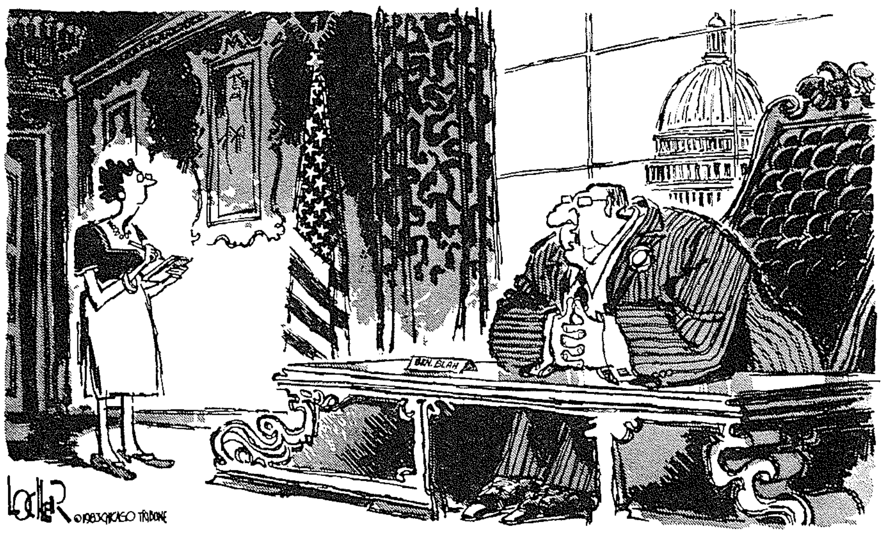
"The Grace Commission: How Much Waste in Government?" by Steven Kelman, in *The Public Interest* (Winter 1985), 20th & Northampton Sts., Easton, Pa. 18042.

In January 1984, the President's Private Sector Survey on Cost Control (a.k.a. the Grace Commission) made a big splash in the newspapers when it reported that, during the previous three years alone, Washington bureaucrats had wasted $424 billion.

Americans love to hear this kind of "bad" news, says Kelman, who teaches at Harvard's Kennedy School of Government. It confirms their conviction that deep federal spending cuts are possible without any reductions in government services: When public-opinion pollsters ask Americans how much money Washington wastes, the answer is an astounding 48 cents of every tax dollar.

But based on his examination of a dozen recommendations highlighted by the Grace Commission itself from among its 2,478, Kelman concludes that its estimates of waste are "fantasy figures." Many are the product of slipshod research. Thus, the Commission's 2,000 sharp-eyed volunteer business executives cited the Department of Justice for consistently failing to deposit cash seized from criminals in interest-bearing accounts while the cases are in the courts. The fact is, Kelman says, that government attorneys purposely hold on to the cash so that they can impress juries with the actual "wads of ill-gotten lucre."

In the category of Pentagon horror stories, the Grace Commission came up with a 3-cent screw that cost the government $91. But careful scrutiny



How waste makes waste: "Get me an appropriation to form a committee to find out why 10 cents of every tax dollar is lost to fraud and waste!"

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shows that quirks of accounting explain most such stories. The Defense Department instructs contractors to charge separate fees for their overhead expenses. A contractor who ships 10,000 spare parts, some priced at $25,000 and some at 3 cents, can allocate an equal share of its overhead to each item. The result: A few $25,091 jet-engine parts that nobody notices and a bunch of $91.03 screws that wind up on the TV news.

Finally, Kelman writes, the Grace Commission failed to acknowledge that sometimes the government has to spend more than corporations do. The Veterans Administration (VA), for example, spends about $2 more and takes longer to process each health-benefit claim than do private insurance companies. But its public trust requires the VA to take extra steps to safeguard veterans' interests.

Kelman is far from denying that there is waste in government. But there is a difference, he notes, between programs that are a bit wasteful and those that are simply not worthwhile. The *real* savings will come from disbanding worthless programs. Chasing after supposed scandals would mean more red tape and bureaucracy—in short, more waste.

The Limits of Economic Advice

"President Johnson, The Council of Economic Advisers, and the Failure to Raise Taxes in 1966 and 1967" by John W. Sloan, in *Presidential Studies Quarterly* (Winter 1985), Center for the Study of the Presidency, 208 East 75th St., New York, N.Y. 10021.

When economists try to explain what caused America's alarming outbreak of inflation during the 1970s, they point their fingers first at Arab oil sheiks, then at President Lyndon B. Johnson.

By failing to increase federal taxes soon enough during the mid-1960s to cover the growing costs of the Vietnam War, they argue, LBJ allowed the U.S. economy to overheat, setting the stage for the inflationary 1970s. Johnson, they continue, feared that if he asked Congress to boost taxes, it would cut spending for his beloved Great Society programs as well.

All partly true, writes Sloan, a University of Houston political scientist. But he believes that LBJ's Council of Economic Advisers (CEA) should also shoulder some of the blame.

The CEA "was so ideologically committed to growth," Sloan says, "that it was insensitive to the early signs of growing inflation." In a January 1964 memo to LBJ, CEA chairman Walter Heller described himself as "the guardian of growth," and Federal Reserve Board chairman William McC. Martin as "the in-fighter against inflation." The CEA did not carve out a role for itself as Johnson's counsel on inflation.

The White House had been so successful in stimulating the economy (in part through a 1964 tax cut) that by December 1965 it was approaching uncharted territory: an economy operating near full capacity. The three CEA members were unsure of what to do next. They advised LBJ to seek a tax hike from Congress, but their recommendation was lukewarm. In a 1966 "Merry Christmas" memorandum, Heller wished his chief "Divine guidance" on whether to ask for a tax increase "since economic