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Curbing the appetite for spending

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Did you know total federal government spending grew 17 percent during the last three years (inflation adjusted)? This compares with 6.8 percent, 8.3 percent, and 3.5 percent for the first three years respectively of the Reagan, Bush I, and Clinton administrations.

During the latter Bush I and Clinton years, defense spending was falling as a percent of GDP, which, in part, explains the modest growth in spending during 1991-2001. What is particularly troubling now is that nondefense discretionary spending (leaving out Social Security, Medicare, and Medicaid) has grown by 23.2 percent during the last three years, as compared to minus 13.5 percent, plus 11.6 percent, and minus 0.7 percent of the first three years of the Reagan, Bush I, and Clinton administrations. (My colleague, Dr. Veronique de Rugy of the Cato Institute, prepared this and a much more detailed spending analysis that may be found on www.cato.org.)

Federal spending has risen to a little more than 20 percent of GDP, up from only slightly more than 18 percent of GDP three years ago. High levels of government spending are dangerous both to our fiscal health and our liberties.

All government spending must be financed either by taxing or borrowing, both of which hurt economic growth and job creation. Many politicians and others focus on the benefits of government spending while ignoring the huge extraction cost of obtaining the funds to spend. There is not only the direct cost of collecting the tax from the taxpayer by both government and the private sector but, more importantly, taxation discourages the productive activities of working, saving and investing. Economists refer to these costs as the dead-weight loss of the tax system, which many estimates now show may exceed 100 percent of the tax collected.

Few government programs have real rates of return exceeding or even approaching 100 percent and, in fact, many government programs, such as most transfer payments and subsidies, actually have negative returns.

This explains why those economies with very large government sectors tend to grow much more slowly and have higher unemployment rates than those economies with more modest government sectors.

President Bush is vulnerable to charges of being irresponsible on the spending front because of the spending hemorrhage on his watch. He can argue he inherited an economy sliding into recession and the September 11, 2001, attacks — both out of his control. But he has in fact supported many questionable domestic spending programs and has failed to veto any spending bills, even though some contained items most reasonable people would view as wasteful, unnecessary or counterproductive.

Fortunately, defense spending should stop rising and begin to decline again as we get the Iraq situation behind us. A majority of Americans now seem to understand Social Security must be wholly or partially privatized, if future generations are to receive reasonable retirement benefits and if Social Security tax rates are not to become so high they kill the golden goose. (There are still some in denial who wish to pretend all is well, despite declining birthrates and rapidly increasing longevity, which make the present system actuarially unsound.) The administration and serious members of Congress now are considering various fixes proposed by some of the think tanks, and it is likely necessary changes will be made in the next few years.

Medicare and Medicaid expenses are also growing much faster than the real GDP, but here the majority of Americans still seem not to understand the nature and extent of the problem. Many simply do not want to face the fact that the demand for medical treatment is almost unlimited and hence it must be rationed by price (like other goods), by type of service, or by queuing — no country has found any other method because there is none. Responsible opinion leaders will have to do a better job of communicating the reality before the necessary changes become politically possible.

Unfortunately, much of the rhetoric around the proposals for government help for prescription drugs has added to the ignorance. Some politicians — Democrats Sen. John Edwards of North Carolina and Rep. Richard Gephardt of Missouri are prime examples — demagogue the issue by making irresponsible charges that all problems would go away if drug companies and medical providers stopped being "greedy." If the left-wing groups really believe greed is the problem in the provision of medical services and drugs, why did it never occur to them to go into the business themselves, and drive the bad guys out with lower prices?

Ah, but that would take real work and skill.

Even some of the president's liberal Democrat opponents have made positive suggestions about getting nondefense, discretionary spending under control by doing such things as freezing (in real terms) new outlays, and requiring real cost-benefit analysis for all spending. The president ought to make these ideas his own — his father ran and won on the economic platform of a "flexible freeze" on spending. It was a good idea then (unfortunately not implemented by the first Bush administration) and it is a good idea now.

The president's challenge is to take these and other good ideas, like contracting out more government services to private concerns — which the administration has already begun — and to convince the American people he is now serious about getting spending under control. If he does not, he not only puts his re-election but our economic well-being in danger. A good way to begin would be by vetoing some spending bills.

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