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Cutting the Size of Big Government

Murray L. Weidenbaum
Washington University in St Louis

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Cutting the Size of Big Government

by Murray L. Weidenbaum

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This booklet is one in a series designed to enhance the understanding of the private enterprise system and the key forces affecting it. The series will provide a forum for considering vital current issues in public policy and for communicating these views to a wide audience in the business, government, and academic communities. Publications will include papers and speeches, conference proceedings, and other research results of the Center for the Study of American Business.

Cutting The Size of Big Government

Government spending and revenues are rising steadily—and so are citizen blood pressures. The coincidence is not accidental. Taxes are getting higher and higher. Government intrusion in our daily lives is expanding rapidly, and citizen dissatisfaction with the results of government activity simultaneously continues to grow.

Citizen disenchantment with government is well known. But unlike a private business faced with unwilling customers, modern government does not seem to have the capacity to correct itself. The armies of bureaucrats employed by governments surely have the incentive to maintain the status quo and to sandbag any attempts at reform. And legislatures, it surely seems from their performance, are more responsive to the concentrated pressures of the specific groups that benefit from government expenditure programs than to the more generalized concern of the taxpayer who bears the burden of big government.

Under the circumstances, it should not be surprising that citizens across the nation are increasingly looking to new and unconventional ways of controlling big government. The overwhelmingly favorable vote to cut taxes in California (Proposition 13) was clearly a straw in the wind. On that same Tuesday, taxpayers in Ohio turned down 86 out of 139 school tax levies. More recently in the 1978 elections just conducted, voters in 12 out of 16 states approved proposals to limit either taxes or government spending. At the federal level, substantial attention is sure to be paid in the new Congress to bills calling for further tax cuts, such as the Roth-Kemp proposal, indicating continued citizen arousal.

What can and should the concerned citizen—concerned about both the quality of government and its cost—do to improve the situation? The purpose of this article is to answer that question. A satisfying answer should come in three parts: an improved understanding of the basic problem of big government, an analysis of the major ways of dealing with the problem, and finally, focusing on the most promising way to proceed. Let us take up each of the three parts in turn.

Mr. Weidenbaum is Director of the Center for the Study of American Business at Washington University in St. Louis, Missouri.

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The Problem of Big Government

We all hear and read of the horror stories about the waste and inefficiency of government in the United States. Senator William Proxmire of Wisconsin announces a monthly "Golden Fleece Award" for the biggest, most ironic, or most ridiculous example of wasteful government spending. The government projects that have received the Senator's award could arouse the ire of the most generous and benevolent citizen—a $6,000 grant to finance a family vacation in the Caribbean and subsequent filming of four rolls of crepe paper fluttering to earth (to represent the human spirit), an $84,000 study on why people fall in love, a $2,000 award to study why tennis players become angry, and a $225,000 study to project transportation needs under unusual circumstances (such as the U.S. becoming a dictatorship or a new Ice Age descending on the world).

The problem, of course, lies much deeper than these examples of nonsense. After all, they do not add up to the half-trillion dollar point, which is where the federal budget is headed during the coming year. Rather, it is the programs that consume millions of dollars—and at the federal level, billions of dollars—that are driving up the tax burden. And here the problem is well known: The problem is not, ironically, the programs themselves but rather the perennial clash of the special interests and the public interest, and it permeates every program of government, military and civilian, and every level of government—federal, state, and local.

It is hard for any of us to comprehend an amount of money such as $500 billion. We can only sense that government spending is too large, and we can only feel the heavy burden of footing the bill. But at the same time that we complain about tremendous outlays of money and excessive taxation, what do we do when long-awaited cutbacks are made? Just think about it. What is the usual public reaction anytime that the White House or the Pentagon announces that a navy yard or an air field is going to be closed because it is no longer needed? Howls of anguish arise from the locality in which the military installation is located. A solid phalanx of business, labor, and public groups in the community bitterly oppose this blow to their local economy. Of course, they are for economy in government, they respond, but why pick on them? And the unneeded bases far too often remain open.

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Similar examples of public opposition to cutbacks abound in civilian programs. Virtually every President since Harry Truman, Democratic and Republican alike, has tried to cut back the "impacted" school aid program, which it turns out, is a subsidy from the general taxpayer to some of the wealthiest school districts in the nation. The result is predictable—overwhelming and successful opposition to eliminating wasteful programs.

Many economists have prepared analyses showing that many government projects are uneconomical, are simply not worth doing because the costs are greater than the benefits. But reason has not prevailed. Archaic maritime subsidies continue. "Pork barrel" construction projects still are voted. Welfare and other "income maintenance" benefits (in a less generous age, they were referred to as government handouts) are paid to able-bodied people who are extremely fussy about the kind of job they will accept; but they are not nearly so fastidious about accepting the monthly check from Uncle Sam.

The problem of the conflicting desires of the public—cutbacks in spending to produce lower taxes, on the one hand, and the continuation of expensive or wasteful government programs on the other—was brought home forcefully to this writer while engaged in a modest effort to identify some clearly low-priority spending programs in the federal budget. The long list of at best dubious federal outlays included the provision, without charge, by the government of some recreational equipment to groups that could well afford to buy their own. When elimination of this federal spending was proposed, the public response was—once again—predictable. And this essay will leave unmentioned both the type of recreational equipment and the group involved in the program simply because the avalanche of correspondence from the beneficiaries of that specific spending program was overwhelming. So, of course, that program is still in the federal budget and is financed at increasingly generous levels.

Surely, every analyst of government spending who has seriously studied the subject has concluded that governments in the United States are trying to do too much and, therefore, they are not doing a good job of carrying out the myriad tasks that they are attempting to perform. But the added problem is that the supporters of each of those government spending programs readily mobilize to protect their political turf when cutbacks are attempted.

This is hardly a plea to abandon the careful analysis of proposed government programs. Rather, the point is that these analytical mechanisms just do not seem to suffice. The legislatures—federal, state, county, or municipal—just do not or cannot make their decisions on such objective grounds. One is reminded of the animal that the master hit with a two-by-four piece of lumber, not out of meanness, but simply because that was the only way of gaining the beast's attention. It does seem that the political equivalent of that two-by-four is needed to call attention to the plight of the taxpayer—and to the quandary of legislatures—which leads us to the second part of this article.

Taking Hold of a Two-By-Four

Proposition 13, a proposed amendment to the California Constitution, was passed earlier this year by a nearly two-to-one majority of state voters. It limits property taxes in the state to not more than one percent of assessed valuation, places a two percent annual ceiling on property tax increases, and requires that all future tax raises in the state be approved by at least two-thirds of the legislature. In effect, Californians voted to cut their property taxes in half and to slow down any rise in taxes from that new low base. As an interim measure, the state government is dispensing the $5 billion surplus it has accumulated, but clearly Proposition 13 requires belt-tightening in California's public sector.

The Proposition 13 approach has been called a "meat-axe" measure because it does not distinguish between high-priority and low-priority programs. One representative of an association of government officials called it "a Frankenstein, a green hulk emerging from the swamps of the West." The reality is somewhat less dramatic. First of all, the $5 billion state surplus clearly indicates that the state government was collecting taxes faster than it could spend them, despite the fact that California has some of the most generous welfare and other government spending programs. The legislature's refusal to move on earlier pleas to lighten the taxpayers' load demonstrated its inability to act in a timely and sensible fashion.

Moreover, the oldest bureaucratic trick in the book is to respond to a budget cut by curtailing not the least important, but the most essential public services. This often is a transparent effort to overturn any temporary victories of the advocates of government economy. In effect, Proposition 13 says that the voters are too tired to play those bureaucratic games. The public has spoken and it wants less costly government. But the details concerning what government spending to cut back and how to do it are left to the policy makers in government (after all, isn't that what they are paid to do, to make difficult decisions?).

Other approaches similar to that of California's Proposition 13 have been developed for dealing with the problem of big government. The

states of Tennessee and New Jersey have set constitutional limits on spending, the intent of which is that spending cannot grow faster than the income of the people of that state. Taxpayer groups in other states have developed variations on those themes.

At the federal level, similarly, attention perennially has been given to the notion of a compulsory balance of the federal budget (the typical state and local government cannot go into deficit financing in the way that the U.S. Treasury regularly indulges). Public response to this notion has been true to form. In June 1978, the Gallup poll reported that the American people, by more than a seven-to-one margin (81 to 11 percent), favored requiring the Congress to balance expenditures with revenues each year. In this regard, we may recall that then-candidate Jimmy Carter achieved popularity during the 1976 presidential campaign by promising a balanced budget.

Surely, such reduction of the massive deficits of the federal government would help to alleviate inflationary pressures. However, that approach might *not* necessarily result either in smaller government or lower taxes. After all, should a requirement for budgetary balance be enacted, the result might be new pressure for tax increases on the part of the traditional proponents of big government. To be sure, the same Gallup poll indicated that this was not what taxpayers have in mind. To the question, "Do you think the federal government is spending too much money, too little, or about the right amount?" 75 percent of the public sampled said "too much" and only five percent said "too little" (the remainder thought that federal spending was about right or expressed no opinion). Public feeling is, therefore, at least *consistent*. But public understanding of how to *act* upon these very strong feelings is not.

For example, over the years, virtually every President has gone to Congress with a "laundry list" of low-priority items that he urged the Congress to eliminate from the budget. As evidenced by the steady upward trend of federal outlays, those efforts were uniformly ignored by the Congress. Why? Because the concentrated efforts of the aroused supporters of each threatened spending program turned out to be far more effective than the efforts to make cutbacks. Therefore, it is not surprising that the current drive for economy in the federal government is emphasizing another approach—the tax side of the budget, rather than mounting yet another uphill fight against the entrenched forces of high spending. The intent of the current effort, of course, is to arouse the support of the direct

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beneficiaries of smaller government—the heavily burdened taxpayers. But for that effort to succeed, the individual citizen will have to learn the hard lesson that advocating tax cuts is not enough. He or she must simultaneously be willing to support with equal enthusiasm the accompanying cutbacks in government spending—including those government programs that the same taxpayer considers to be in his or her own particular interest. It is clear, in short, that cutting *your* taxes and subsequently eliminating the *other* fellow's benefit is not sensible or workable public policy.

How To Use the Two-By-Four

Taxes are the lifeblood of government bureaucracies. To be sure, deficit financing and off-budget gimmickry may provide some leeway, especially in the case of the federal government. But, by and large, the flow of revenues into public treasuries is the key determinant of the ability of government agencies to expand their activities. Perhaps even more to the point, it is via the payment of taxes that the individual citizen feels the burden of big government most directly (we will deal with the indirect burdens a little later on).

If an effort to trim the size of government is to succeed it will need the sustained interest and support of a large portion of the American people. Therefore, such an effort should focus on tax policy as the prime mechanism for achieving economy in government. At the state level, a lid on the overall tax burden (defined as tax payments as a percent of personal income) seems to be the most sensible approach. At the federal level, the most direct method would be an across-the-board reduction in income tax rates. A proposal for a 30 percent reduction in personal income tax rates, phased over a three-year period, was introduced by Senator William Roth (R-Del.) and Representative Jack Kemp (R-N.Y.). The Roth-Kemp bill, which also included a more modest cut in corporate rates, obtained considerable national attention and growing support in the Congress. There is, of course, nothing magic about the 30 percent figure. The key point is to put substantial tax reduction at the top of the congressional agenda. Therefore, with an anticipated lesser flow of revenues into the national government, budget planning for the future will have to be more modest than in the past.

Should a tax cut like the Roth-Kemp bill be enacted, a fundamental change might occur in government thinking. Rather than concentrating on what still further expansions in government could take place (which is the traditional approach), the White House and the Congress would be forced to a new way of proceeding. They would have to ferret out old and

obsolete programs that are no longer worth doing under the new fiscal restraint imposed by the cuts in federal revenue. "Think small" would become more virtuous than "think big." Perhaps of greatest help, the tax cuts would force the legislative and executive branches of government to pay serious attention to the mechanisms that are available to reform government.

It is essential that spending cuts be linked with tax cuts. Frankly, I take exception to projections that more rather than less revenues would follow from lower tax rates. Lower taxes should spur an increase in private economic activity which in turn would generate some increases in tax revenues. But it is doubtful whether those revenue increases would fully offset the effect of the lower rates. Exaggerated claims could discredit the basic idea of lower taxes. Thus, expenditure restraint is part of any sensible tax reduction package.

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Obviously, then, there are no simple approaches to reforming big government. It surely is not a question of being for or against government, since a substantial degree of governmental intervention is to be expected in a complex, modern society. The need, rather, is to identify those sensible changes that can be made so as to achieve citizen expectations at reasonable costs.

One sensible change is the requirement of an economic impact statement prior to each new governmental undertaking. The notion that policy makers should carefully consider the costs and other adverse effects of their actions as well as the benefits is hardly revolutionary. The basic notion here is that governmental decision makers should carefully examine the disadvantages as well as the advantages of their proposed actions. The benefits of government can at times be very substantial—clean air, safer streets, and so forth. However, it is not inevitable that each government intervention actually achieve its intended benefit. That is precisely why the examination of the costs and benefits of action by big government should be made from the perspective of the society as a whole, rather than as a reflection of the viewpoint of any specific government agency or private interest. Properly performed, economic analysis is a useful tool in raising the sights of public policy makers and in assuring that—at least to the extent that the effects can be measured—government does more good than harm in the actions that it takes.

Another sensible change is for all government activities to be subject to a "sunset" mechanism. Each agency should be reviewed by the Congress periodically to determine whether it is worthwhile to continue it in light of changing circumstances or whether the "sun" should be allowed to "set" on its existence. Many government programs tend to be prolonged far beyond their initial need and justification. In a world of limited resources, the only sensible way to make room for new priorities is periodically to cut back or eliminate older, superseded priorities.

Furthermore, the resourcefulness of government officials should not be underestimated. Specifically, it is important to be aware of the many subterfuges which can be resorted to in order to avoid the appearance of making large government expenditures. So-called "off-budget" authorities have been set up by many governmental units in order to get around budget ceilings. But no matter how they are labeled, those off-budget agencies involve the expenditure of government money and should be included in any tally of government operations. To put it mildly, those subterfuges should be avoided and their use denounced for the kind of backdoor raid on the taxpayer which they truly are.

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These changes in both taxation and in governmental spending programs are, all in all, direct means of delivering to the overburdened taxpayers what they want in terms of 1) relief from paying the costs of big government and 2) continuing to benefit from those governmental spending programs that operate in their interest. But, as stated earlier, there are no simple approaches to the reform of big and costly government. There are various pitfalls to avoid in the form of indirect routes to higher taxation.

One of the key ways that big government can operate to the taxpayer's detriment without the *appearance* of either high taxes or high spending is for it to impose costly requirements on the private sector.

The impacts of government regulation of private activity are being felt in every segment of the population. For example, federally-mandated safety and environmental features increase the price of the average passenger car by $666 in 1978. Requirements imposed by federal, state, and local governments are adding between $1,500 and $2,500 to the cost of a typical new house. The government-imposed costs range from permit and inspection fees to time-consuming and excessively detailed environmental impact studies.

The aggregate cost to business of complying with federal regulation came to $75.4 billion in 1977. Those costs are inevitably passed on to the consumer in the form of higher prices. They are not as "visible" as the amounts of money citizens pay out in their tax returns, but they add up to a substantial but hidden tax imposed by big government. It is becoming

increasingly clear that decisions made by one or more government agencies can alter, influence, or even determine how much money we make, how much we can spend, what we can buy with it, how we can use the services and products we own, and, of course, how we go about earning our daily living. It is no exaggeration to state that governmental decisions also increasingly affect what we wear, what we eat, and how we play. Therefore, government regulatory activity should also be subject to a rigorous benefit/cost test.

Fundamental reforms of government are in order, given the public's growing concern with big government and its inevitable consequence, high taxation. Those reforms will be difficult and will be opposed by a host of public interest groups, including many that have the conceit of automatically identifying their views as the sole expression of the public or consumer interest.

In trimming back the public sector, available alternatives to government intervention should be carefully considered. For example, private voluntary institutions often provide help to the needy far more effectively and less officiously than governmental bureaucracies. In many types of regulation of business (as of airlines, trucking, railroads, and natural gas), the government's role should be reduced and greater reliance instead should be placed on competition and on market forces. The role and importance of individual decision making should not be ignored by either public interest groups or the public at large. We all need to be cognizant of the fact that the massive extent of federal intervention in the economy—high levels of taxation, expenditures, and regulation—makes it difficult for the private sector to perform its basic functions. In important ways, the major contribution of the Congress could be in the form of reducing those burdens rather than adding to them.

In the final analysis, it is a new way of thinking about government that is required of each citizen: the notion that, because society's resources are limited, government cannot attempt to meet every demand of every group within the nation. Those resources, moreover, are more than economic or financial. As has been demonstrated in both military and civilian areas in recent years, there are severe limits to what government can accomplish. The *one* thing we know that government can do extremely well is take our money and spend it. But the valuable resource of organizational and managerial ability in the public sector, as elsewhere, is in short supply. Since society has given government many important responsibilities, ranging from maintaining the national security to providing a system of justice, it is important that government do well those tasks that it attempts to perform.

The public policy maker, finally, needs to be conscious of what often is an unintentional bias—looking instinctively at government for dealing with the problems of society, while overlooking the capacity of the private sector to deal with many of these questions. Policy makers need to recognize the ability of the private sector to meet the needs of private citizens. Far too frequently, it has been big government and the resulting high levels of taxation and growing interference with private decision making that has generated and then exacerbated the very problems which government is attempting to solve, notably high inflation coupled with high unemployment.

The most fundamentally necessary improvement in public policy required in the United States today can be summed up in an admonition to government decision makers, "Physician, heal thyself." Big government truly needs to administer to itself a carefully prescribed dose of self-restraint. Otherwise, the aroused taxpayer will force on it a crash starvation diet which it would surely deserve.