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Institute For Research On
The Economics Of Taxation

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**H.R. 13: ENHANCING FISCAL EFFICIENCY**

**Statement by**
**Norman B. Ture, President**
**Institute for Research on the Economics of Taxation**

**to**

**Subcommittee on Select Revenue Measures**
**Committee on Ways and Means**
**U.S. House of Representatives**

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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 H.R. 13, the Taxpayer Debt Buy-Down Act.

I want to commend the Chairman and the Committee for providing this opportunity to address H.R. 13. The bill, I believe, represents a highly constructive effort to improve the existing federal budget process. Its enactment and implementation would very likely result in a material slowdown in the growth of federal spending and in more constructive federal programs. Just as important, it would begin to create an effective nexus between policy makers in the Congress and in the Executive Branch, on the one hand, and the entire population of individual federal income taxpayers, on the other. In both respects, enactment of H.R. 13 would substantially improve the federal budget process and lead to a level and composition of federal activities conforming more closely with the preferences of the public as a whole.

In November 1993, I had the privilege of testifying before this Committee's Subcommittee on Select Revenue Measures concerning H.R. 429, the initial version of H.R. 13, the bill now before this Committee. Much of that testimony focused on the contribution of the bill's enactment to improving communication between the public at large and government policy makers concerning the amount of government activities for which people are willing to pay. Enhancing that communication, I believe, is the *sine qua non* for improving budget policy and fiscal efficiency. I respectfully direct the Committee's attention to that testimony, rather than repeating that discussion at this time.

Congressman Walker and Senator Smith have addressed their testimonies to the principal features of the debt buy-down proposal, how it would operate, and what might be its budgetary results. I have little to add to their testimonies in regard to these matters. I will, therefore, focus my discussion on two of the objections that have been raised to enactment of the proposed legislation. One of these objections is that the proposed debt buy-down check-off is one sided -- that it would allow individual taxpayers to opt only for less total federal 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 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 call for providing 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 call 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, H.R. 13 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.

H.R. 13 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 H.R. 13, 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.

**H.R. 13'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. H.R. 13 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 the bill.