WHO SAYS YOU CAN'T CUT THE BUDGET?

A Dozen Immodest Proposals

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The deficit for fiscal year 1986 is approximately five percent of GNP. To reduce the deficit by one-half of one percent of GNP per year for the next five years, Congress and the White House will need to enact a balanced program of tax increases and budget cuts.

The cost of living adjustments for non-means-tested entitlement programs (e.g., Social Security) should not be indexed to the full rise in the Consumer Price Index (C.P.I.), but to the C.P.I. less two percent, because from 1979 to 1982 the C.P.I. overstated the actual inflation rate. To offset the loss of income for low-income Social Security beneficiaries, additional funds should be appropriated for the Supplemental Security Income program. If both of these measures were enacted, the net reduction in outlays could approach $70 billion.

Deficiency payments to farmers should be ended, though a gradual phase-out is preferable to immediate elimination. If this proposal were adopted, federal spending could decline by as much as $17 billion.

Subsidies to the U.S. Postal Service, Amtrak, and urban mass transit systems should be sharply curtailed. Funding for the Export-Import Bank's direct loan program should be completely eliminated. These cuts could save as much as $20 billion.

Many services provided by the Department of Housing and Urban Development (HUD) should be devolved to state and local governments. For example, funding for such HUD programs as community development block grants and urban development action grants should be ended—a budget savings of up to $17 billion.

On the revenue side, a five percent value-added tax (exempting food, medical care, and housing) should be levied. Excise taxes on cigarettes, beer, and wine should be doubled. This could yield the Treasury up to $267 billion.

A national lottery should be established. This would be a relatively painless means of generating as much as $12.5 billion a year in revenues.

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JAMES T. BENNETT

The Agriculture, Energy, Commerce, Education, Housing and Urban Development (HUD), Transportation, Interior, and Labor Departments should be eliminated. President Reagan in the 1980 campaign cogently presented arguments for phasing out the Departments of Energy and Education; these need not be repeated here. One of the major disappointments of this administration is that these initiatives were never pursued with vigor.

The Department of Labor is basically a conduit for supplying funds to politically powerful labor unions; the Department of Agriculture (U.S.D.A.) is a thinly-disguised welfare program for some of the nation's farmers (those facing economic disaster because of, not in spite of, U.S.D.A. farm programs). By any standard, the programs pursued by Agriculture, Interior (especially land management), and HUD have been failures and further expenditure of taxpayers' funds for these purposes is equivalent to dumping money down a rathole. The functions of Commerce, Interior, and Transportation that are economically viable can be privatized; in the absence of private sector interest in continuing the activities of these departments, the activities should be abandoned.

The other functions performed by the federal government should also be turned over to the private sector: the federal government should follow its own mandate set out in the Office of Management and Budget Circular A-76 and cease all operations that compete with the private sector. Specifically, such organizations as the U.S. Postal Service, the Tennessee Valley Authority, the Bonneville Power Authority, and others should be sold. In addition, all economic regulatory agencies of the federal government should be abolished; these hamper competition and primarily protect politically powerful firms and their unions from lower-cost competition. The consumer and the taxpayer would be better served by the termination of the F.C.C., the I.C.C., the F.T.C. and the remaining alphabet soup of agencies that purport to protect the consumer.

All off-budget finance that provides disguised subsidies to various special interests should be halted, accompanied by the elimination of the Federal Financing Bank in the

Treasury. The Department of Health and Human Services should administer all welfare programs through voucher systems for housing, medical care, food programs, and legal assistance (thus eliminating the need for the Legal Services Corporation). Vouchers would be less costly and would give recipients greater freedom of choice. Cost of living increases should be eliminated for all government employees—after all, if the government is responsible for inflation, it is perverse to protect those in government from its consequences—and public employees' salaries and civilian and military pensions should be reduced to bring them in line with the private sector. A reduction of about 20 percent is in order for salaries alone. Cost of living adjustments in all federal programs, including Social Security, should be terminated as a means of building a large and vocal constituency for price stability.

Finally, many programs in the remaining cabinet departments should be reviewed and eliminated, e.g., the antitrust activities of the Department of Justice are largely a waste of taxpayers' funds. Moreover, a determined effort should be made to implement the recommendations of the Grace Commission to reduce waste and inefficiency, and stringent criminal penalities should be instituted to combat fraud and abuse.

These measures may, at the outset, seem draconian, but drastic action is required if there is any hope of bringing the Leviathan under control. The taxpayer is likely to be pleasantly surprised to discover that the nation can function perfectly well with far less government.

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Warren T. Brookes

Conservatives need to understand that without basic monetary reform there is no way to balance the U.S. budget, with or without tax increases and budget cuts, and even with the most optimistic GNP growth projections.

The reason is simple: since we broke the link to gold in 1971, the annual increase in the cost of servicing the Federal debt has risen from less than six percent a year to an average of 18 percent a year—and even 21 percent under Ford and Carter from 1976 to 1981.

Even the strongest nominal federal revenue growth of 10-12 percent a year cannot begin to catch up with the debt service growth which is now rising nearly $30 billion a year—-almost half the total federal revenue growth of $65-$70 billion.

The solution is threefold.

First, the nation must return as quickly as possible to gold-based money and debt. If the Treasury immediately began to exchange all paper-based debt for gold-based debt, average federal interest rates could be cut from nine percent to three percent—and within three years this could cut federal outlays by at least $60 billion a year.

Second, the Congress and the Treasury could immediately move to make the Federal Reserve irrelevant by allowing free exchange of gold and silver, both public and private, setting up a parallel monetary system on a free market basis, allowing the public to choose. At the same time, the monetary base would be frozen by law, and all additional monetary issue would be through private banknotes and commodity specie.

Third, the Federal Reserve would be phased back to its original role as a bank-owned clearing house, thus eliminating its huge and costly presence in the money markets where its open market operations now run as high as $1 trillion a year. As part of this, it would use its vast holdings of short-term Treasuries to redeem the higher yield long-term bonds, a process that could save the Treasury another $8 billion a year by 1990. And by stopping its huge "market churning" open market operations, it would save up to $3 billion a year in brokerage costs.

Indeed, the Federal Reserve's vast asset value, with its huge holdings of non-interest bearing reserves, could be privately capitalized and the proceeds could be used to wipe out a substantial share of the government's present debt. No one knows the total amount, but estimates place the value at $700 billion to as much as $1 trillion.

From the outset, the supply-siders have argued that without monetary reform, tax cuts, budget cuts, and regulatory reform would be overwhelmed by interest costs and financial instability. That view gets more cogent with each passing day, as fiat money continues to destroy long-term capital formation at reasonable interest costs, and reduces the total world trade and GNP growth by 40 percent or more by the inefficiencies of the natural exchange rate volatility of a floating paper money system.

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Kenneth W. Clarkson

Too often we reject sound public policy changes because their main effects may not be realized for several years. The most appropriate changes in fiscal policy for improving the long-run health of the nation fall under four categories.

Privatization of government assets and operations: No constitutional, economic, or public policy basis exists for continuing numerous government functions and operations, such as power generation and financial asset management, in the public sector. Because total opportunities for privatization exceed those identified by the Grace Commission Report, three-year savings would surpass the $8 billion in savings and $17 billion in government revenues estimated by the Commission.

Federalism: A greater focus on federalism is desirable not only for constitutional and public policy reasons; transferring many operations of federal programs to states would also save $5-$10 billion annually as a result of reduced administrative costs and improved performance. Because the best solutions to social problems often vary from state to state, significant inefficiencies are created by keeping the administration of federal programs at the national level. Giving increased control to states, which are able to utilize more flexible options and target solutions to specific populations, would lower program costs.