

THE BUDGET CUTTERS' MISSING LINK

Give Taxpayers an Incentive to Control Government Spending

PETER J. FERRARA

The key to cutting government spending is to adopt the strategy that worked so well with tax reform: Give all taxpayers an immediate, tangible benefit from the elimination of programs that benefit special interests.

The special interest tax deductions, credits, and exclusions eliminated in the 1986 tax bill would still be with us today if they had not been connected to a sharp reduction in marginal tax rates for everybody. The strong appeal of the general tax rate reductions overcame the power of the special interests lobbying for the special tax preferences benefiting only them.

Government spending programs will never be eliminated for the sake of an abstract principle like cutting the deficit. The key to overcoming the lockgrip of special interests is to offer voters a practical reason for eliminating unnecessary spending.

The answer is a dollar-for-dollar reduction in tax rates for every reduction in spending programs. A single bill could eliminate or cut back a large number of special interest spending programs, with the savings to be used to reduce taxes. The entire package, spending cuts along with tax cuts, would be put to a single up-or-down vote.

Grass-Roots Fiscalism

The possibilities for reducing federal spending through "spending reform" are almost endless, and the potential rewards are great. For individual income taxes, each percentage point in the 28 percent tax bracket down to 15 percent is currently worth about \$6.5 billion in revenue a year. Each percentage point in the 15 percent bracket raises about \$19 billion in a year. For corporate income taxes, each percentage point reduction in the top 34 percent rate raises about \$3.5 billion per year.

With \$57.5 billion in spending reductions, the top 28 percent rate for individuals could be reduced to 25 percent and the 15 percent rate could be reduced to 13 percent. With \$107 billion in spending reductions, the 15 percent rate could be reduced to 12 percent, the 28 percent rate to 23 percent, and the 34 percent corporate rate to 29 percent. This would amount to a 20 percent cut in tax rates for most taxpayers, almost as large as the 23 percent cut in 1981. With \$166 billion in spending reductions, the individual rates could be 11 percent and 19 percent, with the

corporate rate at 25 percent.

Such a proposal could lead to a thorough reappraisal of the entire scope of the federal government. For example, many federal programs, such as the Economic Development Administration (EDA), Urban Development Action Grants (UDAG), Housing Development Action Grants (HoDAG), the Small Business Administration (SBA), and Community Development Block Grants (CDBG), seek to subsidize economic development. These programs do not add to our total economy. At most they merely reshuffle resources to benefit the politically favored, diverting investment away from the most efficient uses of capital indicated by the market. Many of these programs have long records of favoritism, abuse, corruption, waste, and ineffectiveness.

The public would be far less tolerant of such wasteful and counterproductive spending if offered tax relief as the alternative. The tax relief itself would far more effectively stimulate economic development. Ordinarily, these federal programs would be too small to arouse active opposition from the average person, who would have little to gain from such activism. But combining the elimination of such programs with other major spending reductions and offering commensurate tax relief could make such activism well worthwhile, leading to strong grass-roots support for the overall package.

Other subsidies to business could be challenged as well. The Export-Import Bank (which subsidizes exports) and programs for development of exotic energy sources, such as methanol, provide funding for large corporations, who are unlikely to receive much sympathy when claiming funds otherwise immediately available for broad tax relief.

Subsidies for other relatively well-off groups could also be targeted. With immediate tax relief as the alternative, the public would likely have little patience for lavish pensions for federal bureaucrats retiring as early as age 55, and military pensions paying at even younger ages. Government guarantees making education loans available to all are likely to remain popular. But would the average worker be

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willing to forego tax relief to provide subsidized below-market interest on such loans to higher income families?

Impetus to Welfare Reform

With the savings returned in immediate tax cuts, public pressure to require able-bodied welfare recipients to work for their income like the rest of us, and to limit welfare assistance to those who are unable to support themselves, could become overwhelming. The public would also have far less patience with job training programs that fail to place workers in real jobs, except for the few that probably would have found suitable jobs anyway. Billions of dollars that go to professional welfare middlemen and bureaucrats to study and counsel welfare "clients," may also be seen as unnecessary or even counterproductive spending. With immediate tax relief as the alternative, could the federal government really get away with spending \$8 billion per year on "social services"?

The prospect of tax relief could also revitalize privatization efforts. Do we really need to subsidize mostly business travelers through Amtrak and the Federal Aviation Administration? Do we really need to subsidize elite cultural tastes through public television and radio? Should the federal government be in the business of owning and operating utilities and subsidizing substantially lower utility rates for some geographic areas at the expense of the rest of the country? In an age of high tech communications, do we really need a subsidized post office? With lower tax rates dangled before the public as the quid pro quo, privatizing these and other federal programs might become politically feasible. For other programs, user fees could be charged to the beneficiaries. Why should the average worker provide subsidized coast guard services to private yachtsmen or subsidized airport services for users of private corporate jets?

Boost to Federalism

Such a program could reawaken public interest in shifting the responsibility for many current federally funded activities back to the states. The federal government currently spends more than \$100 billion per year on grants to state and local governments. Besides the major welfare programs, these funds include billions for local sewage treatment plants and mass transit monuments. If the federal spending burden for such grants were reduced along with taxes, the average citizen would have much greater control through state and local governments over the extent and nature of such spending.

Public interest could be renewed as well in eliminating unnecessary federal agencies. Now that the energy crisis has been revealed as one of Jimmy Carter's delusions, do we need to maintain a bloated Energy Department bureaucracy in perpetuity? Do we need to spend \$1 billion per year on the Interstate Commerce Commission so that bureaucrats can cartelize the nation's transportation network, raising cost to consumers?

We do need a strong national defense. But the promise of commensurate tax reductions may finally create sufficient public pressure to close the numerous outdated and

useless military bases around the country. It might create enough pressure to eliminate outdated weapons production, which continues only to placate particular congressmen with production plants in their districts. And would the public allow continued foreign aid to governments that dissipate the funds on useless projects and spit in our faces to boot?

What About the Deficit?

While the entire "spending reform" package would be deficit neutral, using spending reductions to reduce tax rates would eliminate the opportunity to use such reductions to close the deficit. But the public doesn't seem to support cutting spending simply to reduce the deficit, and Congress still has not shown any serious willingness to do so.

As Milton Friedman has long argued, the total burden of government spending is the real issue, not the federal deficit. Reducing government spending over the long term may

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sometimes entail actually increasing the deficit in the short term, as tax relief or other increased spending may be necessary to buy off a political constituency and allow permanent changes to be made.

The interest expense resulting from the deficit does, of course, add to total government spending. So long as total spending reductions are at least 10 percent larger than otherwise, any added interest expense would be offset by the additional spending cuts.

Moreover, the political dynamic behind federal debt interest is quite different from other types of spending. Federal interest expenditures involve no special interest group that will lobby to keep expenditures increasing. Politically inert interest expense will have replaced politically active programmatic expenditures.

My calculations of the possible tax rate reductions were based on static analysis, as was the revenue loss from tax reform. In practice, the reduced tax rates should stimulate the economy, leading to increased revenue, as has occurred over and over again as tax rates have been reduced over the past 10 years. The improved economy may also lead to automatically reduced expenditures for unemployment insurance, welfare, and other programs. Ultimately, spending reform may prove to be a far more effective means of reducing the deficit than an unvarnished assault on spending offering no politically attractive counterweight. ■

DEPARTMENT OF DISINFORMATION

JUST SAY YES

The People Who Recommended Marijuana and LSD

COMPILED BY RICHARD LOWRY

We can now say that marijuana does not lead to degeneration, does not affect the brain cells, is not habit-forming. . . .

Dr. James Fox, Director of the Bureau of Drug Abuse Control, U. S. Food and Drug Administration, 1966, as quoted in *Marijuana: The Facts, The Truth*, Will Ourseler, 1968

Drugs would commonly be used as a means of deepening self-awareness.

Tom Hayden, Democratic state legislator in California on life in an ideal community, as quoted in *Democracy Is in the Streets*, by James Miller, 1987

[LSD is a means of] enhancing values or expanding the self, a road to love and better relationships, a device for appreciation or a spur to creative endeavors, a means of insight and a door to religious experience.

Dr. Richard Blum and colleagues at Stanford, as quoted in *The Year of the Barricades*, by David Caute, 1988

Society should be able to accept both alcohol and marijuana.

James L. Goddard, chief of the U.S. Food and Drug Administration, as quoted in *U.S. News and World Report*, October 30, 1967

Recent research has not yet proven that marijuana use significantly impairs driving ability or performance.

National Commission on Marijuana and Drug Abuse (appointed by Congress), as quoted in *U.S. News and World Report*, April 3, 1972

Very little research has been given to the possibility that marijuana might protect some people from psychosis. Among users of the drug [marijuana] the proportion of people with neuroses or personality disorders is usually higher than in the general population; one might therefore expect the incidence of psychosis also to be higher in this group. The fact that it is not suggests that for some men-

tally disturbed people the escape provided by the drug may serve to prevent a psychotic breakdown.

There is a substantial body of evidence that moderate use of marijuana does not produce physical or mental deterioration.

Leslie Grinspoon, in *Scientific American*, December 1969

The three inevitable goals of the LSD session are to discover and make love with God, to discover and make love with yourself, and to discover and make love with woman.

...[T]he basic vision was common to all. We believed these wondrous plants and drugs could free man's consciousness and bring about a new conception of man, his psychology and philosophy.

Timothy Leary, former Harvard professor, as quoted in *The Year of the Barricades*, by David Caute, 1988

LSD and grass . . . will help us make a future world where it will be possible to live in peace.

Weatherpeople communiqué upon freeing Timothy Leary from prison, as quoted in *The Year of the Barricades*, by David Caute, 1988

[Marijuana is] a valuable pleasure-giving drug, probably much safer than alcohol but condemned by the power structure of our society.

Dr. Joel Fort, on staff of Federal Narcotics Hospital at Lexington, Kentucky, and consultant on drug addiction to the World Health Organization, as quoted in *National Review*, January 30, 1968

Out of all these many studies (and others not reviewed here), a general pattern is beginning to emerge. When a research finding can be readily checked—either by repeating the experiment or by devising a better one—an allegation of adverse marijuana effects is relatively short-lived. No damage is found—and after a time the allegation is dropped (often to be replaced by allegations of some other kind of damage due to marijuana).

Consumer Reports, March 1975

We will probably have to recognize that the transformation of consciousness and personality, whether by yoga or LSD, is basically a religious problem entitled to the same constitutional protection as freedom of worship. Our difficulty in accepting this is the inability to see that LSD enthusiasts stand today where Quakers and Presbyterians stood in the 17th century, when they were regarded perverts and lunatics and public menaces. I am sure that there were

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