

Honoring America this Fourth of July

By: Leslee Kulba – July 4, 2013

Back in 2005, Chris Edwards, an economist specializing in tax policy, wrote a book, *Downsizing the Federal Government*. Although some of the reforms he promulgates have appeared in proposed legislation through the years, fiscal overhauls seldom get enough traction to be finalized. Instead, as a general rule, the song remains the same, only the numbers have increased, some exponentially. To get the latest available data, which often run a couple years behind due to government accounting methods, one need only visit Edward's website, downsizinggovernment.org. It is hosted by the Cato Institute, where he now serves as a director.

Back in 2005, annual spending by the federal government was only \$2.5 trillion. This year, the budget sits at \$3.7 trillion. Under the \$2 trillion mark until 2001, the budget had been rising at a steady rate of around \$1 or 2 trillion a year, until 2009, when it jumped 20 percent to \$3.6 trillion. Were we in government, we would cherry-pick our stats to boast that spending has since levelled off. (As of this writing, the national debt is at \$16.7 trillion.)

As is now well-known, entitlement spending now comprises the lion's share of the budget. For the current year, 22 percent of the budget is dedicated to funding Social Security; 14 percent, Medicare; and 7 percent, Medicaid. Defense spending, which is the second largest category for federal tax consumption, now comprises 18 percent of the budget. Activities of the federal government alone are estimated at around 23 percent of the US gross domestic product. State and local taxes make up an additional 11.3 percent of GDP.

Back in 2005, Edwards recommended downsizing government by first eliminating 100 programs. They were selected because they were either wasteful, actively damaging, more likely to succeed under state or local management, better handled by markets, or serving only well-organized special interest groups to the detriment of the overall economy. To clarify, the author says, "Wasteful' programs are those that are duplicative, obsolete, mismanaged, ineffective, or have high levels of fraud and abuse."

Many of the reasons the federal government falls into the trap of overextending taxpayer sacrifices were spelled out by the political scientist James L. Payne in 1991. Most notably, members of Congress are swarmed by well-organized lobbyists wanting a piece of the pie. A recipe for success in government is a program that concentrates benefits and diffuses the cost. The average taxpayer is not going to find it worth the effort to organize and lobby against a program for which he pays 2 cents every year. As it turns out, he is only paying fractions of pennies for each of the 2231 programs the federal government now

supports, a number that has doubled since 1991. And that puts him in an awkward position of either becoming expert in the weaknesses of 2231 programs or aggressively tackling a few for a nickel's reward.

To make matters worse, Congressional hearings tend to be one-sided. Witnesses typically include program supporters, such as supportive members from Congress or state and local governments, members of the program's payroll, would-be beneficiaries of the programs, and lobbyists. As a result, members of Congress for the most part only hear that government programs work. They hear from paid Paul; Peter does not whine about what he could have done had he not been robbed for the redistribution.

In fact, it is common for legislators to totally ignore the fact that government gets its money from the people, many of whom are hurting to pay their own bills. Instead, as Edwards puts it, "The legislators' impulse to help is reinforced when they receive thanks from program beneficiaries, when they receive awards from interest groups, and when they are toasted at gala dinners for their support. Members begin to think of themselves as private philanthropists generously spending their own money."

Unfortunately, history has played out time and again in a manner that shows government attempts to help the poor harm them. Government programs have a way of shifting responsibility away from WWJD, reaching into your own pockets strategies, to leaving the poor and downtrodden to certified individuals and programs for paperwork, stats building, and some processing. The history of HUD's impact on the poor as it repeatedly shuffles them from one enlightened government fad to the next says enough.

In the nation's first 150 years, it may be fair to say those elected to federal office took seriously their oaths to defend the Constitution. A large part of that was protecting the rights of each individual from encroachment. Nowadays, politicians tend to get elected because of the special-interest causes they pursue. They consider themselves beholden to their supporters, and therefore consider it constructive to satisfy their immediate demands. They do not have the luxury, enjoyed by public policy think tank scholars, of examining the long-term, widespread, and nth-order consequences of economic decisions.

Government agencies are also to blame for out-of-control spending. It has been known for years that the promotion of bureaucrats is a function of the number of underlings they can acquire. They therefore promote their activities before Congress in magnanimous terms, and taxpayer dollars support the ad machines, designed to educate said taxpayers. In addition to flyers, radio spots, and pundit support, promotion has even included the distribution of pre-packaged news stories.

Another argument can be made that government is way too big for any human to know what is going on. Does anybody believe legislators actually have superhuman powers that allow them to read everything tacked onto omnibus bills at the last minute? Recent scandals only add to those in 2005 that convinced Edwards that the federal government, and even its departments and most programs, were too large to manage. Hindsight is 20-20, but Edwards thinks the government should have known better than to invest \$640

million in an overseas Enron project that by all accounts had already gone bad. Likewise, more focus on core government functions, like national security, might have eliminated enough noise that government intelligence agencies could have put the two-and-two they had in their hands together to prevent 9-11.

What to Do?

Privatization has become trendy in other nations. When FDR was in office, it became fashionable to believe government had to run large operations that served many people. The philosophy was compounded during the LBJ administration. Somewhere down the road, housing became a responsibility of the federal government. Shelter is viewed as a basic need, as is clothing; but people manage to stay dressed without a government program.

Broad interpretation of the general welfare clause is used to justify the federal government's intrusion into the housing industry, however inefficiently. But what part of the Constitution authorizes the federal government to send men to Mars? Recently, the private sector has shown it can put a man in space a whole lot more efficiently than NASA. Burt Rutan, the brains behind SpaceShipOne, in fact argued that federal regulations interfered with him designing a better ship. For example, the FAA's licensing policy demanded that the small company defend its safety procedures when they would have preferred to be in a mindset of always questioning them.

Government may at times actually outbid the private sector in providing for natural monopolies. Even if some progressive programs worked, many are now obsolete, such as programs designed to make sure rural communities receive electricity.

Whenever goods or services are provided that people are willing to buy, government should not construe the existence of a market failure. When government assumes practices the private sector can handle, inefficiencies, in terms of administrative overhead, ensue. Furthermore, government does not have a profit motive to guide its decisions. If it makes junk the people don't want, it can raise taxes to make more.

"Cost is a benefit to government," Edwards repeats. If a government enterprise is costly, then legislators will want to bring that bacon to their state for "dollars invested in the community" and "jobs created." What legislators seldom discuss is the opportunity costs inflicted on taxpayers for concentrating resources in pet projects. When government subsidizes business it likely errs because (1) successful companies do not need contributions from blue-collar taxpayers, and (2) failing companies need to regroup and do something society values enough to support with its purchasing power.

In addition to inefficiencies inherent in government-run businesses, corruption has a way of hiding in huge bureaucracies charged with abstract purposes and run by political appointees. Of at least three departments, it may be said, "They threw outrageous parties. They paid heavenly bills." Unfortunately, attempts to hold government accountable

usually involve more bureaucracy, with more paperwork redirecting energies away from core missions.

The federal government has managed to seep into state and local affairs largely through offering grants. Through the art of matching, states are lured into accepting federal programs. Money from the federal government for, say, bulletproof vests, is viewed as “free” because taxpayers from across the country are chipping in and federal income taxes do not appear as line items in state and local budgets. In a sense, leaders are more concerned with the growth and solvency of their piece of government than they are with representing their constituency.

Edwards asserts, “Grants are an inefficient method of governing America.” For starters, offering grants, as was seen with the ARRA program, sets off a feeding frenzy, a scrambling for pork whether or not it is needed. State and local governments have expanded their budgets tremendously in recent decades, and that can largely be attributed to the generous federal government offering to pick up half the tab.

Just getting a grant subjects states to federal requirements, those proverbial strings attached. Administrations must be set up to comply with federal guidelines. The result is that each dollar sent to Washington, DC is processed through multiple bureaucracies and returned to states for processing. Estimates vary on exactly how much is lost paying for layered administration, but people will be educated to focus only on the programs in their states that bring in more than the amount invested locally.

Members of Congress keep up appearances by bringing home the bacon. George Bush I’s budget director, Richard Darman, is on record for stating, “Well-known deficit hawks from both parties pleaded for seriousness about deficit reduction in public, and privately pleaded for even more to fund their special interests.” A few, bold legislators have taken stances without retreating in fear of party leadership. These are often leaders who have promised to serve only one term.

Legislators should be wise to the fact that lobbyists are playing them. They are probably just kowtowing to party leadership as they see project after project lowballed and later, mysteriously, subject to overruns well in excess of a 10 percent contingency. The practice is so well-known by economists, it has a name. Using the salami strategy, project supporters continue to layer added costs so thinly the public will never notice.

Edwards proposes tools Congress might use to reverse the tide of spending. In addition to term limits, he suggests mandatory sunset clauses for federal programs. A closing committee could be formed to draft a bill exempt from line-item vetoes. That would remove porcine pressures back home. That failing, concerned citizens need to advocate for the closing of programs with as much concentrated tenacity as the organized special interests that promote them. Leaving this responsibility to legislatures would only further divert them from core federal responsibilities.

Last of all, the only thing stopping the government from being frank about the damages Social Security, Medicare, and Medicaid are posing for the next generation is probably fear of widespread panic. Switching to a system of defined contributions indexed by cost, and exempting those who do not need welfare would be a good start.