

for reform. Civil service retirement ought to immediately be made comparable to private sector retirement plans.

The federal government is currently conducting the bizarre policy of propping up food prices while helping the poor to buy food. We should move as rapidly as possible to a free market agricultural system, and target deficiency payments so that no one would receive more than the maximum benefit.

Budget authority of the Defense Department should be frozen. We must persuade our allies to pay a larger share of their own defense. According to the General Accounting Office, we spend about \$150 billion per year defending our allies. In view of our record federal budget deficits, we simply can't afford it. Gradually reducing this sum, even by just five percent, would save \$7.5 billion.

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## ARTHUR B. LAFFER

**O**ur elected representatives appear to be flailing about in response to growing voter unrest over the imbalance in the federal budget. The wrong but seemingly easy answer would be to raise taxes and cut defense spending. President Reagan has closed these false options. What Congress must do is control runaway spending.

The federal deficit is a problem of excessive spending. Federal tax revenues today are approximately 19 percent of GNP, roughly where they were in the 1960s. Federal spending, however, has grown to 24 percent of GNP, ballooning the deficit to \$200 billion per year.

The biggest spenders are high interest rates and high unemployment. Carefully designed economic policies could easily reduce expenditures in these categories by \$100 billion a year.

First, the monetary authorities should implement a formal "price rule." The value of the dollar should be guaranteed in terms of a basket of commodities or a single commodity such as gold. Federal Reserve Board nominee Wayne Angell's proposal to target the price of a basket of commodities would be a step in this direction. With the value of the dollar secure, concerns over inflation would plummet, as would interest rates. With an outstanding federal debt of \$1.8 trillion, each percentage point reduction in interest rates reduces government spending by \$18 billion. A three percentage point reduction in interest rates would reduce in short order federal expenditures by more than \$50 billion.

Second, Congress should pass a flatter, simpler tax and enterprise zone legislation. The lower marginal tax rates encompassed in these tax law changes would accelerate economic growth, create jobs, and reduce the ranks of the unemployed.

The Office of Management and Budget estimates that for each percentage point reduction in unemployment rates, the deficit is reduced by \$20-\$25 billion. Reducing the unemployment rate to five percent would cut the federal deficit an additional \$50 billion.

One hundred billion dollars of spending cuts remain.

But cutting \$100 billion in expenditures by 1989 requires little more than prudence and good judgment. Just constraining federal spending increases to the rate of inflation would reduce the deficit by \$100 billion a year by 1989.

Implementation of the Grace Commission's recommendations would save an additional \$133 billion a year. The \$5 billion of annual waste identified in the Defense Department is just a start. Procurement procedures which result in 16-page manuals for the purchase of sugar cookies also need to be reformed.

Reform of federal agricultural subsidies and credit systems can save \$10 billion per year and restore prosperity to our agricultural community. Small Business Administration loans, which go disproportionately to bars, restaurants, liquor stores, and travel/lodging, should be eliminated, saving another \$2 billion per year. Amtrak subsidies, revenue sharing, UDAGs, and subsidized loans to exporters also should be eliminated.

It's time congressmen and senators started spending our money like it was their own. Such a considerate approach to eliminating deficit spending would pave the way for further tax cuts.

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## ROBERT W. POOLE, JR.

**F**ederal spending grows because coalitions backing specific programs engage in logrolling with other coalitions. The key to cutting federal spending is to turn this logrolling process against itself, by a rigid spending limit.

Analysis conducted at the Reason Foundation shows that budget cuts of \$150 billion in 1986, rising to \$250 billion by 1991, are achievable via reverse logrolling. These cuts can be achieved without touching the basic social safety-net programs for the poor and handicapped (A.F.D.C., Social Security, Medicaid), veterans benefits, basic scientific research, or strategic weapons systems.

Five constituencies would share proportionately in the cuts. Conventional wisdom would say, for example, that there is no way to eliminate today's \$29 billion of farm price supports, FmHA housing subsidies, and other rural programs. But what if such cuts were conditional on the urban middle classes giving up \$28 billion in college grants and loans, transportation subsidies, and UDAGs? Likewise, American business is wedded to some \$20 billion in subsidies—from massive energy R&D programs to cut-rate space launches, subsidized waterways, huge credit subsidies for foreign government weapons purchases, and the Small Business Administration. But those business sacred cows would be a lot less sacred if balanced against \$15 billion in cuts for middle-class consumers.

With everyone else (except the poor and handicapped) taking cuts, it would be only fair to ask the elderly to bear their share. After all, only three percent of today's retired folks are below the poverty level. A one-year freeze on Medicare, Social Security, and federal retirement benefits would save some \$23 billion.

Foreigners don't vote, yet a huge share of the federal budget goes to subsidize other governments. According to Defense Department figures, \$177 billion of the 1985 defense budget results from our commitment to NATO; Americans pay far more per capita to defend Europe than the Europeans do! If this massive "defense welfare" were phased out over five years, about half of that total could be saved (\$88.5 billion). Savings the first year would be nearly \$18 billion. Cutting defense here would in no way impair our strategic offensive and defensive capabilities. Eliminating foreign aid would save another \$8 billion—and probably improve things in recipient countries.

Altogether, these program cuts total \$126.2 billion for 1986. (Chart is in billions of dollars.)

## PROGRAM CUTS AND ELIMINATIONS

### URBAN

CDBG/UDAG	4.00
Other community develop.	1.27
UMTA	4.60
EPA sewage grants	2.38
	12.25

### MIDDLE CLASS

Education programs	9.91
Culture/entertainment	1.19
Air travel (FAA ops.)	2.96
Rail travel (Amtrak)	.82
Miscellaneous subsidies	.43
	15.31

### RURAL

Community development	1.37
Commodity price supports	10.45
FmHA rural housing	4.64
REA	4.42
Misc. agriculture prog.	5.41
Water: SCS/BuRec	1.22
PL 480 Food for Peace	1.30
	28.81

### BUSINESS

Energy R&D	3.45
S.B.A.	1.25
Misc. business subsidy	3.16
Corps of Engineers	2.86
Foreign military sales	7.08
NASA shuttle	2.50
	20.30

### ELDERLY

Medicare freeze	7.8
Social Security freeze	13.5
Federal retire. freeze	2.0
	23.3

### FOREIGN

NATO subsidy (1st yr)	17.7
Foreign aid	8.5
	26.2

Source: O.M.B.'s "Major Themes and Additional Details, FY 1985." All figures (except NATO) taken from FY 1986 current services outlays.

Adding in \$10 billion annually from sale of assets (lands, hydropower projects, airports, etc.) and interest savings, total 1986 savings would be \$147.1 billion. By 1991, assuming that the cut programs would otherwise have grown at five percent per year, and factoring in the full fifth-year \$88.5 billion NATO-subsidy elimination, total savings would be \$248.8 billion.

Only by ending the process of everybody trying to live at everyone else's expense can we put the government's fiscal house back in order.

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## RICHARD RAHN

Our number one economic goal should be rapid economic growth. High-growth countries offer prosperity and opportunity to their citizens. Low-growth countries spell economic stagnation and despair. History shows that high tax rates are the prime killer of robust economic growth. Consequently, it is important for us to avoid tax increases and concentrate our efforts on controlling the growth of public spending.

Many federal programs could be privatized, delegated to state and local sectors, or eliminated altogether with substantial net economic benefits to the general taxpayer. At a minimum, we should reduce the growth of federal spending so that the deficit falls as a percentage of GNP. Under consensus economic assumptions (three percent economic growth and four percent inflation), we could keep interest payments on the national debt from exceeding the growth of the economy if we could get the deficit below \$150 billion. A safe bet would be to achieve a deficit of less than \$100 billion by 1990.

In fact, there is enough room in the federal budget to make permanent cuts in excess of \$50 billion a year. For starters, a one year COLA freeze on Social Security and other non-means tested programs would save about \$6.5 billion in 1987 and over \$10 billion in 1990. Such a policy is warranted in light of the large subsidies now given to present and prospective retirees. For example, it has been calculated by the Grace Commission that today's retiree and spouse, over a normal lifespan, will receive in real benefits nearly three times the value of their real contributions (including interest on those payments). Today's 20-year-old will not fare so well, receiving an estimated 72 cents for every dollar he puts into Social Security.

Elimination of agricultural commodity price support