

## DEFICIT SHARING

A fairly simple solution to many of the problems of older industrial cities would be to eliminate all Federal revenue sharing and grants-in-aid to state and local governments. That would chop about \$72 billion of ugly fat out of the Federal budget, permitting an equivalent reduction in Federal taxes.

Any form of revenue sharing is, of course an outrageous fraud. The Federal government has no source of revenue that doesn't ultimately come out of the hides of people who live within cities and states. Federal taxes leave people poorer; Federal borrowing competes with other borrowing and requires higher taxes in the future to service the added debts; increasing the money supply just imposes a tax on money by diluting its value.

There is no such thing as free money. Yet state and local officials still scramble for Federal dollars without bothering to ask where the money comes from. It is logically impossible for all communities to benefit from Federal aid, since some places must obviously be paying more in Federal taxes than they get back in Federal largess. But the flow of money to Washington and back again (minus brokerage fees) is sufficiently confusing to foster the popular illusion the Federal aid is spontaneously generated, like manna from heaven.

Several studies have tried to follow this shell game. The Tax Foundation, Brookings Institution and *National Journal* use different methods to arrive at broadly similar conclusions—namely, that most Northeastern and Midwestern states are substantial net losers. States like New Jersey and Illinois (but not New York) apparently pay something close to two dollars in Federal taxes for every dollar they get back in Federal "aid". The point is explicitly acknowledged in the growing controversy over Federal aid to the Sunbelt. Yet the conclusion is never the obvious one of scrapping the whole idea of regional redistribution. Instead, the call is for even more Federal grants, with more wrangling over who gets which end of the stick.

Short of civil war, it won't work. The political forces that gave rise to the existing allocation of Federal burdens and benefits will not simply be wished away. There can't really be

any objective criteria for allocating Federal funds and the related taxes, so the actual distribution is instead determined by political clout. States with Congressmen in key positions on the appropriate committees, for example, are sure to jiggle the complex formulas in a way that helps their home states.

A *Wall Street Journal* editorial (December 27) challenged the "economic foolishness" of the idea that Federal monies are flowing from the Snowbelt to the Sunbelt. Taxes on workers in Detroit may indeed flow to retired bureaucrats in Miami, said the *Journal*, but the pensioners will then "make a payment on a Chevrolet, made in Detroit, and a payment on their mobile home, made in Pine Grove, Pa." The curious implication that it makes no difference who gets the rewards from productive activity clashes violently with other *Journal* editorials, which have stressed the disincentives inherent in our system of taxing work and investment in order to subsidize leisure and consumption. It is hardly a matter of indifference if pensioners in Miami are buying cars and mobile homes with taxes extracted from the labor and capital involved in producing those cars and mobile homes.

Many regional economies have become strangled in the tangled web of strings tied to Federal aid. Matching grants are particularly perverse. The feds offer money for this or that foolish program, on the condition that state and local governments cough up part of the cost. State and local officials buy votes with programs that would never have been undertaken if the link between spending and taxes had not been disguised by Federal grants. The resulting combination of Federal, state and local taxes to finance such programs soon drives productive individuals and enterprises into other regions, or into varying degree of retirement (e.g., the civil service).

The formula for general revenue sharing is equally weird. Communities actually get extra money for having a high "fiscal effort"—i.e. for taxing the stuffing out of their citizens. Naturally, the most productive individuals in any community do not just stand there like lambs to be shorn. They leave—taking their capital and skills with them. Voting with the feet is a rare and valuable element of

wholesome competition in the provision of government-monopolized services. Yet revenue sharing is rigged to draw Federal tax dollars out of places where local taxes bear some remote relationship to the quality of government services, and send the proceeds to places where local taxes just seem to disappear.

Finally, there is the Carter Plan for giving a much larger share of Federal aid to those states and cities that are most successful in maintaining high unemployment rates. People in areas of high unemployment are said to have a "right" to public employment, which can only mean that other taxpayers have an obligation to pay their salaries.

Now, there is no question that state and local governments can and do promote poverty and unemployment through such devices as punitive taxation, building codes, rent control, environmental policies, minimum wage laws, lavish welfare and unemployment benefits, and so on. The question is why anyone would want to sub-



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sidize such idiotic policies at the expense of states and localities which are relatively sane. More aid to areas with chronic high unemployment, as President Carter has proposed, necessarily requires higher taxes on those areas which have provided favorable incentives for workers to work, for employers to employ, and for investors to invest. Taxing success and subsidizing failure is hardly the best way to reduce unemployment.

The message is not apt to be missed by mayors and governors, who can be expected to compete for the Federal "free money" by perpetuating or extending destructive policies. □

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## 95th CONGRESS—MORE OF THE SAME

The more one talks with legislators and their aides, the more one is struck by the fact that many of the issues before Congress this year will be reruns of the issues which have divided liberals and conservatives for the past several sessions. The evidence of fresh thinking or new departures is minimal at best.

Congress has been wrangling about common situs picketing, postcard registration, revising the Hatch Act, surface mining regulation, food stamps, price controls and raising the minimum wage for the last several years. Once again, these issues dominate speculation about what Congress will be considering in the first few months of this year.

Most of these issues represent extensions of Federal power which have been voted by Democratic majorities in Congress and vetoed by a Republican president. With a Democrat in the White House, Hill Democrats apparently feel they can get these new Federal programs enacted without fear of veto. But, aside from whatever initiatives Carter may pursue in his first 100 days (probably not very dramatic) the issues with which Congress will amuse itself are likely to have a familiar ring for a while.

## OSHA IN PERIL?

One of the most encouraging recent developments was a decision in December by an Idaho District Court to declare that Occupational Health and Safety Administration (OSHA) inspections are unconstitutional under Fourth Amendment protections against unlawful search and seizure. The Court was hardnosed about it. It won't even let OSHA inspect *with* a warrant, since the legislation authorizing OSHA didn't mention warrants.

Several subsequent legislative developments have ensued. Both Congressmen from Idaho, Steve Symms and George Hansen, are Republicans who at least recognize the word "libertarian" and are sometimes sympathetic. They have introduced legislation to abolish OSHA. In addition Hansen has introduced a drastic reform measure (which has some chance of passage) and a resolution (H. Con. Res. 48) to forbid OSHA inspections nationwide

until the court case begun in Idaho is resolved. After all, if OSHA can't inspect in Idaho, under court order, inspection anywhere else would violate equal protection.

You can get information about anti-OSHA legislation from either Symms or Hansen (Washington, DC 20515) or from Gary Jarmin at the American Conservative Union (422 First St., S.E., Washington DC 20003). Write your Congressman too, please.

The Idaho case will be appealed to the Supreme Court, of course. Who knows, it might even get a favorable hearing there.

## DEREGULATION BEST LIBERTARIAN ISSUE?

Perhaps the most promising avenue for libertarian legislative initiatives in the coming year will revolve around the issues of deregulation and de-bureaucratization of the Federal government. Carter has a rhetorical commitment to some kind of "rationalization" of the government, but whether this means anything close to deregulation remains to be seen.

Support is still in place for such proposals as "sunset" legislation which would require Federal bureaus to be phased out unless a thorough periodic review justified their continued existence. Carter is a proponent of "zero-base budgeting" which would require agencies to justify their entire budget instead of assuming that only additions to last year's budget need defense. Ted Kennedy is still for drastic reform of airline regulation.

All these proposals contain pitfalls for libertarians. Carter may have used zero-base budgeting in Georgia, but the budget continued to expand. Careful, informed and persistent pressure will be needed to make any review process under "sunset" legislation really meaningful. These reforms could well serve as a cosmetic move to reduce the pressure on agencies under criticism. We must be careful not to get trapped into endorsing "reforms" which will do little good. But there is sympathy for these kinds of reforms, and we can use this opinion climate to introduce libertarian ideas and to "radicalize" existing reform proposals.

## DRAFT AGAIN?

Perhaps it's jumping the gun, but I

keep hearing murmurs about attempts to eliminate the "volunteer" army and reinstitute the draft, perhaps under some sort of full-fascist system whereby young men and women could choose to serve for two years with a domestic bureaucracy. Government agencies keep making studies which purport to show that the volunteer Army is more expensive than had been anticipated, and maybe the idea isn't working out so well.

We need to keep pointing out two fallacies in such arguments. First, it's just that taxpayers bear the full cost of paying personnel in the armed services rather than having cut-rate slave labor, a system which steals two productive years from a young person's life. Second, we must point out that a large portion of the personnel costs in the military are due to pension obligations. This system needs a good, hard look. There is no reason that the taxpayers should pay a full salary for life to individuals who retire from the military at age 40. Government pensions across the board are outrageously expensive. We need to focus attention on the exorbitant cost of government pensions rather than allowing people to use this cost as a vehicle for attacking the concept of a volunteer military.

## DISSENTING

The American Enterprise Institute has recently reprinted an excellent pamphlet, "Dissenting From Liberal Orthodoxy," by black economist Thomas Sowell. Copies available for 35 cents from AEI (1150—17th St., N.W., Washington, DC 20036).

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## LUCIFER'S LEXICON by L. A. Rollins

*hostile*, adj. Pertaining to or characteristic of a host.

*infallibility*, n. The error of believing oneself incapable of error.

*junior college*, n. In California, an institution of hire education, where one can major in aviation welding, inhalation therapy or turf grass management.