

# BEFORE THE YEARNING FOR GOVERNMENT... THE TRUTH ABOUT IT

By James L. Payne

FOR THE PAST 15 YEARS, conservatives have tried to reduce the size of government by cutting budgets and eliminating agencies. History suggests this approach results in (a) bigger budgets and (b) discredited conservatives.

The reason why the cutting approach won't work is that government programs seem beneficial to most people at first glance. Cutting therefore seems to be a dirty deed, and those who do it come across as malefactors. It's time for conservatives to try a different approach to shrinking government: a "truth and balance" strategy which acknowledges that the public tends to favor government programs, but contends that this approval is a spurious product of illusions and propaganda. Give voters a complete account of government programs, and they will see for themselves how destructive they really are.

One source of government's false appeal is the something-for-nothing illusion. Because government is a complex, distant institution, most people view it as a God-like entity that can accomplish good at no cost—or at the expense of someone else. Thus, when asked whether government should promote the arts, or help education, or do any other nice thing, the average person will say, "yes, of course." This naive enthusiasm rests on a failure to grasp the algebraic truth that every penny government spends toward some good cause must be taken away from some other good cause—and often from the *same* good cause. Thus government extracts money from the same farmers it subsidizes and from the same artists it rewards. It even takes money away from the poor it claims to feel sorry for. Researcher Martin Buchanan found that in Portland, Oregon, the direct and indirect burden of all taxes on a single worker earning the minimum wage amounted to \$3,905—nearly 40 percent of his total effective income.

A truth-and-balance strategy should counter the something-for-nothing illusion with initiatives to reveal the full costs of taxation.

**1.** Require that every government program publish a "Taxation Impact Statement" detailing how the burdens of taxation to raise money for it interfere with the goals of the program. Thus, a Taxation Impact Statement for Food Stamps would detail how taxation makes it harder for the poor to afford food. These statements should be compiled by a new independent agency charged with publicizing the costs of taxation. The country has hundreds of government agencies that study and advertise the ways Americans are deprived; shouldn't there be at least one that studies the harm of taking \$2 trillion away from them?

ANOTHER ARENA where the something-for-nothing illusion produces distorted conclusions is regulation. At first glance, it seems that if Congress demands longer hospital stays for new mothers, or energy-saving buildings, it has made life better without hurting anyone. In fact, all regulations impose costs; they are just like taxes, except that their burden is usually hidden. Economists are now finding that this burden of regulation is a cost approaching the cost of taxation itself. The federal Office of Management and Budget recently set the cost of regulation at \$300 billion; independent researchers have come up with figures two to three times as high.

In recent years, conservatives have passed legislation asking for studies of the burden of regulation, but their approach has been fatally flawed by giving this job to the President's Office of Management and Budget. This agency has a multitude of other tasks and views assessing regulation as a distraction. It is basically a pro-government agency whose mission is to defend the bureaucracy of the federal government. What's needed is a tiger:

**2.** Congress should create an independent agency charged solely with charting the burdens of regulation. This agency should cal-

culate and publicize the costs to Americans of current and proposed regulations. If activists want new mothers to stay in the hospital longer, we should be told who will be forced to pay how much for this benefit.

IN PUBLIC debates, we all recognize that money buys publicity and propaganda which translates into approval. What would we say, then, about a campaign where one side spends \$2 trillion a year, and the opponents spend virtually nothing? That, essentially, is the imbalance in funding on the national debate about the desirability of government programs. Government's appropriations buy the support of tens of millions of beneficiaries and employees, they fund tens of thousands of pro-government pressure groups, and they directly buy pro-government propaganda in the form of biased program evaluations, studies, testimony, and press releases.

Until this one-sided "culture of spending" is countered, the public will be unable to arrive at objective conclusions about the value of government programs. Conservatives have begun to understand this. The 1995 effort of congressmen Ernest Istook and David McIntosh to restrain government-funded pressure groups from lobbying was a step in the right direction, but it got bogged down in complexities of implementation. Congressman John Doolittle made a useful beginning last year by introducing a "truth in testimony" rule which requires witnesses at congressional hearings to reveal if they are dependent on government funding. This principle should be applied much more widely:

**3.** All reports prepared with public funding should contain this announcement on the title page: "This material has been prepared with tax funds and may therefore contain a bias in favor of tax-funded ac-

tivities." If a NASA scientist wants to write about the great value of space exploration, let him be free to do so, but Congress and the public should be alerted to the fact that he may well be singing for his supper.

THE FIELD of policy evaluation has been corrupted and needs reform. The idea of evaluating government programs is healthy, but it has been absurdly implemented: The agencies buy evaluations of their own programs! Naturally, they hire sympathetic researchers and work with them step by step to make sure they come up with the desired, program-affirming, conclusions. This perverted system should be ended:

4. Congress should resolve that agencies may not fund or direct the evaluation of their own programs. Instead, independent agencies should perform all evaluations and cost-benefit analyses of government programs.

ANOTHER SOURCE of the prejudice in favor of government is a misunderstanding about its power. Most people assume that government inspires obedience by radiating some harmless, costless "community will."

In this conception, there's no harm asking it to right any number of wrongs. The sober truth, however, is that government impels obedience through the use of force, through the millions of soldiers, policemen, tax collectors, bailiffs, and jailers that make its will effective. Even government's gentlest goals are accomplished by threatening citizens with bodily harm if they don't comply.

The problem with using force to correct problems is that it leads to resentment. Human beings react negatively to being coerced to do things against their will—even beneficial things. Hence, even if government coercion fixes a problem like cigarette smoking, or not wearing seat belts, or discrimination in the workplace, it leaves a legacy of re-

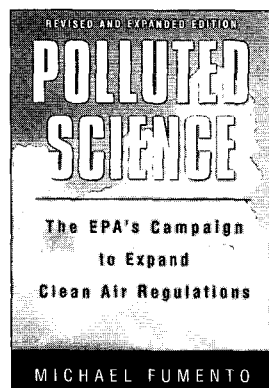
sentment each time it acts. If it uses force sparingly, government may retain general support. But if it applies its coercion in hundreds of spheres, it provokes a general tide of antagonism that will undermine all its efforts. We need to pay more attention to this corrosive effect. Therefore:

5. Every law should contain a preamble stating that "Congress realizes that the use of force implicit in this legislation is likely to cause resentment, cynicism, and hostility toward government and its officials." This would at least remind devotees of big government that the anti-government sentiments they deplore are fed by the very activist policies they embrace.

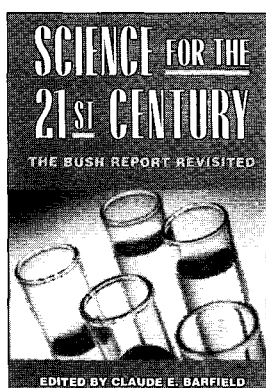
James L. Payne is author of *The Culture of Spending: Why Congress Lives Beyond Our Means*.

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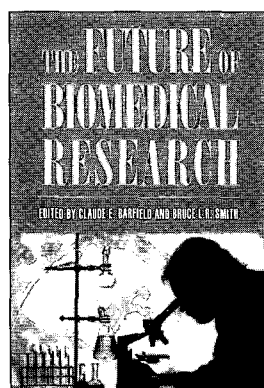
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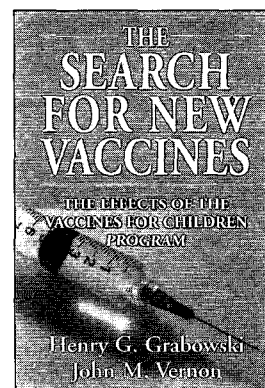
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# WHO REALLY BALANCED the BUDGET?

by Stephen Moore

Until very recently, the idea of Congress spending only as much as it takes in was a hopelessly elusive dream—like visions of the Berlin Wall coming down, or Northwestern going to the Rose Bowl. But with the federal budget deficit now well below 1 percent of national output, we have achieved a *de facto* balanced budget for the first time in more than a quarter-century. If the economy continues to surge, the federal budget may even end up in surplus in 1998. [For more on that subject, see the article immediately following this one.]

Not surprisingly, Congress and the White House are falling over each other to take credit for this turn of events. Bill Clinton recently boasted that “discarding the failed supply-side economics of the 1980s” and instituting his record tax increases of 1993 were the critical steps. Newt Gingrich insists it was the “heroic commitment to a balanced budget” of the Republican Congress that made the balanced budget possible.

And how’s this for a rewrite of history: Some media mavens have recently crowned George Bush as the real hero of the balanced budget story for “courageously” breaking his “read my lips” tax pledge back in 1990. Bush “was the man who risked the most and paid the biggest price for cutting the deficit,” the *New York Times* gushed not long ago. “When George Bush was confronted with a deficit crisis, he delivered,” political analyst William Schneider recently proclaimed on CNN while Bernard Shaw broke out in applause.

The surprising truth is that they are all wrong. The politician who is most

responsible for our current rosy fiscal outlook is not Newt Gingrich, Bill Clinton, or George Bush. Rather it is the man regularly vilified in the press for creating trillions of dollars of debt in the first place: Ronald Reagan.

The most simple-minded and oft-repeated interpretation of budget history is that the Reagan tax cuts caused the deficits to explode, while the Bush and Clinton tax increases erased them. On the surface this is an appealing story line. After all, we had tax cuts in the early 1980s and, subsequently, large deficits. We had tax increases in the 1990s and, presto, falling deficits.

But the dogma about Reagan’s tax cuts depleting federal coffers doesn’t match reality. Look at Figure 1. It compares the growth of federal revenues in

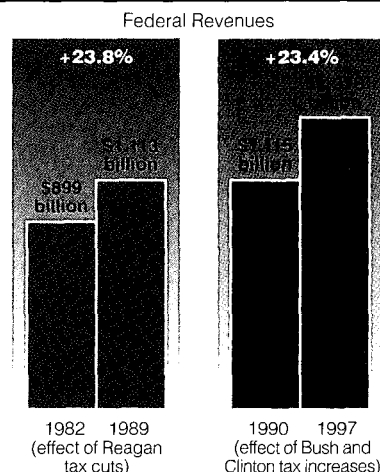
the seven Reagan fiscal years 1982–89 with revenue growth in the seven Bush and Clinton years 1990–97. During the first period, top marginal tax rates were being cut from 70 percent to 28 percent, while during the second the top tax rate was being pushed back up to 42 percent. What these data show is that federal revenues grew at the same pace with *falling* income tax rates in the ’80s as they did with *rising* rates in the ’90s.

Two things explain how this is possible. First: as AEI scholar and former Federal Reserve Board member Lawrence Lindsey has documented, the amount of taxes paid by wealthy Americans soared when tax rates were lowered in the 1980s (because they began producing more income). And second: the economy grew faster in the seven years following the Reagan tax cuts (3.2 percent real GDP growth per year) than it has in 1990–97 period (2.5 percent per year).

So tax cuts are not primarily responsible for the last decade’s ballooning of the deficit. Nor did George Bush’s 1990 tax-raising “deal of the century” and other fiscal policies “lay the groundwork” for the taming of the deficit in recent years (as Mr. Bush argued not long ago). It is a little-remembered fact that by the end of the Reagan era, the federal deficit was falling rapidly: from 6 percent of GDP in 1985 to 3 percent in 1989. As Reagan left office, the Democrat-controlled Congressional Budget Office projected that deficits were on a path to fall to about 1 percent of GDP by 1993. Instead, the budget deficit during the Bush years ended up some \$600 billion higher than the Reagan track.

Why the fiscal deterioration? First, the 1990–91 recession and a middling recovery caused federal revenue growth to slow to a trickle, even with Bush’s tax increase. And second, George Bush (with the enthusiastic assistance of a profligate Democratic Congress) was one of this century’s biggest-spending presidents. Domestic outlays surged by 28 percent above and beyond inflation during Bush’s four years. To somehow fantasize that George Bush and Richard Darman contributed to the current balanced-budget regime is to give historical revisionism a bad name.

**Figure 1**  
Reagan tax cuts  
didn’t deplete government coffers



Source: Budget of the U.S. Government and Congressional Budget Office. Expressed in constant 1992 dollars.