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PAIN FOR A FEW, RELIEF FOR MANY: HOUSE AND SENATE BUDGET RESOLUTIONS ON A NEW TRACK

Kudos for the House and Senate Budget Committees! Their respective 1996 budget resolutions would put federal budgets on a path toward zero deficits in fiscal year 2002 and thereafter. In contrast with the deficit reduction efforts in recent years that relied heavily on tax increases, the Budget Committees propose to eliminate deficits solely by reducing spending. And many of the spending cuts are decreases in the actual level of outlays, not merely decreases in spending increases.

These proposed budget resolutions represent a 180 degree turn in budget policy. Instead of merely trimming spending growth while keeping programs and activities substantially intact and indeed adding new spending authority, the House and Senate Budget Committee resolutions move to eliminate or curtail one program and activity after another and to eliminate or reorganize many departments and agencies responsible for these activities. The resolutions aim at eliminating the long-standing impetus for more and more government and at subjecting government budget making to the same kind of economizing rules that households and businesses must follow if they are to survive.

Implicit in the respective resolutions is recognition of the fact that every government program, every government activity, every dollar of government outlay has a price tag, i.e., imposes real costs and burdens on the public. Important as it is, eliminating the federal budget deficit is not the unique goal; reducing the federal government's take of the nation's production resources and incomes in carrying out legitimate government functions is just as urgent an objective. The proposed budget resolutions embody this basic principle.

The principal criticism of the House and Senate budget proposals does not address these issues. Instead, it attempts to play on the "heart strings," bewailing the pain that will be suffered by the beneficiaries of the programs the budget committees want to cut. This is mischief, intended to take the policy debate down the garden trail, because it looks only at the alleged benefits of government activities and never addresses the costs incurred in providing those benefits.

> ***Ignored by the heart strings folks is that government programs aren't free... On balance...cutting back on government activities and spending must result in a net easing of pain.***

It is certainly true that cutting or eliminating any government program, activity, or outlay inflicts pain on someone or other, whether it's the bureaucrat who directs the activity or administers the program, or the individual, group, or business whose income is enhanced or whose costs are reduced. If budget policy were to be constrained by the requirement to avoid inflicting pain on current beneficiaries, government spending could only increase, and the rate of increase could never be significantly slowed. The heart strings argument really is a pitch for an ever-growing and more intrusive government.

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pay – bear the pain – for these programs and the benefits they provide.

The only big items on the "tax expenditure" list that would still appear if measured relative to a consumption tax are the home mortgage deduction and the exclusion of employer provided health insurance and other miscellaneous fringe benefits.

People tend to identify the costs of government in terms of the taxes they pay. In fact, the real costs of government activities are substantially larger. The real costs – the real pain – imposed by government activities are the products and services that aren't available to consumers and businesses because the government has preempted the labor, capital, and other production inputs that would otherwise have been available to produce things for use in the private sector. The real costs also include the less productive use of these inputs by the government than by households and businesses. And these real costs also include the inefficiency that results from government's commandeering income of those who contribute their labor, capital, and entrepreneurial and managerial skills to productive activity and distributing that income to those who don't. Taking account of these costs, it is a virtual certainty that, on the average, every dollar spent by government costs the economy a good deal more than a dollar of forgone valuable output.

On balance, therefore, cutting back on government activities and spending must result in a net easing of pain. The cost savings and relief from pain for the public as a whole will exceed the pain suffered by the beneficiaries of the programs and activities that are cut.

By the same token, if budget trends aren't reversed, the excess of real costs over the sum of the benefits afforded particular individuals, groups, and businesses will impose a steadily increasing burden on the public as a whole.

Instead of dealing with who suffers from cutting government spending, policy makers should be guided by the answers to a few, simple questions about every government program, activity, and outlay. The basic question is whether the government activity is something government should do. Does the government program benefit the public as a whole or are the benefits directed primarily to particular individuals, groups, or businesses? Programs with selective constituencies should be eliminated, irrespective of the spill-over or neighborhood benefits claimed on behalf of the programs. Are the costs as well as the benefits of the program identifiable in meaningful terms and are they objectively measurable? If identifying and measuring these costs and benefits must rely on assertions which can't be substantiated, the program should be rejected. As a corollary, can it be shown that a program's benefits at least equal its costs? If not, drop the program. Is the program or activity something that only government can do or can private businesses do it at least as well as government? Does the government's undertaking the program contribute more to the economy's overall productivity than if the resources used in the program or activity were left to the private sector? Unless it's clear that it does, the program should not be undertaken or should be cut back, if not eliminated.

As a practical matter, policy makers may not be able to apply these tests rigorously in making budget decisions. Even if these guides can't be followed to the letter, they at least provide a frame of reference for evaluating budget initiatives in basic, common sense terms. They are certainly far better guides for good budget policy than picking winners and losers.

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Note: Nothing written here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before Congress.