

H.R. 9, Title XI: ENHANCING FISCAL EFFICIENCY

Statement by

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to

Committee on Ways and Means

U.S. House of Representatives

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SUMMARY

- Title XI would improve the federal budget making process by allowing individual income taxpayers to mandate reductions in total budget outlays from projected baseline levels. It would slow the growth of federal spending and lead to smaller budget deficits. Enactment of the bill would establish more effective communication between taxpayers and policy makers concerning budget policy.
- Federal spending and budget deficits continue to expand despite the broad consensus in favor of less government spending and lower deficits because
 - policy makers are buffered from the preferences of the public as a whole while accessible and responsive to the demands of interest groups; and
 - baseline budget projections dominate budget decision making, exerting strong upward pressure on total outlays.
- Title XI would break the hold of baseline projection on budget decision making. It would require policy makers to conform decisions about budget aggregates more closely with the preferences of the public as a whole. It would impose greater pressure on budget policy makers to set more carefully determined priorities among competing programs.
- The objection that Title XI only allows individual income taxpayers to call for cuts in federal spending but doesn't allow them to ask for more spending is without real

substance. Although many individuals want the government to initiate or expand programs to serve their particular interests, few people favor an increase in total federal spending. Even if people could check off in favor of an increase in total spending, it is unlikely that any significant number would do so.

- Similarly there is no real substance to the objection that Title XI would give people who pay a lot of taxes too much influence in determining total federal outlays. There is no reason to believe that only the rich want government to spend less and that people who pay little income taxes do not want the government to spend less or want it to spend more.

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I am Norman B. Ture, president of the Institute for Research on the Economics of Taxation (IRET). My testimony presents my views, not necessarily those of IRET, about Title XI of H.R. 9, the Taxpayer Debt Buy-Down.

I want to commend the Chairman and the Committee for providing this opportunity to address Title XI. These provisions of H.R. 9, I believe, represent a highly constructive effort to improve the existing federal budget process. Their enactment and implementation would very likely result in a material slowdown in the growth of federal spending and in more constructive federal programs.

By tying budget policy making more closely to the expressed preferences of individual taxpayers, Title XI would substantially improve the federal budget process and increase the efficiency of the fiscal system.

Most members of the Congress and their constituents alike deplore federal budget deficits and the resulting requirement for the federal government to borrow some of the saving of households and businesses. Notwithstanding, federal budget deficits are the rule, rather than the exception. In large part, this anomaly results from the fact that budget policy making for any given fiscal year is very much the prisoner of spending decisions in the past and of the aversion to cutting back on future spending for programs with established beneficiary constituencies. Baseline projections of existing budget program outlays, not the worthiness of those programs,

have for the most part dominated budget decisions making, not only impelling excessive expansion of federal spending but also impeding adjustment of spending priorities to the changes in demands for government services that necessarily occur in a dynamic society.

Something must be done to overcome these impairments of the fiscal system. Title XI would meet the requirements for a more efficient fiscal system.

Fiscal Efficiency

In a free society, government budget deficits reflect a fundamental failure of the fiscal system. An efficient fiscal system would provide a volume and composition of government spending programs and activities that conform closely with the public's preferences for the services it wants from its government and the cost it is willing to bear to obtain those services.

Achieving an efficient fiscal system, one that confines government spending to the amount the public is willing to pay for in taxes, requires effective communication between taxpayers and public policy makers. The existing fiscal system suffers from communication breakdown. It operates, therefore, contrary to the preferences of policy makers and the body politic as a whole for getting from rapidly expanding budget outlays and deficits to slower growth, if not actual reduction, in the amount of government spending and much smaller deficits. What is needed is a system that (1) allows policy makers to hear the demands of the constituency as a whole for less government spending and smaller deficits, and (2) effectively satisfies these demands.

Title XI enables every individual income taxpayer to communicate explicit instructions to the executive branch and to the Congress to reduce aggregate budget outlays by as much as 10 percent of individual income tax liabilities. Title XI provides the equivalent of an annual taxpayer referendum concerning the extent to which federal government spending should be reduced below the baseline levels for each fiscal year. Moreover, the referendum would mandate the Congress to enact these reductions.

Title XI would not impose on taxpayers the impossible task of specifying which government programs are to be cut back by how much from the spending levels they would otherwise reach. Instead, the Congress would have to order the priorities of existing and new spending programs subject to the overall outlay constraint specified by individual income taxpayers. Only if the Congress failed to bring aggregate spending authorizations within the limits set by the buy-down would an across-the-board sequestration take effect.

One of the great virtues of Title XI is that it would alter the influence of baseline spending projections on budget policy making. The projections would serve as the base from which the taxpayer-mandated reductions are to be made, rather than as that to which outlays are to be added.

Expected Results of Implementing Title XI

The enactment of Title XI would very effectively open the lines of communication between taxpayers and policy makers, informing budget makers by how much taxpayers want spending for the coming fiscal year to be reduced from the projected baseline amount. Whether taxpayers chose to take little or maximum advantage of this opportunity, the aggregate results would far more accurately than any other poll convey to policy makers the public's views about the level and growth of total federal spending.

Congressman Walker and Senator Smith have spoken to the subject of the possible budget effects of Title XI, and I have little to add to their statements on this matter. The specific magnitudes of the budget results, in one sense, would be less consequential than what the results would reflect — a measure of what taxpayers generally wish in terms of aggregate levels of government services. As such, these results would also depict a major achievement in enhancing fiscal efficiency.

Criticisms of Title XI

I want to examine two of the objections that have been raised to Title XI. One of these is that the proposed buy-down check-off is one-sided — it would allow individual taxpayers to opt only for less total spending and deny them the opportunity to choose more total federal outlays. The other objection is that upper-income individuals who pay the most taxes, not the public as a whole, would dictate by how much federal spending as a whole must be reduced.

"The Debt Buy-Down Is a One-Way Street" Objection

The objection that the proposed debt buy-down is asymmetrical — that it offers taxpayers the opportunity to call for a cut in federal spending but no chance to ask for increases in federal outlays — is without real substance. It strains credulity to believe that any significant number of people believe that total federal spending is too low or that total federal spending should be greater.

There are to be sure, many individuals who very much want the federal government to undertake programs or activities on their behalf. Very often, individuals with a community of interest in obtaining a particular objective for their benefit form organizations dedicated to persuading policy makers of the worthiness of the organization's objectives and of the desirability of authorizing government programs and activities to achieve them. What these groups are seeking, of course, are benefits that they are unwilling or unable to obtain by their own efforts or for which they are unwilling themselves to pay.

All public policy makers are familiar with this "rent seeking" which has become the hallmark of our times. It is responsible for the enormous proliferation of government programs and activities aimed at benefitting specific groups in the population rather than the population as a whole. This same proliferation accounts in significant measure for the expansion of aggregate federal spending.

These rent-seeking groups have no concern about the implications of the success of their efforts for the total size of the government, nor do they want expansion of government as a whole. They want, instead, initiation and expansion of activities and programs to serve their particular interests. Even if the proposed debt buy-down check-off were to allow taxpayers to indicate that they want an increase in total government spending, it is highly unlikely that any significant number of people would call for any significant increase in the aggregate amount of federal outlays.

There is, accordingly, no reason to provide any such symmetry in the proposed check-off. The problem that the nation confronts is certainly not that people have no way to get government to hear and to address their demands for government services or benefits. The problem is precisely the reverse — that policy makers are continuously exposed to intensive pressures to add new programs and activities and to expand existing ones on behalf of one or another organized rent-seeking group. And except on rare occasions, policy makers confront no broad-based, organized efforts by the public as a whole to reduce total government outlays, to cut back government programs and activities in general.

The proposed debt buy-down affords individual income taxpayers as a whole the opportunity they do not now have to direct and require policy makers to reduce aggregate government spending. The debt buy-down, moreover, allows the taxpaying public to avoid the maneuver that some policy makers fall back on to finesse calls for less government spending, to wit, "Tell us what specific spending programs you want us to cut."

Individuals can't be expected to name specific spending programs that should be cut. Few, if any of us, are able to identify specific spending programs now in the federal budget. There are probably many individuals who are convinced that the federal government's spending on education, for example, is nonproductive if not, indeed, counterproductive, but it is doubtful that any but a handful of those individuals could identify any specific education program and the amount of its outlays. There is probably a vastly larger number of individuals who are convinced that the federal government is much too large and who do not really much care what programs are curtailed in the interests of greatly reducing the government's presence in our daily lives.

It is not reasonable to ask the public to specify which activities and which programs are to be cut back if aggregate federal outlays are to be reduced. Fortunately, Title XI doesn't make

this demand on the public but on the policy makers who are elected with the specific responsibility of making decisions about how much of what government should do.

There is a broadly-based consensus, reflected in the support for a balanced budget amendment, in favor of limiting total federal spending to the amount of taxes people are prepared to pay for government activities. This is a wholly appropriate but nonetheless elusive goal of budget policy. Achieving that goal will require imposing severe limits on initiating or continuing government programs and activities for the benefit of particular groups and particular interests in our society. Government spending, instead, must be concentrated on activities and programs that can be shown to provide benefits for the public as a whole and that exceed the costs they impose.

Title XI will make an important contribution in this respect. By imposing substantial constraints on total spending growth, it will exert continuing, significant pressure on policy makers as a group to set priorities among all the contending program and activity claims that each of them advances. The result is likely to be not only slower growth of government and its reduced presence in people's daily lives but government programs and activities that better meet the demands of the public as a whole.

"The Rich Would Have Too Large a Say in Spending Cut Backs" Objection

Under Title XI, the larger is the amount of an individual's income tax liability, the greater is the amount that the individual can check off for buying down the federal debt and reducing federal spending. The objection that has been raised, not unexpectedly, to this is that it would be unfair to allow people paying substantial amounts of income taxes, i.e., rich people, to exert undue, disproportionate influence over total federal spending — to outvote the poor who pay little in income taxes. But one should ask why it is unfair for those who pay a large amount of income taxes to defray the costs of government to have a larger voice concerning how much the government spends than those who pay little or no income taxes? Indeed, isn't it, instead, unfair for people who pay very little or nothing for the services of government on their behalf to insist that the voices of those who pay for those services should be muted?

The implication, clearly, is that people paying a lot of federal income taxes want the government to do less while people who pay little income tax want the government to spend more. It's difficult to identify any basis for this difference in viewpoint, in the abstract, and it's highly doubtful that there is, in fact, any such income-based difference in preference.

This does not gainsay that people at any taxable income level are likely to oppose cutbacks in government programs of which they are the beneficiaries. As noted above, however, this desire for the government to maintain or enlarge programs on one's behalf doesn't mean one prefers higher amounts of government activities and spending.

Title XI's Contribution to Long-Term Improvement in Budget Policy

The Bipartisan Commission on Entitlements and Tax Reform has performed an invaluable service in alerting the nation to the looming fiscal catastrophe that will overtake us if entitlement spending growth is not materially slowed or tax revenues enormously increased. Reasonable projections of existing law entitlement outlays and tax revenues show that within a generation's time entitlement spending alone will take up every dime of federal revenues. The resulting budget deficits will be in the range of 15 to 20 percent of GDP, and federal borrowing will preempt all of the nation's saving, leaving no saving to finance capital formation. These results foretell a shrinking economy, one in which the living standards of the growing American population will fall at a significant rate.

Even if one substantially discounts these projections of fiscal crisis, prudence dictates that budget policy must very soon turn to putting the brakes on federal spending growth, particularly of entitlement programs. Title XI has the great virtue of giving the public at large the opportunity to fortify policy makers' resolve to address these budgetary difficulties. I urge this Committee's favorable consideration of Title XI of H.R. 9.