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### How To Trim the Deficit Without Raising Taxes

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# HOW TO TRIM THE DEFICIT WITHOUT RAISING TAXES

by  
Murray Weidenbaum

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Presentation to the Heritage Foundation  
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The logo for the Center for the Study of American Business (CSAB) features the letters 'CSAB' in a bold, red, sans-serif font. The 'C' and 'S' are connected, and the 'A' and 'B' are also connected. The letters are set against a white background.

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CENTER FOR THE STUDY  
OF AMERICAN BUSINESS

## HOW TO TRIM THE DEFICIT WITHOUT RAISING TAXES

by Murray Weidenbaum

It is discouraging to listen to the latest round of Washington debates on taxes. Democrats, predictably, are joyous that President George Bush seems to be taking the lead in raising taxes as part of a deficit reduction effort. Republicans, in turn, are sad to see the President back down from his popular stand against new taxes.

The reason that I find the debate so painful to listen to is that the whole tax discussion could have been avoided -- and still can be. There is no shortage of sensible ways to reduce the budget deficit by curtailing the growth of federal spending, especially by reducing outlays for consumption-oriented programs and other activities that make little or no contribution to a stronger economy.

When I hear talk about increases in taxes, the economist in me is offended. It is a confession of the unwillingness to make tough budget choices.

Here are a few examples of the supposedly high-priority items that the Congress has added to the budget in recent years:

- A requirement that each U.S. base in Western Europe stockpile a year's worth of coal.
- The creation of a national center for the study of weeds.
- A "sweeter deal" for 20 beekeepers -- removal of the \$250,000 limit on honey subsidies.
- Subsidies to develop the commercialization of New Mexico wildflowers.
- Reimbursement of the town of Frederick, Maryland, for the ransom paid to the Confederate Army during the Civil War.

How can Congress expect the Executive Branch to show care in spending taxpayers' money when our representatives treat the Treasury as their private pork barrel?

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Murray Weidenbaum is Director of the Center for the Study of American Business at Washington University in St. Louis and author of a new paperback edition of *Rendezvous With Reality* (Basic Books, 1990). This paper was prepared as an address to the Heritage Foundation, Washington, D.C., August 18, 1990.

Of course, it is the multi-billion dollar items that really push up the budget deficit.

So, for starters, here are six large spending reductions, designed to whet the appetite of any budget cutter, liberal or conservative. My selection is based on the old budget motto,

"Good budgeting is the uniform distribution of dissatisfaction."

- Cancel the production of aircraft and missiles (and the construction of bases) which were justified to fight a communist invasion of Western Europe. That potential military threat simply has evaporated.
- Quit paying generous retirement benefits to able-bodied 38-, 39-, and 40-year-old veterans. Let them wait until they are 55 or 60 years old.
- Reduce the proposed new "home ports" designed for a 600-ship Navy. We are now down to 550 vessels and the number is "sinking" fast. This is not a recipe for across the board slashing of the military budget. Events in the Middle East remind us of the dangerous world in which we live and of the continued threats to our national security.
- End subsidies to agribusinesses. That is what large, wealthy farmers really are. There is no sensible reason for requiring citizens to support this segment of business which is dominated by people who are wealthier than the average taxpayer. All the tears about the poor little farmer notwithstanding, the great bulk of the farm subsidies goes to the largest farms.
- Eliminate low-cost federal credit for the lucky business firms that qualify for these special subsidies. The present practice is unfair to all the working people (blue and white collar) who do not get these special benefits as well as the businesses that pay their fair share of taxes.
- Curb NASA's penchant for "circuses." The hard fact is that most of the important scientific knowledge generated by the agency has come from undramatic and unmanned space exploration. In striking contrast, most of the money is going to -- and most of the problems arise in -- the more showy manned exploration projects. We do not need a costly expedition to Mars. We have already been there, in terms of serious scientific investigation.

Each of those cuts would save billions of dollars a year. In the new paperback edition of *Rendezvous With Reality*, I point out these and numerous other cuts -- large and small. Congressional action on just the top 12 would reduce the budget deficit by over \$100 billion a year, on a reasonably phased basis, of course. (Table 1 contains the details.)

At present, we have to admit that there is little public support for budget cuts. That is not surprising. All the average citizen reads or hears about are the pleas of the spending agencies and their beneficiaries. What agency or interest group is going to pay for an ad to

Table 1  
**BUDGET SAVINGS FROM WEIDENBAUM'S DIRTY DOZEN**  
 Full-Year Effect  
 (in billions of dollars)

1.	Eliminate farm subsidies	\$25
2.	Adopt military procurement reforms (save 10% of \$155 billion spent a year)	15
3.	Adopt a "diet COLA" for social security (limit COLA to rise in CPI above 2%)	15
4.	Adopt a "diet COLA" for other entitlements	12
5.	Postpone military retirement to age 55	10
6.	Repeal Davis-Bacon Act on construction wages	9
7.	Cash out food stamps (save 40%)	5
8.	Close unneeded military bases	2
9.	Raise interest rates on federal credit (reduce demand by one-fourth)	2
10.	Eliminate VA hospital stays for non-service illnesses	2
11.	Reduce foreign aid	2
12.	Stop pork barrel projects of the Corps of Engineers and the Bureau of Reclamation	<u>1</u>
	Total	\$100

proclaim that its pet program is wasteful or even funded too generously?

I'm old-fashioned enough to worry a great deal about triple-digit deficits. Let's face it, a lot of my conservative friends don't like to talk about budget deficits any more. But if Jimmy Carter had experienced these budget deficits, he would have been run out of town on the proverbial rail. In any event, cutting federal spending means a smaller public sector, an objective which should bring joy to the heart of any good conservative.

The task of reviewing -- and cutting -- budgets is a basic management responsibility. In this regard, we taxpayers are being shortchanged by our elected officials who are paid to "just say no," but have forgotten how.

The reason for bringing this subject up is not to rehash the past. Rather, it is because tough action on the spending side of the budget eliminates the need to legislate

revenue increases to achieve deficit-reduction targets. The villains here are bipartisan, consisting of both Democrat and Republican legislators who seem to believe that they do not get paid to make hard choices but to please everyone. Some explanation is necessary.

A basic inconsistency bedevils government actions: the average voter demonstrates little regard for the activities of government in the abstract and for Congress as a whole. Every public opinion poll on the subject demonstrates that Americans show far less confidence in government, and in Congress specifically, than in many private institutions or individuals, such as small businesses, teachers, physicians, and the clergy.

Simultaneously, however, the typical voter registers strong confidence in his or her congressional representative. In turn, that representative secures and keeps the position, not by dealing forthrightly with urgent national issues, but by responding with alacrity to the most parochial interests of special and powerful groups.

Consider all the expensive "riders" added to legislation to benefit friendly groups of supporters. This practice arises from the disproportionate relationship in the political process between costs and benefits. This is a very special type of benefit/cost analysis.

Take the case of a special interest group making political contributions totaling \$100,000 in a given year. If those payments help to achieve the successful attachment to a popular bill of a rider channeling a \$1 million subsidy to its locality, industry, or university, the return on that "investment" will be ten to one. That is far in excess of what can be expected from most private undertakings. Small wonder that PAC contributions are growing faster than company sales -- or private income.

The prospects for changing the status quo in government are not very bright. How can we expect the executive branch officials who carry out government programs to be more concerned with minimizing the load on the taxpayer than the legislative branch officials who enact those programs in the first place? After all, how many members of Congress fail to be reelected because they are too liberal with the dispensation of government money?

The answer is clear and it is the reverse: the reelection rate for members of the U.S. House of Representatives exceeds the retention rate for members of the Supreme Soviet (even before *glasnost* and *perestroika*).

As Senator Alan Simpson put it so succinctly, "The problem for us is never saying no to anybody." It must be a lot of fun for members of Congress to "do good" -- with other people's money. Fun, yes. Good government, alas, no.