

Cato Institute Policy Analysis No. 13: The Reagan Budget: The Deficit that Didn't Have to Be

August 10, 1982

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Executive Summary

The stalemate over the federal budget has given us all plenty of time to consider the budget in its entirety. The simple fact remains: The budget is too large. The federal government is too expensive and too powerful. That point, however, seems to have been lost in congressional discussions. Members of Congress and the administration are charging "spendthrift" or "callous to the poor" -- and all for what? For two or three percent of the federal budget. The narrow parameters of the budget debate are rarely noted; it's more interesting, perhaps, to portray it as a titanic struggle over fundamental issues, even though the actual point of dispute is whether to increase the defense budget by 6.5 percent or 8 percent (plus inflation) and whether to increase transfer payments in July or October.

The problem, unfortunately, is larger than that. If we're lucky, 1983 expenditures will come in at just under \$800 billion. At that rate, expenditures will have risen \$143 billion in just two years. The following chart shows the growth rate of federal spending in the past 20 years.

Year	Federal Spending	Percent Change	Percent Change Since 1961
1961	\$97.8	-	-
1965	118.4	21	21
1969	183.6	55	88
1973	245.6	34	151
1977	400.5	63	310
1981	657.2	64	572
1982 est.	742.3	13	659
1983 est.	827.0	11	746

(Source: Budget of the United States Government, 1983; Congressional Budget Office estimates)

Spending has already risen more than 500 percent since 1961, and it will undoubtedly rise more than 700 percent by 1983. The increase has been continuous in both Democratic and Republican administrations, with the budget roughly doubling under Kennedy-Johnson and more than doubling again under Nixon-Ford. The 64 percent increase in four years under President Carter was only slightly more rapid than the 117 percent in eight years under his Republican predecessors. Of course, inflation accounts for some of the rise, as Table 2 demonstrates.

Table 2

Year	Federal Spending (constant 1981 Dollars)	Percent Change	Percent Change Since 1961
1961	297.3	-	-
1965	341.3	15	15
1969	455.5	34	53
1973	502.6	10	69
1977	601.1	20	102
1981	657.2	9	121
1982 est.	690.6	5	132
1983 est.	719.7	4	142

(Source: Budget of the United States Government, 1983; Congressional Budget Office estimates; Bureau of Labor Statistics)

While the rise in spending seems not quite so dramatic when we account for inflation, the fact remains that federal spending has more than doubled in real terms since the Kennedy administration, and the increases are not significantly different today from their earlier levels. Indeed, the real increases between 1981 and 1983 are likely to be larger than the increase from 1980 to 1981, President Carter's last full budget.

In any case, it is not altogether clear that the government should be given the benefit of the doubt in this issue by adjusting for inflation. A government, after all, that demands more revenue because inflation has eaten away its spending power is rather like a man who kills his parents and asks the court for mercy on the grounds that he is an orphan. Government, through its monetary policies, causes inflation, and most people pay the price. If government actually saw its spending power decline by the rate of inflation, we might see a quick end to inflation.

The point of these depressing numbers is simply to illustrate the severity of the problem -- to put it in perspective. There has been a mammoth increase in the size and power of the federal government in the last 20 years (which is certainly not to say that the federal government was small enough in 1961, but only to show relatively rapid recent growth).

Today the situation continues to deteriorate. While the average American's standard of living has been dropping for the past five years, government spending in real terms is still growing. Budget plans proposed by the House and Senate Budget Committees call for even more revenue and expenditures than President Reagan's proposal.

Soaring military spending for overseas commitments and the refusal to make significant cuts in most major domestic programs have created the worst deficits in American history. The administration optimistically projects deficits of \$104 billion in 1983 and \$84 billion in 1984, allowing itself to at least claim to be "on the right track." The Congressional Budget Office offers a somewhat bleaker picture: deficits of \$116 billion in 1983 and \$105 billion in 1984. One of the most disturbing aspects of the situation, of course, is that the estimates are getting worse. Last September, for instance, the Office of Management and Budget predicted a 1983 deficit of \$72 billion. Its April prediction was \$102 billion. At the end of July Treasury Secretary Donald Regan offered a projection of \$110-\$114 billion.

The political reaction to all this would be amusing if it weren't so serious. Liberal Democrats who scoffed at deficits for decades, blandly reassuring us that "we owe it to ourselves," have suddenly discovered the virtues of a balanced budget. Every night they appear on the network news to denounce the Reagan deficits. However much we may speculate on the political motivation behind their newfound concerns, there is at least the possibility that they have gotten older and wiser. Unfortunately, we can't say that for the conservatives who have suddenly lost their concern

over deficit spending. Some of the most respected conservative economists in America, who happily went to work for the most conservative president in many years, have found themselves repudiating their lifelong positions. William Niskanen, a member of the Council of Economic Advisers, told a December 1981 conference sponsored by the American Enterprise Institute that "in general, concern about the deficit has been misplaced....There is no direct or indirect connection between deficits and inflation." The Council's chairman, Murray Weidenbaum, said that the real concern was not the size of the deficit but its gradual reduction.

Unfortunately for the White House, the public seems not to be buying its new arguments. Interest rates, which reflect the expectations of millions of borrowers and lenders, remain at historically high levels. The president misunderstands the nature of the economy when he appeals to a small number of "Wall Street leaders" to bring interest rates down. As long as those millions of borrowers and lenders anticipate that excessive deficits will lead either to the crowding out of private borrowers or to monetization and inflation, even dedicated Reagan supporters on Wall Street would not be able to force interest rates down. The stock market, which similarly reflects the expectations of millions of traders, has also been in the doldrums throughout the budget stalemate.

People around the country seem to understand what no one in Washington will admit: The budget is out of control. The growth of government is out of control. We seem to have lost our perspective in the last 20 years, as government has taken on more and more functions, and members of Congress have made more of the budget "uncontrollable" in an attempt to absolve themselves of blame for its growth. The program proposed in this paper is not just a list of budget cuts. It is something that needs to be done to solve our national crisis.

With all the heated arguments about Reaganomics in the last year and a half, the following may seem a startling assertion, but it is true: There is no Reaganomics. There is a new style of rhetoric in Washington, a lot of talk about tax cuts, getting the government off our backs, reducing the size of government. But it is all talk. Taxes and spending are going to be higher every year. The rhetoric is different. The policies are the same.

The change that we need in order to reduce the size of government and get the economy growing again is to balance the federal budget at a lower level.

At least in the short run, the deficit can be reduced by either budget cuts or tax increases. However, the recent growth in federal spending has been accompanied by tremendous increases in the individual tax burden.[1] People have a right to spend their own money, a right which is being increasingly denied them as inflation moves them into higher tax brackets. Taxes have also clearly depressed the performance of the economy in the last decade as profits and incentives were reduced. Moody's Investors Service recently warned that raising taxes was not the way to balance the budget:

Efforts to balance the budget via higher income taxes could have a devastating effect throughout the economy. The expected drop in interest rates could well be meaningless in the long run if the economy's underpinnings continue to deteriorate -- as we would expect them to do under greater tax burdens....The worst-case scenario might be that higher taxes would substantially deepen the recession and result in even greater budget deficits, thus leading to economic shambles.

If we reject higher taxes, then we have only one alternative for reducing the deficit: spending cuts. So far, most of the talk about spending cuts in Washington has been just that: talk. The Reagan administration's own prediction is that federal spending will increase by about \$73 billion in 1982 and by another \$37 billion in 1983. Spending in FY 1983, the first real Reagan budget, will be about \$110 billion higher than President Carter's last full budget. Outside estimates, of course, are for even higher spending. Though the headlines have been full of proposed cuts the last few months, Congress's First Budget Resolution calls for even higher spending than in the Reagan budget.

What we need, however, are budget cuts. For the sake of both individual freedom and economic prosperity, we need to reduce the size and power of the federal government. That can only be done by making real and significant cuts in federal spending.

Though no member of Congress seems willing to propose real budget cuts, there is evidence of public support for such a move. A recent Sindlinger and Company poll showed that 40 percent of the public thought the federal budget had

been cut "too little" with only 19 percent saying "too much." [2] And a 1980 poll by the Opinion Research Corporation asked people, "How likely do you think it is that the overall size and cost of U.S. government can be cut substantially?" Twenty-six percent answered "very likely" and 31 percent said "somewhat likely." Asked how much the then projected \$616 billion for 1981 could be cut, 29 percent said at least \$100 billion and 33 percent said \$50 billion. [3] One would assume that the numbers would be at least as high for a budget that is now approaching \$800 billion.

A Proposal for Budget Cuts

This paper attempts to lay out some \$209.4 billion in recommended budget cuts. Under all but the most extreme deficit projections, this would be enough to balance the budget and cut taxes substantially. By doing so, we would be giving people control over more of their own money, thereby beginning the urgent process of revitalizing our economy.

The spending cuts recommended in this paper can be made without any significant adverse effects. In fact, most of the programs to be cut do positive harm to the American people. We would be better off without them even if they cost us nothing in taxes. These include programs that restrict economic growth and competition, close off the economic system, interfere with our civil liberties, or otherwise damage our society.

Before beginning the list of cuts, let us identify those that will not be proposed in this paper. Because the Cato Institute has analyzed the military budget in a separate paper, [4] which demonstrates that defense of other countries currently accounts for some 70 percent of the \$258 billion total authorizations, this paper will not deal with military spending. That is by no means to imply that the defense budget should not be included in a budget-cutting program. Clearly, President Reagan's military buildup is a part of our current fiscal problems, and a reorientation of our foreign policy from the world policeman role to defending the United States would allow us to make major budgetary savings while actually increasing the safety of Americans.

There will be no exhortations in this paper to eliminate "waste, fraud, and mismanagement." Of course the federal government is full of waste, but finding and eliminating it is another matter altogether. Even if David Stockman were to make unannounced visits to every federal office, it would be difficult to discover the real waste.

Of course, there are programs that by any reasonable standard should be considered waste -- from the 3 million trips taken by government employees for which the General Services Administration can't find a purpose, to the FDR Memorial Commission that has spent 25 years trying to decide on a suitable memorial for a president who said he only wanted a clump of rosebushes.

But a lot of the waste is inherent in government. A non-market institution that gets its income not by voluntary exchange but by confiscation or money creation simply has no mechanism for efficiency. With no profit incentive, no way to measure the real costs of different decisions, no risk of going out of business, it cannot rationally allocate its resources. Economists have long understood that the fundamental economic problem of socialism is the inability of central planners to calculate, i.e., to allocate resources. [5] What is not so well understood is that any government planner, even if he is only planning his own budget and not a national economy, faces the same problem. [6] Without the price signals of supply and demand, it is impossible for him to calculate the real relative costs of various courses of action. He has no incentive and effectively no ability to be efficient at achieving the professed purposes of his agency. Thus, waste quite literally is inherent in government, and the only way to eliminate it is to eliminate programs.

The following list of recommended budget cuts certainly does not represent all the cuts that could be made. Undoubtedly there are other equally undeserving programs. But this list will illustrate at least the magnitude of the problem and point in the direction of significant budget reductions. All budget figures are taken from Budget of the United States Government, 1983, and reflect FY 1983 outlays.

In order to give the reader a clearer picture of just what the federal government does with \$750 billion or so, programs are grouped not by department or by government-designated functional categories but -- wherever possible -- by their real purpose or impact. It is sometimes difficult to classify a particular agency or program in just one of these categories. The Occupational Safety and Health Administration, for instance, might be regarded simply as a regulatory agency that raises costs to business with little result. On the other hand, like many regulatory agencies, it might be categorized as protection for big business, since its rules are more burdensome on small than on large businesses, and it

thus helps to drive small competitors out of business. However, in another study I decided to call it an anti-civil liberties agency since its role as inspector, prosecutor, judge, jury, and bailiff is a concentration of power unprecedented in Anglo-American jurisprudence.[7]

It should be noted that the arguments given in each of the following sections are not intended to be a definitive critique of the program in question, only to indicate the nature and direction of the program.

The following, then, is a partial list of recommended reductions in the president's proposed 1983 budget. (The following figures are in millions.)

I. Subsidies to Business	
Economic Development Administration	291.7
Regional development programs	11.9
Minority Business Development Agency	60.0
U.S. Travel and Tourism Administration	5.0
Community Planning and Development	3,986.7
Loan guarantees: Chrysler and New York	1.5
Small Business Administration	78.2
	4,435.0

President Reagan says he wants to get chiselers off welfare, so we'll start there. All of these programs provide welfare for businesses, large and small, at the taxpayers' expense. Unlike the fabled welfare queen, however, these companies are not breaking the law; they're just collecting what the government makes available.

This category by no means lists all the subsidy programs in the budget. Others may be found below under such categories as export subsidies, price supports, tariffs, research, other services to business, and the like. Even so, there are so many subsidies to business and agriculture in the budget that it would be difficult if not impossible to find them all. Many of them are hidden under pleasant-sounding names like the Economic Development Administration, and most of them are sold to the public as something entirely different. When the Carter administration proposed a small cut in federal spending on school meals, for instance, who made the loudest protest? Kellogg, Sunkist, Chiquita Brands, Archer-Daniels-Midland, and Keebler. This spring the Navy decided that Lockheed's P-3C antisubmarine aircraft was not worth the money and canceled its planned purchase. Lockheed, along with two vociferous fiscal conservatives, John Rousselot and Barry Goldwater, Jr., appealed to President Reagan, who approved the purchase of 26 planes at a cost of \$1.6 billion. That will appear in the budget as a defense expenditure, but it is a business subsidy just as surely as the Chrysler bailout.

Even leaving out items like these, we can identify some \$50 billion in business subsidies in the 1983 budget. The question, of course, is why we should oppose such subsidies. Doesn't government assistance to business help the economy? In a word, no. Such government programs only divert resources from efficient businesses to inefficient companies. Companies that produce something consumers want prosper in a free market. And the same companies that are benefiting consumers are hurt by government subsidies, which generally go to businesses that do not serve consumers well. Subsidies distort production away from consumer needs and toward the products and services favored by government. Money is allocated not by supply and demand but by political pull .

How do these programs subsidize business? The Economic Development Administration offers loans, loan guarantees, interest rate subsidies, grants, and other assistance to businesses and local governments. The Small Business Administration assists a fraction of one percent of the nation's small businesses, and political pull is often the deciding factor. The Community Planning and Development Program gives grants to state and local governments, which then hand out funds to corporations for development projects that should be paid for by the businesses involved.

The items in this category demonstrate an important lesson about the federal budget: The real cost of many programs

doesn't show up in the budget. The real threat to the taxpayers from the SBA, for instance, is not direct budgetary outlays but the \$12 billion in outstanding loans and loan guarantees. The \$1.2 million in direct outlays may seem like a small price to pay for keeping Chrysler alive -- except to those who favor a competitive economy -- but the real cost is the \$1.2 billion in federally guaranteed loans. Because the government has allocated \$1.2 billion in credit to Chrysler, which was not considered credit worthy by the market, an unknown number of other businesses and individuals will be unable to borrow that money.

II. Export Subsidies	
Foreign Assistance Program	1,028.0
Foreign Agricultural Service	79.5
Export-Import Bank	1,917.9
	3,025.4

When other countries tax their citizens to subsidize exports, we call it dumping and impose penalties on them. When we finance U.S. exports, we call it "stimulating mutually beneficial trade relations with other countries." [8] The Export-Import Bank makes loans and guarantees private loans to foreign countries, which then use the funds to purchase goods from specified American companies. Two-thirds of these loans and loan guarantees, which now amount to a total of almost \$30 billion, benefit seven major companies. American exporters should compete in a free market, selling their goods to willing buyers and borrowing funds at the same interest rates other companies pay. Export subsidies distort the capital market, allocate resources to non-productive uses, and benefit politically powerful companies at the expense of those that satisfy consumers.

III. Price Supports and Other Restrictions on Competition	
Agricultural Stabilization and Conservation Service	225.7
Commodity Credit Corporation	1,850.
Agricultural Marketing Service	471.
Packers and Stockyards Administration	8.6
GSA National Defense Stockpile	120.0
	2,676.

These agencies keep prices high mainly for food, by, among other things, maintaining price supports for commodities, imposing acreage allotments and market quotas for other commodities, purchasing and storing some commodities for present and future market manipulation, paying farmers not to grow some crops, and regulating and subsidizing agricultural exports. The Commodity Credit Corporation, for example -- which some members of Congress claim will actually spend \$7 billion, not \$2 billion -- enriches food producers at the expense of food consumers. Milk price supports, combined with the Agricultural Marketing Service's Milk Market Assessment Orders, keep the price of milk high. One way to help the poor would be to abolish all these agencies and let food prices be set in the free market instead of kept artificially high. Farmers could protect themselves from the vagaries of the weather and the marketplace by purchasing insurance on the value of their crop or by selling their crops in a futures market. That way the much maligned "speculator" takes the risk instead of the farmer. The National Defense Stockpile keeps the price of such commodities as gold and silver high and subjects commodities markets to government manipulation.

IV. Government-Sponsored Research	
Agriculture Research Service	465.1
Cooperative State Research Service	228.6
Statistical Reporting Service	53.4
Economic Research Service	40.4
National Oceanic and Atmospheric Administration	853.7

Science and Technical Research	109.2
HHS research, demonstrations, and evaluation	30.0
Office of Water Research and Technology	4.6
Bureau of Mines	136.1
Bureau of the Census	157.8
	2,078.9

One of the most fundamental truths of economics is that if something is free, more of it will be demanded. People will undoubtedly come forward and explain why each of the above programs is needed. Each of them provides research that is useful to business, agriculture, mining, or some other interest group. But if the information is really useful, the businesses and individuals involved will pay for it; and if there is no one willing to pay for it, the information probably isn't really worth its cost. Of course there is a need for weather forecasting, and there are private groups -- shipping companies, the news media, agribusiness, commodities traders, private weather forecasting firms, scientific organizations, and others -- who will pay for it. The Census Bureau's only constitutional function is to count citizens for the apportionment of Congress. We should discontinue its market surveys for business and allocate it only \$1 million a year in between its decennial head counts. In short, those who benefit from a service should pay for it -- not through "user fees," which leave the size of government relatively unaffected, keep the service in the hands of an inefficient government instead of efficient private entrepreneurs, and never reflect true costs anyway -- but through free-market prices, which truly reflect the value of goods and services.

V. Other Services to Business	
Federal Crop Insurance Corporation	318.0
Soil Conservation Service	555.8
Rural Electrification Administration	41.7
World Agricultural Outlook Board	1.5
Extension Service	308.5
Economic and Statistical Analysis	33.0
U.S. Geological Survey	519.9
	1,778.4

Our analysis of these programs is the same as for government-sponsored research. If these services are valuable, let those who benefit pay for them. The increased efficiency of the private sector would presumably reduce the cost significantly. And if they are not really valuable, then resources should not be wasted on them. If farmers want insurance for their crops -- as they probably do -- they should pay for it themselves, not shift the costs to the taxpayers. Rural electric co-ops today are giant public utilities with monopoly privileges, exclusive territory, and all the trappings of other utilities. Providing them with loans and loan guarantees at rates not exceeding five percent is an outrageous subsidy. They should have to compete with other borrowers in the capital markets. Landowners should pay for their own conservation and flood prevention programs. Energy and mining companies, the tourism industry, and other interested parties likewise should pay for USGS's geological and mineralogical research.

VI. Housing Subsidies	
Farmers Home Administration	3,723.2
HUD Housing Programs	7,666.7
Government National Mortgage Association	1,115.5
College housing loans	24.9
	12,530.3

We can only hope that this category will not be even larger by the time this paper is published. Congress passed yet another bailout for the housing industry as part of H.R. 5922, the Urgent Supplemental Appropriations Bill (though the President's veto has killed it at least for the time being). From the rhetoric heard during the debate over that bill, one would think that government never did anything for the housing industry. In fact, the government has subsidized the industry directly and indirectly for years. This policy has distorted investment and altered the nature of the housing industry from what it would have been in a free market. Some \$250 billion in housing loans is currently insured or guaranteed by the federal government.

Once again, we see the unintended consequences of government action. The government began with a noble goal: enabling middle-class families to afford their own homes. (Of course, another goal -- increasing the profits of realtors and homebuilders over what they could legitimately earn -- may well have been more important in implementing the policy.) But the government's massive financing subsidies, distortive tax policies, and inflation created a housing industry that couldn't exist without a continuation and even acceleration of those policies. Now with interest rates high and the subsidies being leveled off, the industry can't maintain its former output. So that leaves two choices: Stop the subsidies and inflation, which would cause real estate prices to drop significantly and hurt those who had counted on constantly increasing prices; or continue to increase inflation and subsidization, putting off the day of reckoning.

It is time to acknowledge that government has mismanaged the housing industry, and to remove the subsidies from the industry. This will cause pain, but it must be faced sooner or later.[9] And the government can mitigate the effects by ending the regulations and restrictions that limit building and raise the cost of new housing. The government should transfer federally owned housing units to the private sector, either by selling them to investors or simply by declaring each unit to be the property of its current tenants. In either case, we would probably find that owners take better care of their property than either governments or tenants of public housing, who tend to take on the irresponsible characteristics they are assumed to have by paternalistic government agencies.

VII. Energy Subsidies	
Energy Research and Technology	
Administration	2,787.9
Commerce energy programs	318.9
Solar Energy and Energy Conservation Bank	15.0
Interior energy programs	1,095.0
Energy security reserve	35.5
Biomass energy development	3.0
Petroleum regulatory activities	21.2
Federal Energy Regulatory Commission	30.7
	4,307.2

While the Reagan administration has made a good start by decontrolling the price of oil, there is still a long way to go toward a free market in energy. "Abolishing" the Department of Energy by distributing its functions to other branches of government misses the point. DOE should be abolished so that consumers can determine energy policy in a free market. But these massive subsidies, particularly to fossil fuels and nuclear power, distort the market and direct funds into politically favored energy programs instead of market-determined areas.

In addition, we should repeal continuing energy regulations. We have seen the beneficial effects of oil price decontrol -- instead of the skyrocketing prices that were predicted, we have actually seen prices falling, and they now appear likely to remain stable for the rest of the year.[10] Natural gas prices should be decontrolled, and the Federal Energy Regulatory Commission should be abolished. We should acknowledge that price and allocation controls were a mistake, and terminate the continuing effort to prosecute alleged violators of such regulations.

Finally, we should abolish or transfer to the private sector the Strategic Petroleum Reserve. (Note that some \$3 billion

in federal spending on the SPR has been transferred off-budget and is not reflected in the above figures.) Betraying its lack of sympathy with a free market, as opposed to its sympathy for business, the administration proposes to expand its stockpiling of crude oil because "commercial enterprises have no economic reason to achieve stockpile levels that are optimal from a national perspective." On the contrary, as Professor Paul MacAvoy of Yale observes, companies have a strong incentive to stockpile supplies when prices are not controlled: "After all, enormous amounts of money can be made selling inventories during a period of shortage. Private stockpiles will work better than one run by a Federal agency unable to tell the difference between a national security crisis and a transient shortage." [11]

VIII. Tariffs and Protection	
International Trade Administration	156.1
Customs Service	619.9
International Trade Commission	19.7
	795.7

The real cost of these agencies to the American economy is not the tax dollars spent on them but the restriction on freedom of choice and distortion of the economy they create, although \$800 million of taxpayer's money is not inconsequential. Almost all economists, regardless of school or political persuasion, agree that tariffs and other restrictions on international trade harm the country imposing them. [12] They raise prices to American consumers, protect domestic industries from the rigors of competition, create ill will among our trading partners, interfere with the international division of labor, misallocate economic resources, and lower our standard of living. We should remove all barriers to international trade and abolish these agencies.

IX. Absolving Business of Responsibility	
Office of Surface Mining Reclamation and Enforcement	146.3
Nuclear Regulatory Commission	450.5
Office of the Federal Inspector for the Alaska Natural Gas Transportation System	28.9
	625.7

One of the less obvious ways that government subsidizes business is by absolving companies of their responsibilities. That is the primary function of the above agencies. The Office of Surface Mining Reclamation and Enforcement subsidizes reclamation of stripmined lands. The NRC conducts research on nuclear safety. The Alaskan pipeline inspector's office is charged with protecting the environment during pipeline construction. All these functions should be paid for by the companies involved. If lands are to be reclaimed, the task should be undertaken by the landowner. Nuclear plants should be held strictly liable for any damage they do, not protected by the Price-Anderson Act and the NRC. The companies building the pipeline should be held responsible for any damage to adjacent lands owned by third parties. The best environmental safeguard is not slow and costly regulation but strict private property rights enforced by the courts. [13] All individuals and companies should be held responsible for the consequences of their actions.

X. Land Use	
Office of Rural Development Policy	3.4
New Community Development	33.4
Neighborhood Reinvestment Corporation	15.5
Appalachian Regional Development programs	289.0
National Parks: land acquisition	71.7
Water Resources Council	1.0
Bureau of Land Management	1,230.1

National Capital Planning Commission	2.2
	1,646.3

The federal government is by far the largest landowner in the United States. It owns, manages, or controls about one-third of the total U.S. land area, with the percentage ranging as high as 86 percent in Nevada and 95 percent in Alaska. Government ownership of land keeps Americans from being able to own land and results in what environmentalist Garrett Hardin calls "the tragedy of the commons" -- the misuse of publicly owned resources. This land should be rapidly transferred out of the hands of the government.[14] Other agencies listed above interfere with private owners' use of their property. The people of Appalachia, urban neighborhoods, new community developments, and other areas should make their own land-use decisions without government interference.

XI. Water Projects	
Corps of Engineers	2,257.8
Bureau of Reclamation	2,257.8
	3,204.0

The Corps of Engineers has been accused of operating on the philosophy of "if it flows, dam it." It has built water projects as political favors for powerful members of Congress and as public works projects. Individual rights, private property, and environmental considerations are overridden. Needed flood control programs can be constructed and operated privately. Responsibility for dams and flood control projects should be transferred to the private sector. The Bureau of Reclamation provides taxpayer-subsidized irrigation for western farmers. It was revealed recently that many farms of over 160 acres were receiving irrigation in violation of the law. Instead of using this fact as an excuse to break up large, efficient farms, we should transfer Bureau facilities to the private sector and let those who receive irrigation pay for it on a voluntary basis.

XII. Natural Resources	
Forest Service	2,186.9
Fish and Wildlife Service	386.3
	2,573.2

Both these agencies attempt to protect natural resources, but such government attempts almost always fail. The Fish and Wildlife Service operates wildlife refuges and enforces the Endangered Species Act. The "tragedy of the commons" holds true for wildlife as well as land because without ownership there is little incentive for users to conserve.[15] The Endangered Species Act actually increases depletion of the protected species by outlawing its cultivation for sale.[16] Wild life will be better protected under a system of private ownership and control. Similarly, government ownership and control encourage the depletion of our timber reserves. There is no incentive for timber companies to practice good conservation techniques on lands temporarily allocated for their use.[17] Privately owned forests will be better maintained than those owned by the government.

XIII. Transportation	
Federal Railroad Administration	1,280.8
Urban Mass Transportation Administration	3,155.0
Federal Aviation Administration	3,375.2
Maritime Administration	547.5
Federal Maritime Commission	10.3
Interstate Commerce Commission	56.3
U.S. Railway Association	3.0

Civil Aeronautics Board	76.9
DOT: Research and special programs	24.0
	8,529.0

Few areas of the national economy have been as heavily regulated, subsidized, and directed as transportation. While some of the results are obviously negative, this area clearly illustrates the basic economic principle that we cannot know what would have happened in the absence of intervention. We can speculate as to the forms of transportation that might have developed in a free market, but we cannot know. Nevertheless, we do know some of the results of intervention. Until deregulation, the CAB kept prices high for air travel consumers. In its early days the ICC protected the railroads; then, captured by trucking interests, it subsidized and protected trucking and almost destroyed the railroads. Rather than deregulate transportation, the federal government stepped in to subsidize or take over the railroads. Today, through the Federal Railroad Administration's subsidization of Amtrak, taxpayers pay for a national railroad system that provides adequate service only in the northeast corridor.

Government regulations also distorted and stifled the development of the urban transportation system; then the federal government intervened to subsidize the construction of mass transit systems. Such systems are costly and often ill-designed to serve a growing, changing city.[18] Cities using UMTA funds must conform to federal regulations and specifications, making equipment expensive and creating a situation where a city bus -- that is, an Advanced Design Transit Coach -- costs \$135,000 more than necessary.

The maritime agencies are nothing less than a national scandal. They exist only to regulate, subsidize, and protect the American shipping industry. In addition, there is no reason that taxpayers should pay for the operation and maintenance of airports, particularly those in the Washington area, since airports are generally used by more affluent travelers who can pay for their own transportation. Aviation safety would be better served by transferring air traffic control and safety certification to the private sector. Instead of an FAA surviving from crisis to crisis and lagging well behind state-of-the-art technology, air travelers deserve the innovation, flexibility, efficiency, and security of private service.[19]

We should terminate federal subsidization and control of all forms of transportation and allow consumers, acting voluntarily in a free market, to choose the kinds of transportation that would best meet their needs.

XIV. Highways	
Territorial highways	7.8
Access highways	8.0
Appalachian highway	4.0
Miscellaneous highways	49.9
Federal aid highways (75% cut)	6,019.5
	6,089.2

The interstate highway program is nearly complete, and many experts believe that more roads than necessary have already been built. The biggest transportation subsidy of all, of course, is government subsidization of highway construction, which has had a tremendous impact on the nature of our transportation system. It seems likely that 75 percent of the proposed 1983 outlays could be cut. Highways for recreational areas and for Appalachia should be paid for by the people involved, not by taxpayers.

XV. Interference in Labor-Management Relations	
Labor-Management Services Administration	37.6
Federal Mediation and Conciliation Service	21.0
National Labor Relations Board	131.3

National Mediation Board	3.9
	193.8

The federal government should not interfere in the collective bargaining process. If either employers or unions violate the personal or property rights of others involved in a labor dispute, they should be punished under the appropriate criminal statutes. But the government should not force employers to bargain with unions or force unions to end a strike before they feel their grievances are settled. Unions and businesses should be free to pursue their own negotiations without government interference.

LMSA enforces the Employee Retirement Income Security Act, which has raised the overhead costs of pension plans tremendously and caused many businesses to terminate their plans rather than comply with its regulations. Employees would be better served by a repeal of this act.

XVI. Discrimination Against Labor

Employment Standards Administration 112.1

ESA enforces minimum wage laws and the Davis-Bacon Act prevailing wage standard, both of which discriminate against unskilled workers, create unemployment, and have particularly damaging effects on minority firms and workers. ESA also enforces the demeaning affirmative action laws, which have no place in a society that has renounced the practice of using race as a determinant for government action.

XVII. Regulation	
Justice Department antitrust division	45.8
Mine Safety and Health Administration	132.7
National Highway Traffic Safety Administration	184.3
Commodity Futures Trading Commission	22.5
Consumer Product Safety Commission	32.2
Federal Trade Commission	61.1
National Transportation Safety Board	17.3
Occupational Safety and Health Administration	149.7
Occupational Safety and Health Review Commission	6.4
Securities and Exchange Commission	83.9
	735.9

It is always assumed by the advocates of regulation that the economy is one great conflict between business and consumer, in which the consumer is clearly outgunned. In fact, however, a free economy is a complex series of interrelationships ultimately ruled by consumer preferences. It is consumers who decide what products will be produced, what companies will prosper, what companies will fail.[20]

Of course, consumers need protection against fraudulent or dangerous products. But the best protection is the enforcement of strict liability and private property rights. Such institutions as consumer agencies and magazines informing consumers about products and services are an important part of a free marketplace. Regulatory agencies are expensive, cumbersome bureaucracies that violate individual rights without even doing a good job of protecting consumers from abuse. Strict enforcement of common-law fraud prohibition would serve consumers better.

Unfortunately, regulation is often advocated for worse reasons than a misunderstanding of economics. Businesses often support regulation as a way of constraining their rivals or upstart competitors. The Interstate Commerce Commission is quite popular with the truckers it protects from competition. Antitrust laws are often used by businesses to defeat their

competitors in the courts when they have failed in the marketplace. Regulations requiring "health and safety standards" and the like -- metal doors, heavy insulation, commercial-grade building products -- are supported by the companies that make them and the skilled unions that install them. In addition, there are groups in society who seek to gain political power for themselves by setting up business as the enemy and convincing Congress, and sometimes the American people, that the free market cannot work without government intervention. They gain control over resources, then, not by satisfying customers and earning money but by politically increasing their control over other people's property.

Despite what many people believe, the particular impact of regulation is not usually to help the powerless at the expense of the powerful. Rather, most regulation ends up hurting those who can least afford it. Regulations have made the business world a closed preserve, guarded from unreliable newcomers and cost cutters.

Federal safety agencies, like OSHA and MSHA, can at best only force workers to accept part of their total compensation in the form of increased safety rather than increased wages; but the workers might prefer less safety and higher wages, a determination that can only be made in the free market.[21] In any case, studies have shown that OSHA has had no effect on worker health and safety.[22] Indeed, some experts have argued that OSHA actually decreases safety because unions and employees now expect OSHA to insure safety and thus are less careful than they were before. Finally, OSHA presents serious civil-liberties problems since it combines the duties of inspector, prosecutor, judge, jury, and bailiff in one agency, a concentration of powers otherwise unknown in Anglo-American jurisprudence.

Regulations of the FTC and CPSC interfere with free trade among individuals, raising prices and reducing consumer choices. Real consumer protection would expand the choices available to consumers, not narrow them. The Securities and Exchange Commission presents serious First Amendment problems, illustrated particularly in its moves against investment newsletters and "signaling." Strict enforcement of laws against fraud and misrepresentation would be the best way to protect consumers.

XVIII. Government Publishing and Broadcasting	
National Telecommunications and Information Administration	36.9
Corporation for Public Broadcasting	137.0
Federal Communications Commission	73.6
National Endowments for the Arts and the Humanities	272.0
	519.5

If the federal government were to establish a "public" newspaper to compete with the nation's privately run papers, every American would see the threat to the First Amendment. The same threat exists with government broadcasting. "Public" broadcasting is both elitist -- its programs attract a small, very affluent segment of the population -- and ominous in its implications for free speech. Government television stations should be transferred to private ownership, either profit-making companies or foundations. NTIA's function of "coordinating the use of telecommunications systems" could be handled far better by a system of freely transferable private property rights in radio channels.[23] Such a policy would be more efficient and would also protect emerging telecommunications technologies from government restrictions on their First Amendment rights.

Government subsidies to the arts through the Endowments encourage both elitism and politicization. Most government-funded arts programs are attended by highly educated, affluent audiences. The average taxpayer should not be forced to subsidize the cultural activities of the elite. Moreover, such government funding leads to politicization of the arts and stifles real creativity. In a recent article on the political infighting among politician-scholars to get control of the NEH, the Village Voice explained why such control is important:

The NEH has a ripple effect on university hiring and tenure, and on the kinds of research undertaken by scholars seeking support. Its chairman shapes the bounds of that support. In a broad sense, he sets standards that affect the tenor of textbooks and the content of curricula....Though no chairman of the NEH can single-handedly direct the course of

American education, he can nurture nascent trends and take advantage of informal opportunities to signal department heads and deans. He can "persuade" with the cudgel of federal funding out of sight but hardly out of mind.[24]

That is precisely the kind of power over ideas that no government should have in a free society.

X . Restricting Civil Liberties	
Alcohol, Drug Abuse, and Mental Health Administration	569.0
Bureau of Indian Affairs	1,510.7
Federal Bureau of Investigation	797.7
Immigration and Naturalization Service	520.7
Drug Enforcement Administration	242.1
Office of Justice Assistance, Research and Statistics	149.7
International narcotics control	39.0
Antiterrorism assistance	4.0
IRS criminal investigations	170.8
IRS: Freeze Collections Budget	182.
Secret Service: firearms enforcement	110.0
Federal Law Enforcement Training Center	15.2
Central Intelligence Agency	91.3
Equal Employment Opportunity Commission	141.9
Intelligence Community Staff	3.7
Selective Service	23.8
	4,572.4

Many of these agencies received substantial budget increases from President Reagan, suggesting that the president's offer to "get government off the backs of the American people" did not extend to everyone. It ought to be shocking to every American that the federal government spends \$4.5 billion on agencies whose primary role invariably abuses the civil liberties of Americans.

The United States does not need a national police force. The prevention and punishment of crime should be the responsibility of local and state governments. This is certainly a principle consistent with the "New Federalism." In any case, much of the FBI's resources are expended on victimless crimes like drugs, gambling, and prostitution, voluntary activities of adults that should not be punishable by law.

The CIA has intervened in the internal affairs of countries around the world, imposing the shah on the people of Iran, conspiring against Allende in Chile, and supporting socialists in a counterproductive attempt to "fight communism." In the process, it has created anti-American sentiment throughout the Third World and given communist insurgents an opportunity to blame their countries' problems on covert CIA activities and gain support they wouldn't otherwise have. The CIA has also exceeded its charter by harassing and spying on American citizens domestically. Legitimate intelligence-gathering needs can be handled by the Defense Intelligence Agency; abolition of the CIA would be a major signal that the American government is renouncing its policy of harassing American "dissidents" and destabilizing foreign governments.

Perhaps Americans whose families originated in this country can legitimately support the INS; but those of us descended from immigrants cannot avoid a touch of hypocrisy in such an attitude. In any case, most immigrants come here to work, and an increased number of producers can only help our economy; it is a misunderstanding of economics to charge that immigrants "take jobs away" from native-born workers.[25] Open immigration would help the economy and save tax dollars.

The Drug Enforcement Administration harasses and imprisons businessmen and their customers who engage in the voluntary exchange of goods and services, forcing otherwise honest traders into a life of crime -- surely something an administration devoted to free enterprise should abhor. Of course, many of the people involved in the drug trade are not honest traders but members of organized crime. Drug laws help organized crime by keeping drug prices high and keeping most competitors out of the business.

Gun control laws (which will probably continue to be enforced by the Bureau of Alcohol, Tobacco, and Firearms; the figure above reflects the administration's proposal to transfer firearms enforcement to the Secret Service) also harass individuals who engage in the voluntary exchange of goods and services. They also deny the powerless, especially women in the inner city, a means of self-defense.[26] The repeal of these and other victimless-crime laws would also help to ease the backlog in our courts and the overcrowding in prisons.

Every other collection agency in America survives without pressing criminal charges; the fact that the IRS depends on criminal prosecutions demonstrates once more the significant fact that the government regards crimes against itself as more serious than crimes against private individuals. The IRS criminal investigations staff should be disbanded, and Congress should reject the administration's request for an increase in the collections budget.

XX. Free Elections	
Presidential Election Fund	1.5
Federal Election Commission	9.5
	11.0

The funds for this agency may seem insignificant, though the Presidential Election Fund spent \$100 million in 1980 and will spend more in 1984. But the real problem is the growing government control over the election process, making candidates dependent on the federal government for their campaign funds. Unsurprisingly, the laws were designed to protect incumbents and the two established parties, and to discriminate against independents and new parties. Through an amazing series of FEC and court decisions in 1980, however, an unintended consequence occurred. John Anderson, whose popular support dwindled from 25 to 6.6 percent of the public as he became better known, nevertheless managed to stay above 5 percent, get himself declared a political party, and become eligible for some \$7 million in federal campaign funds in 1984. In short, the federal election laws have created a political party that would not exist in the absence of taxpayers' money.

Meanwhile, free speech is restricted by election laws that prohibit individuals from advancing their ideas in the political process with contributions of more than \$1,000. New parties and unconventional candidates are unable to raise the seed money they need.

Private organizations find themselves threatened when they discuss the performance of their elected representatives. The time has come to repeal the Federal Election Campaign Act.

XXI. Education	
Treasury: higher education facilities	49.5
Foundation for Education Assistance	11,401.4
	11,450.

Education is a prime example of a business the federal government should not be in. Roughly since the time federal involvement in education began to grow, SAT scores have been falling -- for 17 straight years. It may not be that federal involvement has caused declining educational standards, but it certainly doesn't seem to have helped. In addition, as a New York Times editorial said, "The supporters of a separate department [of education] speak vaguely of the need for a federal policy on education. We believe that they misunderstand the nature of American education, which is characterized by diversity." [27] That diversity will be threatened by the new foundation just as much as by a cabinet Department of Education. Education is not a responsibility of the federal government; it should be handled by

local governments, or better yet, by the private sector, which has a much better record of providing quality education at lower cost

XXII. Revenue Sharing	
Revenue Sharing	9,139.9
EPA: construction grants	3,350.0
	12,489.9

The very title of this program suggests its absurdity: There is no (net) federal revenue to share, and there hasn't been any since this program was established. Why is a government which is facing a \$100 billion deficit handing out money to state governments with surpluses? The EPA construction grants are just another form of revenue sharing. It is absurd for taxpayers to send their money to Washington, which then sends a portion of it back to local governments for municipal wastewater facilities construction. If water pollution is to be handled by the government -- an inefficient solution at best -- it is surely not necessary for the federal government to deal with municipal sewer problems.

XXIII. Health and Science Research	
National Institutes of Health	3,700.5
Health Resources Administration	313.8
National Science Foundation	981.8
	4,996.1

The National Science Foundation is widely known for its more ridiculous research projects, many of which have received Sen. William Proxmire's (D.-Wis.) "Golden Fleece" awards. But research studies on marijuana and male sexual response, rats' aversion to chili pepper, or the breeding habits of the white-fronted bee-eater -- or testing supply and demand principles on pigeons, a study that received the June Golden Fleece award -- are not the major problem with NSF. The most serious problem, one shared by the National Institutes of Health, is the centralization, re-direction, and politicization of research that is created by federal funding. Researchers tailor their research programs to the desires of the government, not to real needs. An army of consultants has sprung up to feed off the taxpayers' dollars, both by getting study contracts and by advising researchers on grantsmanship." Research done in a decentralized, voluntarily funded system is more cost-effective and more oriented toward real needs. Government sponsorship limits free and uninhibited scientific inquiry. NIH and NSF facilities should be transferred to the private sector, and government funding for research should be terminated. The Health Resources Administration regulates, subsidizes, and controls the health care industry. Prospective doctors and nurses should pay for their own education, or receive loans based on their expected high incomes, and doctor-patient relations should not be interfered with by government.

XXIV. Useless Transfer Payments	
Energy and emergency assistance	1,300.0
IRS: excess refunds	1,300.0
	2,480.3

These two programs are simply excuses to establish two more bureaucracies and make more people dependent on government aid. The IRS excess refunds program is designed for cases where the amount of the earned income tax credit exceeds the tax liability, resulting in a payment to the tax filer. In such a case, of course, the payment ceases to be a tax credit and becomes a transfer payment. In effect, this is a small negative income tax program, but instead of replacing other welfare programs it is just added on. Energy and emergency assistance is another program tacked on to existing transfer payment programs.

XXV. Federal Employee Compensation	
Federal employee retirement:	

freeze taxpayer contribution	4,800.0
Federal employee pay freeze	3,000.0
Advisory Commission on Federal Pay	0.2
Federal Labor Relations Authority	15.7
	7,815.9

Non-military federal employees made an average of \$19,376 per capita in 1979, while the average private sector employee made \$14,322. Until this disparity disappears, federal salaries should be frozen. There's no shortage of applications for federal jobs -- still the most secure sinecures available, despite all the scare talk about RIFs -- so there should be no problem in finding a replacement for those federal employees who may leave in protest.

While taxpayers are forced to participate in the social security system, which will pay today's young workers far less than a private system would, federal employees are exempt. They participate in a separate system -- the Civil Service Retirement and Disability Fund -- with a much better benefits-to-payments ratio. Federal employees contribute about 25 percent to the retirement fund, while taxpayers make up the rest (in addition, of course, to paying the salaries in the first place). The taxpayer contribution should be frozen at its 1980 level. If the beneficiaries feel that makes the system unsound, let them increase their own contributions.

XXVI. Overhead Reductions	
Legislative functions: 20 percent cut	287.1
Judiciary: 15 percent cut	114.2
Executive Office: 15 percent cut	14.4
Interior Department secretarial offices: cut	56.9
Labor Department management: cut	64.9
Commerce Department administration	31.8
	569.3

At the outset of this paper we promised not to exhort the government to save money by eliminating "waste, fraud, and mismanagement." This category of cuts is not based on that standard. Rather, we are simply saying that the legislative, executive, and judicial branches are overstaffed and going beyond their jurisdiction. We do not exhort them to be "more efficient," a meaningless concept for a government bureau. Rather, we would direct them to do less and by so doing to cut their budgets. In the case of the Interior, Labor, and Commerce departments, this paper proposes eliminating enough of their functions that they simply won't need as much departmental administration and oversight.

XXVII. International Affairs	
International Security Assistance	3,755.5
International Development Assistance	2,472.2
Office of International Cooperation and Development	18.6
Radio Marti	8.2
International organizations and conferences	581.6
International commissions	30.4
Board for International Broadcasting	95.3
International Communication Agency	567.9
	7,529.7

As noted above, this paper will not address the defense budget. However, some \$7.5 billion is being allocated to

programs outside the Department of Defense that are part of our interventionist foreign policy. The United States should renounce its interventionist policies and reaffirm its commitment to the foreign policy of Thomas Jefferson: "Peace, commerce, and honest friendship with all nations -- entangling alliances with none." We should terminate all foreign aid, both military and economic. Military aid involves us in foreign conflicts and contributes to the general level of destructiveness in wars around the world. Intergovernmental economic aid programs rob U.S. taxpayers in order to prop up dictators in third world countries. Little if any of the benefit is ever received by the people of these countries. The beneficiaries are the governments and the ruling classes in other countries and the American businesses from whom purchases are made with the funds received. Free trade would be of greater benefit to the citizens of the countries involved. We should withdraw from international organizations and commissions, which only serve to drain America's taxpayers.

The policy proposed is not isolationism. It would facilitate the continued development of commercial, cultural, and individual relations among the people of different countries. Such peaceful relations are not helped but hampered by government-to-government programs.

XXVIII. Waste	
Office of Technology Assessment	14.1
Council on Environmental Quality	1.2
Office of Science and Technology Policy	1.8
Bilateral science and technology agreements	3.7
International Center	1.8
Highway beautification	13.7
American Battle Monuments Commission	10.6
Commission of Fine Arts	.3
Community Services Administration	32.6
Consumer Information Center	1.3
Intragovernmental agencies	69.2
Japan-U.S. Friendship Commission	2.5
Legal Services Corporation	12.8
National Commission on Libraries and Information Science	.1
Temporary Study Commissions	14.8
	180.5

This section deals with entire programs that could be eliminated without harming anyone except those employed in them.

The Office of Technology Assessment was created as a sinecure for a defeated member of the House. The Council on Environmental Quality was created by President Nixon as a response to the growing environmental movement. The International Center is land in an expensive section of Washington to be leased to foreign embassies; we should let embassies purchase their own land. The Temporary Study Commissions consider such questions as electronic funds transfers, ethical problems of medicine, and other areas which are not the concern of the federal government.

XXIX. Transfer Payments	
Social Security benefits freeze	18,900.0
Other entitlements rollback	76,000.0
	94,900.

Along with defense, the most difficult area of the budget to cut seems to be the "entitlement" programs. Yet these are the largest areas of the budget, and no significant reductions in the size of government can be made without cuts in defense and transfer payments. Major reductions in the size and power of government cannot be realized from minor alterations in cost-of-living adjustments and eligibility standards. We must seek a way of dramatically reducing the scope of these programs.

Even President Reagan's purportedly austere budget provides for increases of \$35 billion in social security and \$14 billion in other entitlements over a two-year period.

It might seem surprising that so much of the federal budget would go to the poor -- politically powerless as they are. The answer, of course, is that most of it doesn't. Many of the recipients of transfer payments are not poor. The largest programs, social security and Medicare, go to the elderly at all income levels, a group noted more for high voter turnout than for poverty. Professor Gordon Tullock has concluded that "in most democracies the poor receive relatively minor transfers -- in any meaningful sense -- from society."(28) In fact, he argues:

Massive movements of money do occur by the political process, but they are not in the main transfers of funds from the wealthy to the poor, but transfers of funds among the middle class....These transfers do not meet egalitarian criteria. Basically, they are transfers from groups of people who for one reason or another are not politically powerful, to people who are.[29]

Further, these programs often benefit their administrators more than their recipients. As Sen. Daniel Patrick Moynihan (D.-N.Y.) has written:

With astonishing consistency middle-class professionals -- whatever their racial or ethnic backgrounds -- when asked to devise ways of improving the conditions of lower-class groups, would come up with schemes of which the first effect would be to improve the condition of the middle-class professionals, and the second might or might not be that of improving the condition of the poor.[30]

It should also be understood that these programs have little to do with the alleviation of poverty. Professor Walter Williams has argued that labor unions attempt to reduce the supply of labor through minimum wage laws, licensing, and other labor market restrictions. Such laws generally have the effect of increasing the incomes of skilled workers, mostly union members, and reducing or even eliminating the incomes of unskilled workers, usually nonunion, often minorities, and as a result of these policies almost certainly poor. Having thus closed off the labor market, union leaders support transfer programs that will prevent starvation and social unrest among the unemployed.[31] The goal is not to help the poor but to preserve the system by which favored groups are helped. Not only does such legislation divert attention from the real aims of those supporting it; it can also help to build a powerful political machine, as Frances Fox Piven and Richard Cloward have demonstrated.[32]

Indeed, the cynicism with which these programs are manipulated for political purposes -- primarily for the re-election of the party in power -- would astound most students of American government. Professor Edward R. Tufte has demonstrated that in election years transfer payments normally reach their yearly peak in either October or November, while in non-election years they almost always peak in December (simply because of the growth in the rolls).[33] If that illustration alone does not sufficiently make the point that transfer payments are used for political purposes, consider his subsequent finding: In election years, whether transfer payments peak in October or November depends entirely on the date of the election. If the election is held November 6 or later, the payments will peak in November (actually being received on November 3); if the election is earlier than that, the peak will be reached in October (the 3rd, to be exact).[34] Clearly, politicians manage these programs to assure their own reelection, not to benefit the recipients.

In any case, transfer programs don't alleviate poverty. Poverty has more to do with control over one's life and hope for the future than with income per se. It is not simply lack of money -- a condition faced by many young college graduates -- that constitutes poverty. It is the despair at ever finding steady work, the dependency on government, the lack of control over one's life, that characterizes poverty. The amount of money the government spends on a person has little to do with even his economic well-being. The government may spend \$100,000 a year on a public housing unit, but chances are it will still be poor housing. Conservative economists often insist that when in-kind payments are

counted as income, very few people in the United States will live in poverty. This argument misses the point: To live in public housing, to depend on food stamps, to be interrogated and bullied by social workers, is poverty.

For that reason, poverty cannot be ended by transfer programs that make the poor wards of the state. Instead, the answer is to open up our economic system, repealing all the subsidies, privileges, and regulations that make the economy a closed preserve.

Indeed, far from alleviating poverty, transfer payments may in a sense create it. When a transfer program is established, an incentive is created to qualify for it. We can certainly expect people to apply for all the money made available. This can be demonstrated empirically in some cases. Professor Yale Brozen writes, "You would think that the supply of disabled people would be completely inelastic." After all, no one becomes disabled in order to qualify for a government pension, and the rules for disability are fairly strict. Yet, according to Brozen, after social security began paying disability pensions and raising the amount of the monthly payment faster than the wage rate rose, the number of disabled workers grew much faster than the total work force.[35]

Professor Donald Parsons found that a 10 percent increase in disability pensions increased the rate of 35-64 year-old men dropping out of the work force by 6 percent, while a 10 percent increase in monthly general welfare payments increased the drop-out rate by 3 percent.[36] The same phenonemon has been noted repeatedly with regard to state and local government employee disability pensions.

In 1953, 58 percent of the heads of low-income families were employed. In 1978, after the tremendous increase in income-maintenance programs, only 41 percent worked. These programs did not completely replace the lost income, however, and the income of such families drops when the head of the household stops working. Thus income maintenance programs have "provided an incentive to become poverty stricken." [37] After two decades of programs allegedly designed to ease poverty, writes Edgar Browning, "The low-income population appears to have become less self-supporting and more dependent on government transfers." [38]

To solve the problem of reducing transfer payments a fundamental approach is needed. This paper proposes one reasonable course. First, we should open up the economic system so that people can find jobs and opportunity. The repeal of regulations, protections, and subsidies proposed in earlier sections would start this process, but we should also repeal minimum wage laws, the Davis-Bacon Act, occupational licensing, and all the other barriers to entry in our economy. The number of people "needing" transfer payments would thus drop dramatically, and we could be confident that there would be jobs available for those who are cut from the government rolls.

Our first task should be to freeze social security payments at their 1982 level. This one reform would save \$18.9 billion in 1983. A fundamental solution to the imminent crisis in social security would involve transferring the provision of retirement income entirely to the private sector.[39] Until then, we must simply cap social security payments at their present level if we want to stop the system from growing out of control

Entitlements programs other than social security have soared in the past two decades, from \$32 billion in 1964 to \$168 billion in 1983. Even in inflation-adjusted terms, the growth has been some 250 percent in 15 years. The problem is not more poverty, but more money. As mentioned earlier, in a variation of Parkinson's Law, when more money is made available, more people will be around to receive it. We have to control these soaring expenditures, both to get the budget under control and to break the cycle of poverty and dependency that they create. Our suggestion is to roll back transfer payments other than social security to the percentage of the gross national product they commanded in 1970, after the tremendous increases of the Great Society. Such a rollback -- from 4.8 percent of GNP to 2.6 percent -- would result in a 1983 savings of \$76 billion, almost enough to balance the budget. Combined with the favorable economic conditions created by our overall reduction in the levels of taxing and spending, and the elimination of barriers to entry, this program will offer far more hope and opportunity to the poor than any program for slightly more or slightly less entitlement spending.

XXX. Restrictions on Federal Authority	
Refugee and entrant assistance	633.1
Migration and refugee assistance	454.9

Employment and Training Administration	2,183.9
Tennessee Valley Authority	1,690.0
	4,961.9

These programs have little in common except that they represent the extension of the federal government into areas where it doesn't belong. (The same criterion, of course, applies to many of the programs considered in earlier sections of this paper.) We have contended that immigrants should not be excluded from the United States. But at the same time it is not the responsibility of the government -- or of the taxpayers -- to provide assistance to immigrants. They should be free to come here, but at their own expense and risk -- just like earlier generations of immigrants. In addition, the federal government's public-service employment and job-training programs have proven scandalously inefficient and expensive.

The generation and distribution of energy is not an appropriate function of government. Energy should be produced in a free market and paid for by those who choose to purchase it. In addition, TVA's rapacious land confiscation policies have gotten out of hand. People throughout the TVA region have been forcibly removed from their land to build useless dams and recreation areas for the benefit of other people. TVA has all the attributes traditionally associated with powerful monopolies; transferring it to the private sector would force it to face competition and serve consumers better.

XXXI. Miscellaneous Programs

ACTION 119.4

ACTION's programs foster dependence on the federal government and prevent the recipients of its "services" from developing skills and responsibility on their own.

Federal Emergency Management 585.3

This agency has several functions. It provides two insurance programs, which should be handled by the private sector. It also coordinates "plans and systems to protect the population against the effects of nuclear attack," including such things as "crisis relocation planning and shelter identification." The absurdity of such planning -- including change-of-address cards to be turned in at the "nearest extant post office" and a national sales tax if IRS records are destroyed -- has been illustrated in a recent article which thoroughly analyzed FEMA's plans. [40]

Kennedy Center 3.9

The lavish Kennedy Center in Washington, D.C., is an excellent example of the principle that in a mixed economy wealth is redistributed upward from average citizens to the affluent and influential. The average American taxpayer should not be forced to subsidize a palatial arts center used almost exclusively by affluent Washingtonians. The Kennedy Center should be transferred to a private foundation.

Impact aid 340.2

Impact aid is paid to school districts that have a high proportion of federal employees, theoretically to compensate for the loss of property tax revenues in areas with federal installations. In fact, the aid goes primarily to wealthy districts in places like Fairfax County, Virginia, and Montgomery County, Maryland. Every recent president has understood that it should be terminated, but political pressures keep it around

Postal Service subsidy 500.0

The Postal Service continues to absorb half a billion dollars or more every year even as its services continue to deteriorate. It is arguable that the cost of a first-class letter has risen from five cents to nine dollars in the last decade since the only way to guarantee timely delivery is to use Express Mail. Private enterprise would do a better job, and the taxpayers could save their annual subsidy.

GRAND TOTAL OF SAVINGS \$209,362.4

We have now identified a (partial) list of budget savings totaling \$209.4 billion, excluding the military budget -- more than enough to balance the 1983 and succeeding budgets and allow Americans a much-needed tax cut. Though this proposal may be considered outside the political "mainstream," we would not agree that it is thus unacceptable. Rather, we contend, most if not all of these programs do positive harm to the American people and ought to be eliminated for that reason alone. In addition, we need to balance the federal budget and reduce the tax burden, which this proposal would accomplish. Budget proposals that would not do this are, in our view, unacceptable.

Conclusion

The federal budget has gotten out of control. This is not to take a mechanistic view of the budget, to imply that "the budget" is something that exists on its own, with its own powers of growth. Instead, it is to say that the federal government has grown too large, too powerful, and too expensive, and that this growth has been encouraged or at least tolerated by those with the authority to stop it.

There are several reasons to support the budget cuts outlined above. The first is the size of the imminent deficits. Though we can't be certain until the fiscal year is over, we appear to be facing deficits in the neighborhood of \$100 billion a year for 1983 and the foreseeable future -- by far the largest deficits in American history. These deficits must be financed somehow, either by borrowing -- thus crowding private borrowers out of the marketplace and raising interest rates -- or by monetization, which reduces yet again the value of every American's dollar and, as the market sees higher inflation ahead, raises interest rates. To get interest rates down, the deficit must be slashed. Neither the president's budget nor the First Budget Resolution would do this.

A second reason to support this budget plan is to reduce the overbearing weight of the federal government on the economy. The economic stagnation of the last 15 years is a direct result of the level of taxes, government spending, and government intervention in capital markets (not just through its own borrowing but through guaranteed loans and the like) -- in short, the total diversion of resources from the private sector (that is, from uses favored by consumers) to the public sector (uses favored by politicians, bureaucrats, and special interests). Inflation and unemployment have remained at unacceptably high levels for nearly a decade. The average American's real standard of living has been falling for at least six years. The Dow-Jones Industrial Index, the standard measure of the value of America's major industrial companies, has fallen by 67 percent in 15 years; it would have to be at 2,400 to match its 1967 level. Only a reduction in the size of government -- in both taxes and government spending -- will allow the economy to regain its health.

The third and probably most important reason to support budget cuts is more sweeping. The total impact of government on society is not measured just by taxes and spending. Indeed, some cynics have suggested that Americans would be better off if the government simply taxed them at the present level and then burned the money, or spent it on personal consumption for the members of Congress. Instead, government spends the money in a myriad of ways, all designed to force or encourage society in a particular direction. The programs suggested for cutting do the following: subsidize inefficient businesses at the expense of those that satisfy consumers, narrow consumer choice, increase consumer prices, violate the personal liberties of Americans, restrict the First Amendment, allocate resources to the uses favored by special interests, protect businesses from the need to assume responsibility for their actions, encourage the overuse and misuse of natural resources, stifle the development of consumer-oriented technologies, discriminate against unskilled and minority workers, create unemployment, nationalize and centralize countless activities better served by diversity, create an intergenerational cycle of poverty and dependency, freeze the poor out of the economic system, involve the United States in foreign conflicts, and increase the risk of nuclear war.

Even if all those "services" were provided free, we would be better off without them. And that is the final point of this paper: Aside from the obvious savings in taxes, government spending, and deficits, America would be better off without many or most of the functions the federal government currently undertakes. This analysis offers a guide to identifying those functions and, hopefully, to eliminating them.

FOOTNOTES

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