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More Gain than Pain, Despite Public Fears

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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.

It is certainly true that cutting or eliminating any government program, activity, or outlay inflicts pain on someone or another, 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 would only increase, and the rate of increase could never be significantly slowed. The heartstrings argument really is a pitch for an ever-growing and more intrusive government.

Ignored by the heartstrings folks is that government programs aren't free. Someone has to pay -- bear the pain -- for these programs and the benefits they provide.

People tend to identify the costs of these government programs 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 pre-empted the labor, capital, and other production inputs that otherwise would 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 the government commandeering the 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 all 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 foregone 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:

Is the government activity 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 spillover 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 always 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 among the populace.

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