

# ***IRET*** ***Congressional*** ***Advisory***

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## **PRESIDENT BUSH'S NUCLEAR ARMS INITIATIVE IS NO EXCUSE FOR A DOMESTIC SPENDING SPREE**

The Bush Administration's step-down in military preparedness recognizes, it is to be hoped accurately, that the Soviet military threat has substantially diminished. This is one of the very rare instances in which government programs are being pruned back because the need for them has decreased.

President Bush's announcement of dramatic, unilateral cuts in U.S. nuclear forces was followed immediately by demands for major increases in domestic government spending programs. As a *New York Times* headline reported, "Calls to review budget pact rise; Bush's move to reduce arms opens door..." At a time when government expenditures, taxes, and budget deficits are all setting records, it is hard to imagine a less appropriate response.

Whatever defense spending cuts are made possible by improved international conditions should be devoted to cutting taxes or reducing the deficit, not to throwing more money at expensive, ineffective domestic spending programs or dreaming up new ones. Still less should the

military cutbacks be seized upon as an excuse for gutting the spending restraints included in last year's budget agreement. Although the new budget enforcement provisions are weaker than the old Gramm-Rudman constraints, they do exert some expenditure restraint and are better than nothing. That is why some policy makers are so eager to break them.

A predictable consequence of trashing the budget accord is that a flood of new domestic spending would be unleashed. For every budget dollar saved on defense, several would be added to domestic programs. The perverse results would be escalating federal budget deficits and renewed calls for higher taxes that would further retard productivity and growth. The peace dividend would be squandered and then some.

Excessive domestic spending increases are especially likely because the military savings from Bush's initiative tend to be exaggerated. For the most part equipment that has already been purchased will be retired or used less intensively. This is analogous to closing off a room in a house to reduce heating costs. It means lower maintenance and operating costs in the near term. The big-ticket savings will not come until future years, when less military equipment will need to be replaced.

During the cold war, heavy U.S. military spending was a drain, albeit a necessary one, on U.S. living standards and international competitiveness. The drop in defense spending is welcome economic news because, with fewer resources being devoted to military uses, more labor and capital resources will be freed for non-military purposes. If the government passes the savings on to the productive private sector, the infusion of resources will lower production costs and raise output.

Americans, who have enjoyed little improvement in their living standards during the slow-growth years of the Bush Administration while being subjected to increasing government regulation and greater encroachments on their property rights, could readily use the products and services made available by this installment of the peace dividend. American businesses, which are under intense pressure from aggressive foreign competitors, could put to good use the resources freed by the reduction in military consumption.

With members of Congress constantly saying that we need policies to improve our standard of living and competitiveness, it would be both counterproductive and utterly hypocritical to rip these benefits away from private-sector consumers and producers in order to sink them in less productive or wasteful public-sector spending. Congress should keep its hands off these resources.

Although many government programs have merits, it is too often forgotten in Washington and by special interests that government spending always imposes costs. Government expenditures on goods and services take resources away from non-government uses. Government transfer payments reduce people's willingness to work and save because they provide an alternative income source and, with many means-tested programs, penalize those who are productive and frugal. Because of these costs, government programs should be evaluated carefully and low-priority ones reduced or eliminated.

The critical examination and shrinkage of the military budget, far from being an excuse to give domestic spending a free ride, should be used as a model for the kind of probing evaluation that ought to be applied on the domestic side, as well. The Congress routinely asks hard questions of military programs: Do we need it? Can we afford it? Would it really work? Might it have adverse side effects? The American people, who

ultimately pay for all government spending, deserve to have these same tough questions directed at every non-military outlay program.

If Congress can refrain from enlarging other government programs, the lessened defense spending will slightly narrow the federal budget deficit. An even better alternative is to use the defense savings to finance tax relief. This would bring two distinct benefits, both favorable for growth and productivity. First, the labor and capital released from military uses would continue to go to the private sector, where it would lower costs and enhance output. Second, appropriately designed tax cuts would stimulate the economy by easing various tax distortions that discourage work, saving, and other types of economic activity.

A good place to start would be to extend a number of expiring tax-relief provisions. Another positive action would be to repeal the 10 percent "luxury" taxes, which are destroying the jobs of many poor and middle-class workers and raising business production costs while collecting minimal revenues from the wealthy. If improved world conditions permit greater defense savings in future years, Congress should again exercise spending restraint and apply those budget savings to repeal of a host of damaging taxes.

Both taxes and the budget deficit will fall if tax reductions exactly match defense cuts in the official budget estimates. The reason for this narrowing of the deficit is that lower taxes lead to greater economic efficiency. Faster economic growth, in turn, powerfully boosts tax revenues. Thus, a properly specified tax cut of one dollar will reduce actual tax revenues by less than a dollar. Because budget estimators stubbornly and incorrectly refuse to acknowledge this pro-growth effect, they completely miss the associated fall in the deficit from balanced reductions in spending and taxing. They are always surprised when tax collections exceed official estimates following tax

cuts and come in below estimates following tax increases.

The Bush Administration's unprecedented reductions in nuclear arms can bring substantial economic benefits if the budget savings are used wisely. The savings make it possible to reduce taxes and the deficit simultaneously, thereby

increasing Americans' productivity, competitiveness, and prosperity. The opportunity will be lost, unfortunately, if the savings become an excuse for still more government spending. That would truly snatch defeat from the jaws of victory.

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