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The inflation gripping the American economy has a made-in-Washington label. It is both futile and unfair for the federal government to put the onus for rising prices on business and labor when the government itself has generated the basic inflationary forces. The genesis of the inflation is clear -- large and rising budget deficits, excessively rapid increases in the money supply, and needlessly costly regulations.

The most fundamental requirement to bring down the inflation rate is not to devise new "incomes policy" gimmicks, which are currently in vogue in the economics journals and in Washington meetings. That approach reminds me of the mittens which are bigger on the inside than on the outside. As we have learned so painfully, government attempting to sit on wages and prices is a snare and a delusion. The most useful advice to those government officials who are preparing economic advice and "guidance" for the private sector is clear and simple: "Physician, heal thyself."

Despite all the campaign oratory, the upward trend of government spending continues unabated. Unlike a private business faced with unwilling customers, modern government does not have the capacity to correct itself. The armies of bureaucrats employed by governments have the incentive to maintain the status quo and to sandbag any attempts at reform. And legislatures, judging from their performance, are more responsive to the concentrated pressures of the specific groups that

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benefit from government expenditures than to the more general concern of the taxpayers who bear the burden of big government.

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 presentation is to answer that question. A satisfying answer comes in three parts: (1) improving the understanding of the basic problem of big government, (2) analyzing the different methods of dealing with the problem, and finally, (3) focusing on the most promising way to proceed. Let us take up each of the three parts in turn.

The Problem of Big Government

We all read of the horror stories of waste and inefficiency of government in the United States. In fact, Senator Proxmire makes a monthly "Golden Fleece Award" for the biggest or most ridiculous example of government waste. The government projects that have received the Senator's award could arouse the ire of the most generous and benevolent citizen -- a $6000 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 a new Ice Age descending on the world.

The problem, of course, lies much deeper than these examples of nonsense. It is the programs that consume millions or billions of dollars that are driving up the tax burden, as well as contributing to the serious inflation problem.

Let us take a few examples. The federal government is the nation's largest employer. The pay raises of government employees and postal workers have been increasing far more than would be necessary merely to cover the rising cost of living. Somehow, the Congress got sold on the notion of "pay comparability" between the public and private sectors, totally ignoring the more generous retirement, vacation time, sick leave, job security, and other fringe benefits available for federal employees. And, it turns out, the statisticians among the civil servants make the computations of "comparability." That is like having the foxes guard the henhouse.

Government is also the largest single buyer of goods and services and it is about as cost conscious as an Arab prince in Beverly Hills. Instead of buying from the lowest bidder or the best supplier, government procurement agencies must promote various "social" objectives -- such as favoring areas with high unemployment or minority contractors. These social benefits are achieved at the price of higher taxes and higher prices.

On government-aided construction projects, the Davis-Bacon Act requires that the job go, not to the lowest bidder, but to the contractor who agrees to pay what the Labor Department determines are the "prevailing" wages of the region. In practice, this often means that government contractors must pay the high union scale in the nearest big city. In rural Maine, for example, firms on federal construction projects have had to use the wage scale of Boston. In Appalachia, the wage rates of Pittsburgh have been followed. But those wages are so far above the standards in Maine or Appalachia that frequently local firms do not even bid for the work. They cannot pay their workers on government projects a massive differential over their workers on commercial projects. The result is that the poor people in Appalachia or Maine, who are the intended beneficiaries of the government spending do not get the jobs that result; instead the jobs go to people in the adjacent metropolitan areas.

The array of activities conducted by the federal government seems to be almost endless. They range from welfare payments to farm price supports to environmental impact statements. In total, the federal government will be spending over $500 billion this year. But at the same time that we complain about tremendous outlays of money and excessive taxation, what do we do when cutbacks are attempted?

Unfortunately, it is easy to predict the public's reaction any time 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. Sure they are for economy in government, they respond, but why pick on them? And the unneeded bases far too often remain open.

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 this, and other, wasteful programs.

Careful economic analyses show 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 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 me while I was 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 giving, without charge, 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 I will leave unmentioned both the type of recreational equipment and the group involved in the program simply because I still vividly recall the avalanche of correspondence from the beneficiaries of that specific spending program. 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 government in the United States is trying to do too much and therefore it is not doing a good job of carrying out the myriad tasks that it is 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 any cutback is attempted.

Legislatures -- federal, state, county, and municipal -- just do not or cannot make their decisions on objective grounds. One is reminded of the animal that the master hit with a 2 by 4 piece of lumber, not out of meanness, but simply because that was the only way of gaining the beast's attention. The political equivalent of that 2 by 4 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 presentation.

Taking Hold of a 2 by 4

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, of course, less dramatic. First of all, the more than \$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 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 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 policymakers in government. After all, isn't that what they are paid to do, to make difficult decisions?

Other approaches similar to that of Proposition 13 have been developed for dealing with the problem of big government. Tennessee and New Jersey have set constitutional limits on government spending, to ensure that spending does not grow faster than the income of the people of the state. Taxpayer groups in other states are developing variations on those themes.

At the federal level, attention perennially has been given to the notion of a compulsory balance of the federal budget (the typical state or 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. The Gallup poll reports that the American people, by more than a seven-to-one margin, favor requiring the Congress to balance expenditures with revenues each year. We may recall that then-candidate Jimmy Carter achieved popularity during the 1976 presidential campaign by promising a balanced budget.

Surely, 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. Should a requirement for budgetary balance be enacted, the result might be new pressure for tax increases on the part of the supporters of big government. To be sure, the same Gallup poll indicated that this was not what taxpayers have in mind. When asked, "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 5 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.

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 cut back.

The individual citizen will have to learn the hard lesson that advocating tax cuts is not enough to fight inflation and to control the size of big government. 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 not enough to cut your taxes and then advocate eliminating the other fellow's benefit. This leads us to the last part of my presentation -- how to actually cut the size of big government.

How To Use The 2 by 4

Taxes are the lifeblood of government bureaucracies. To be sure, deficit financing and off-budget gimmickry provide some leeway. 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.

If an effort to trim the size of government is to succeed, it will need the sustained support of a large portion of the American people. Such an effort must 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) is the most sensible approach. At the federal level, the most direct method is a sustained, across-the-board reduction in income tax rates. The Kemp-Roth bill, which provides for a 30 percent reduction in personal income tax rates, phased over a three-year period, typifies that approach. 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. Then, 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, when taxes have been cut only after the high appropriations have been passed.

Should a tax cut like the Roth-Kemp bill be enacted, a fundamental change could 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." 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. Some of the proponents of lower taxes seem to have let their enthusiasm carry them away. They have projected 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 hard to see how those feedback revenue increases could 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.

Obviously, there are no simple approaches to reforming big government. It surely is not a question of being for or against government. 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 policymakers must 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 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, not every government activity actually achieves its intended benefit. That is precisely why the examination of the costs and benefits of the actions by big government should be made from the perspective of the society as a whole, rather than from the viewpoint of any specific government agency or private interest. We must raise the sights of public policy makers to assure that 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 on a fixed timetable 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 are 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.

These changes in both taxation and in governmental spending programs are the direct means of delivering to the overburdened taxpayers what they want in terms of (1) relief from paying the costs of big government, (2) improving the efficiency of government, and (3) reducing the inflationary pressures that result from large and rapidly growing government activities. Let me issue a warning: The resourcefulness of government officials should not be underestimated. It is important to be aware of the many subterfuges which they can use 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. Those subterfuges must be avoided and their use denounced for the kind of backdoor raid on the Treasury which they truly are.

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 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 by 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 over $2,000 to the cost of a typical new house.

The aggregate cost to the taxpayer and to business of complying with federal regulations will pass the $100 billion point in the current fiscal year. 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, yet regulation adds up to a substantial but hidden tax imposed of $500 per person or $2,000 a year for a family of four.

Decisions made by 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 regulations as well as expenditures 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, alternatives to government intervention should be carefully considered. Private voluntary institutions often provide help to the needy far more effectively and less officiously than governmental bureaucracies. Many types of regulation of business (as of airlines, trucking, railroads, and natural gas), should be replaced by greater reliance on competition and on market forces. We all need to be aware 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. The major contribution of the Congress to fighting inflation is 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: because society's resources are limited, we must realize that government cannot attempt to meet every demand of every group within the nation. Those resources, moreover, are more than economic or financial. As we have seen 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 government policymaker must become 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 more effectively with many of these questions. Policymakers must 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.

In conclusion, let me emphasize the fundamental point that retailers are the middleman -- literally the man or woman in the middle -- who is in the unpleasant position of passing on to the customer the cost increases resulting from the inflationary monetary, fiscal, and regulatory policies of the government. Because the retail industry operates with such a low profit margin, there is no effective alternative to controlling costs during the earlier stages of the production process, and each of those stages is strongly influenced by government actions. Surely, when it comes to the problem of inflation, government is not the saviour but the culprit. Big government truly needs to administer to itself a carefully prescribed dose of self-restraint. Otherwise, aroused taxpayers will force on it a crash starvation diet which it would surely deserve.