POLICY REPORT

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The Federal Budget Game

by Paul Craig Roberts

In 1974 Congress passed legislation creating a congressional budget process. The act established House and Senate Budget Committees and a Congressional Budget Office (CBO) charged with providing Congress with detailed budget information and studies of the impact on the economy of alternative spending and revenue levels. The legislative core of the new process is the two Budget Resolutions, the first in the spring and the second in the autumn. The purpose of the Budget Resolutions is to set an expenditure ceiling and revenue floor for each fiscal year. The figures in the first resolution are regarded as targets to guide the appropriations and tax committees, whereas the figures in the second resolution are legally binding. Barring significant changes in the economy or economic outlook during the intervening months, there is not supposed to be much difference between the two resolutions.

With the Budget Act came a more tightly scheduled work year and the greater pressure that comes with tighter schedules. What gain did Congress expect as an offset to the added burden that it imposed on itself?

One possible answer is that Congress had no choice, that it simply had to get control over spending. Such a response implicitly assumes that Congress was concerned about the budget deficits and, in the public's interest, voluntarily imposed a spending discipline on itself in order to achieve a balanced budget.

There are various problems with this response, over and above the fact that the combined deficit for the three years immediately following the Budget Act are three times the size of the deficit for the three years immediately preceding the Budget Act.

"This drive for ever greater deficit spending has continually led to the very problems it was allegedly designed to cure."

One problem is that the Budget Act was supported by many members of Congress who are not opposed to budget deficits. The careers of many politicians are tied to "spending constituencies," and such politicians may feel that it is easier to finance the expansion of these constituencies through deficits than through legislating higher taxes. Also, many politicians believe that budget deficits are necessary to stimulate the economy and maintain full employment. These politicians would not have supported the Budget Act in order to eliminate deficits.

Another problem with this response is that it assumes there is an identifiable "public welfare" that politicians automatically place above their own interests. The behavior of politicians is not usually explained on so heroic an assumption.

Probably we would do best to try to understand the Budget Act the way we try to understand other pieces of legislation—in terms of politics. Much legislation is the result of compromises through which each side gets, in varying degrees, something of what it wants. The Budget Act, however, seems to be a product of different sides having different expectations about its consequences. Although the participants shared a common vocabulary about spending being out of control, they were employing two different definitions of budget control.

To fiscal conservatives, getting spending under conrol meant balancing the budget.[1] They saw the budget process as a way of putting their free-spending opponents on the spot. The lavish spenders appeared to have it too easy, because they could indirectly legislate big deficits by voting in favor of many separate bills. Fiscal conservatives thought that if fiscal liberals had to vote on setting the size of the government's budget and the deficit itself before appropriating money for the individual programs, there would be stricter limits on spending.

Fiscal liberals, however, had a different goal in mind. They wanted to strip deficits of their political image by institutionalizing Keynesian fiscal policy as the definition of budget control. As Senator Edmund Muskie recently

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EDITORIAL

The Unlegislated Tax on Wealth

by M. Bruce Johnson

A serious financial problem confronts the middle-aged today. Most middle-aged people have established their careers and families, and now, in their peak earning years, are trying to put aside part of their current income in order to accumulate assets sufficient to assure a comfortable retirement. But these would-be investors are part-time amateurs who must rely on organized financial markets for their investment opportunities. Here's the problem: High inflation combined with high marginal tax rates on "unearned" investment income generate very bleak prospects.

Twenty-five years ago consumer prices were rising at approximately 1% a year, and yields on long-term government bonds were in the neighborhood of 3% to 4%. Hence, an individual investor could have earned a real, after-tax rate of return that, although small, was positive. Since the mid-1960s the real rate of return has been negative for an individual in the 50% tax bracket.

The rate currently stands at a negative 4.5% per year.

A few symbols will make the illustration clearer. Let R represent the after-tax real rate of return that an individual has decided he or she must receive in order to make it worthwhile to save rather than consume. Perhaps 3% would be reasonable. At 3% a year, it would take approximately 24 years to double one's investment. Now let D be the dollar amount of the investment contemplated. Thus, at the end of the year one would expect to have $D(1+R)$ if the target is achieved.

However, financial instruments are not indexed for inflation and taxes; hence one must adjust the yields on available financial instruments for inflation and taxes. Suppose the nominal rate of return on a financial instrument is designated by the symbol I, inflation rate by P, and one's marginal tax rate by T. Then, the number of real, after-tax dollars one has at the end of the year can be represented by $D[1+I\ (1-T)]/1+P$. Consider the following example. Suppose one invests $10,000 at a nominal rate of return of 26.6%. (Don't get excited—this is just an example!) Further assume that the marginal tax bracket is 50%. The before-tax return on the investment is $2,660, which when taxed at the 50% rate, yields an after-tax return of $1,330. The initial investment of $10,000 plus the after-tax return of $1,330 gives an after-tax sum of $11,330 at the end of one year. However, inflation has eroded the purchasing power of these dollars over the course of the year. If prices have risen by 10%, we must deflate the entire $11,330 by the change in the price level. Divide $11,330 by 1.10 and one obtains a final figure: $10,300, which is precisely a 3% real, after-tax rate of return. In a world of 10% inflation and a 50% income tax bracket, an individual must obtain a 26.6% nominal rate of return in order to achieve his target of a 3% real, after-tax rate of return.

The relationship between the nominal yield and the target real rate of return can be expressed in terms of various combinations of inflation rates and tax rates. The accompanying table presents marginal tax brackets and the nominal rate of return one must earn if one wants to attain a 3% rate of return in a world of 10% inflation. The numbers are sobering. If you want to construct your own table for different inflation rates and different real rates of return, here is the formula: $I=[P(1+R)+R]/(1-T)$.

Marginal Tax Rate T	Nominal Rate of Return* I
.20	16.6%
.30	19.0
.40	22.2
.50	26.6
.60	33.2
.70	44.3

*necessary to achieve 3% real rate of return

Current nominal rates of return on government securities and money market funds are in the 9%-10% per annum range. Thus, the amateur private investor must accept a negative rate of return or must venture into risky and murky markets that are less liquid and less well organized. Why are the nominal rates so low? Shouldn't rates of interest be the sum of the real rate of interest and the expected rate of change of prices? Yes, but the special tax treatment of certain institutions also has a bearing on the question. Many of the organized entities that compete with the individual investors in financial markets are tax exempt organizations. Pension funds, credit unions, charitable foundations, religious organizations, and a variety of other entities dump money into the organized financial markets, raise the prices of the securities, and depress the yields. Because they do not pay income taxes, these institutions can achieve the same target real rate of return at a much lower nominal rate of return. Hence, the individual investor is doomed to receive negative real rates of return. In effect, this is an unlegislated tax on wealth.

The solution to this problem for the middle-aged (and for all of us) lies in policies that will reduce inflation and individual tax rates, to enable the individual investor to reap the same return as the tax exempt institutions. ■

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stated, "Economists of every respected school agree that increased federal spending or tax cuts producing a deficit may well be the only way to boost employment, generate investment, stimulate demand, accumulate capital, and prevent a downturn from deepening into a depression. A mandated balance would blunt our sharpest fiscal tool."[2]

To Muskie, getting spending under control means explicitly relating the taxing and spending actions of Congress to a fiscal policy that justified them. He and other fiscal liberals saw the Budget Act as a rationale, in terms of scientific economic policy, for the ongoing political process of building spending constituencies. With the Budget Act, deficits would originate in the economic policy proposals of the experts in the Congressional Budget Office and in the Senate and House Budget Committees, and would be evidence that spending was under control.

The politics of the Budget Act was that each side believed the budget process would redound to its political advantage. Fiscal conservatives hoped to use it to embarrass the chronic spenders, while the latter expected it to take the sting out of deficits by justifying them on economic policy grounds prior to the appropriations process.

Fiscal conservatives seemed to feel that liberals were getting away with something by being able to vote separately in favor of each spending program without having to legislate higher taxes or to accept any responsibility for budget deficits. They thought that liberals would be voted out of office if they had to vote in favor of a deficit (or higher taxes) before they could go on to fund all of their spending programs. Their reasoning overlooked the fact that being "liberal" is not just a matter of a person's state of mind; it is also a rational response to political opportunities to build spending constituencies. People receiving handouts are more interested in the amount than in how the handouts are financed.

The new budget process would seem to have weakened the position of fiscal conservatives. Their resistance to deficits can now be portrayed as an attack on "full employment" policy and on the budget process itself. Prodigal spenders can always argue that a deficit is needed this year in order that the budget can be balanced next year. Without economic stimulus (credit expansion to finance a budget deficit), the argument goes, unemployment will rise, thus simultaneously causing the government's expenditures to go up and its tax revenues to go down. Balancing the budget this year, the spenders can say, will mean a bigger deficit next year.

This drive for ever greater deficit spending has continually led to the very problems it was allegedly designed to cure. As Nobel Laureate Friedrich A. Hayek and other "Austrian School" economists have shown, such policies are not only responsible for today's crippling inflation rate, but for the extensive and persistent unemployment problem as well.[3] The monetization of debt through the Federal Reserve System not only results in rising prices as the money supply increases, but also creates enormous distortions in the relative prices of goods and services throughout the economy. These distortions mislead businesses by encouraging investment in less efficient ventures. Since sufficient demand to sustain such ventures does not *actually* exist (without the artificially inflated prices), business failures and unemployment soon result. In addition, instead of any real economic stimulation, a major decline in productivity occurs as government revenues are drawn away from the private sector. Hence, Keynesian deficit spending serves only to fuel the inflationary boom *and* the consequent recession, as well as to cripple economic growth.

The problems of inflation and unemployment can be solved only by ending this debt monetization, cutting spending back to balance the budget, and eliminating the government's regulatory monopoly over money and credit (abolishing legal tender laws, banking regulations, etc.). Fortunately, the forthcoming Cato Institute Policy Study Proposal for a Balanced Budget Amendment (being prepared by *Policy Report* Editor Richard E. Wagner) would be a major step in this direction.

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POLICY REPORT

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There is no doubt that Keynesian fiscal policy has been institutionalized in the congressional budget process. The Congressional Budget Office's forecasts, macroeconomic analyses, and policy alternatives are derived from the Keynesian view of economic relationships. Although fiscal conservatives were mistaken in their belief that the budget process would be used to balance the budget, there are nevertheless some stumbling blocks to the liberals' use of the process to institutionalize deficits as a way of expanding their spending programs.

The first stumbling block is the Keynesian theory itself, which says that deficits should not be incurred in good times. So far this has not prevented large deficits from occurring in good times. When people want to spend, they will find reasons to justify their expenditures. For example, although Congress had completed action on the fiscal 1977 budget before Carter's election in November 1976, immediately after the election liberal Democrats "discovered" a "spending shortfall" that was threatening the economic recovery. The Ford Administration was accused of having sat on money that Congress had appropriated to be spent. As a result, part of the stimulus to the economy that was needed for recovery was missing. To rectify the problem, Congress proposed and passed a third budget resolution for fiscal 1977, which increased the deficit to provide an assortment of handouts. Our news media, which is supposed to be clever and sophisticated, failed for the most part to note the election payoffs and went along with the charade of "the spending shortfall threat to the economy."

Another argument used is that the unemployment rate is misleading, because it doesn't include all the discouraged workers. This argument allows deficits to be justified in good times on the grounds that we don't really have full employment and that more stimulation is needed to draw the discouraged back into the labor force.

In general, the process seems to work as follows during the course of the business cycle: recessions justify deficits to get the economy moving again; recoveries justify deficits to keep the recoveries going; good times justify deficits to ward off the downturn that is predicted to be around the corner. Signs can be found upon which to predict a recession, just as spending shortfalls can be built into the budget (by overestimating unemployment compensation, for example) as a hedge against having to balance the next one. Looking back, the spending advocates can say that the reason the budget didn't balance on the upturn just before the downturn was that the deficit in the previous year had not been large enough to have us on a full employment budget.

"The Budget Act has not changed the incentive to spend. . . . If anything, it has made it easier for Congress to incur large deficits."

Of course, it gets sticky when the economy is heated up and the inflation rate begins to rise. At such times, the thing to do is to let the President's budget in January be austere—and maybe also the first budget resolution in May. In the meantime, you rely on inflation to pressure the Fed into a tight money policy. Then you can forecast a recession as the consequence of high interest rates, hold hearings on the need to stimulate the economy to fight the recession, and come in with a big deficit in the second budget resolution in September.

So although it is theoretically possible that the spendthrifts could trip on this first stumbling block, in practice they step over it fairly easily.

A second stumbling block is that justifying deficits does not specify their form. The Keynesian theory makes it clear in principle that deficits can be produced by holding taxes constant and increasing government spending, or by holding government spending constant and cutting taxes. Thus, tax cuts are an alternative stimulative policy to increases in government spending.

One way of stepping over this stumbling block is to decide that dollar-for-dollar tax cuts are less stimulative than increases in government spending. This lets you argue, as the Congressional Budget Office does, that "a permanent income tax cut is a relatively expensive way of reducing unemployment in terms of budget dollars per additional job."[4] Dollar for dollar, the Congressional Budget Office finds that government purchases have the greatest impact on GNP, while despite displacement assumptions of 50 percent, public employment is estimated to be more effective, per dollar, than tax cuts in stimulating jobs.

Thus, you eliminate tax cuts as an alternative by estimating them to be a relatively weak, and therefore expensive, way to stimulate the economy. This, of course, requires a certain amount of doing. You manage it by assuming that tax rate reductions affect the economy only by giving people more money to spend, thus increasing demand. You deny that they provide incentives to increase supply. You then say that since part of the tax cut is saved, you get less spending stimulus from a dollar of tax cut than you get from a dollar of government spending.

In 1978 Representative Marjorie Holt, a member of the House Budget Committee, twice offered amendments to the Budget Resolution. Representative Holt's amendment would have brought in a budget with lower spending and lower taxes but just as large a budget deficit. In the spring her amendment received a majority of the votes and would have passed had the Democratic leadership not forced some members of their party to change their votes. In the autumn, her amendment failed by only a few votes.

In 1979 the Democratic leadership came back after elections convinced that the Holt amendment would pass. Determined to spend rather than to reduce taxes, the Democratic leadership got rid of the Holt amendment by changing the Budget Act under the guise of changing some of the rules of the House of Representatives. The Speaker of the House forced through the new rules, and as a result the Holt amendment can be ruled out of order.

Now Representative Holt cannot propose an aggregate expenditure figure lower than the figure proposed by the Budget Committee unless she specifies how much less each spending program will receive if her figure is adopted. This is completely at odds with the 1974 Budget Act, which says that the Budget Resolution is supposed to set a total spending figure and leave it to the Appropriations Committee to allocate the money over the various spending programs. By cleverly changing the rules, the congressional spenders have fixed it so that Representative Holt cannot offer her amendment without infringing on the prerogatives of the Appropriations Committee.

The new rules also mean that any congressman who votes for the Holt amendment has his vote tied to cuts in specific spending programs, thus leaving him at the mercy of infuriated spending lobbies.

It is apparent that the big spenders in the House are willing to use as much power as necessary to guarantee that the Budget Act is not used to cut spending.

Their counterparts in the Senate have an easier time, because the Republicans on the Budget Committee do not offer alternatives to the committee's budget resolution. Senator Bellmon, the ranking Republican on the committee, works closely with the Democratic chairman, Senator Muskie, and so do their staffs. The spenders do not have to worry about Republicans causing trouble, especially after Senators Hayakawa and McClure, known for their tax- and budget-cutting efforts, were forced off the Budget Committee by their own party. The situation between Bellmon and Muskie is so cozy that Democrats even managed to arrange the dismissal of a Republican staff member who was causing them problems.

In the new Congress the Republican side of the committee consists of Bellmon and (mainly) inexperienced new members who will find it hard to detect the technical manipulation of the budget figures by the Congressional

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INFLATION MONITOR

A regular feature of *Policy Report*, the "Inflation Monitor" reports on the effects of inflation as a monetary phenomenon and demonstrates its distorting influence on the structure of relative prices in the economy.

	PERCENTAGE CHANGE (ANNUAL RATE)			
	Latest 1 month	**Latest 3 months**	**Latest 6 months**	**Latest 12 months**
M-1	−4.5	4.4	5.8	7.3
M-2	4.4	8.2	8.6	8.1
M-3	6.7	10.6	10.5	9.3
PRICE OF GOLD	−120.68	−1.96	31.60	24.94
CPI-URBAN WAGE EARNERS	6.58	8.30	8.79	8.85
COMMODITIES, LESS FOOD	10.10	9.34	8.11	7.22
FOOD	3.87	6.15	6.35	11.12
SERVICES	3.87	8.05	9.01	9.27
FINISHED GOODS	5.41	10.86	7.88	8.67
CONSUMER GOODS, FOOD	7.36	15.98	6.38	11.20
CONSUMER GOODS, NON-FOOD	8.31	7.54	7.69	7.81
CAPITAL EQUIPMENT	11.82	8.77	7.81	7.95
PRODUCER PRICES, BY STAGE OF PROCESSING				
COMMODITIES				
Crude materials, non-food	22.10	20.03	17.45	16.56
Intermediate materials, less food	9.76	10.48	8.50	8.14
Capital equipment	11.82	8.77	7.81	7.95
Consumer finished goods, less food	8.31	7.54	7.69	7.81
FOOD				
Farm products	9.73	24.86	9.06	18.28
Consumer foods	7.36	15.98	6.38	11.20

All figures are taken from the *Chartbook on Prices, Wages, and Productivity* (U.S. Department of Labor), *Monetary Trends* (Federal Reserve Bank of St. Louis), and the *Wall Street Journal*.

✓ Washington Update

✓ The bill calling for the creation of a Department of Education is sailing through the Senate, having passed the Governmental Affairs Committee on Mar. 14. Hailed by the White House as "the single most important achievement in the field of education in this decade," the new department would have at least a $13.5 billion budget, consolidate more than 150 programs now scattered throughout seven departments and agencies, and employ more than 16,200 people, thus making it larger than five existing departments. Education in the United States is a business of $120+ billion per year. A bill creating the department passed the Senate easily, 72 to 11, in 1978. Look for another Senate vote in April. The problem for the Administration will be the House.

✓ The Department of Energy sent its mandatory conservation and gasoline rationing programs to Congress for approval. Under the rationing program, and assuming a 20% cut in gas supplies, each car would get 1.6 gallons per day. Estimated cost of the rationing program? Fifty-three million dollars to develop, $346 million to implement, $1.7 billion per year to operate—and the figures are low.

✓ President Carter sent his voluntary/mandatory hospital-cost-containment program to Congress, where it was met with support from Al Ullman, chairman of the House Ways and Means Committee, and Senator Herman Talmadge, a former critic. Hearings have already begun at the subcommittee level in both the House and Senate. Look for a vote sometime this spring—perhaps in May.

✓ Birch Bayh, chairman of the Senate Judiciary Subcommittee on Constitutional Amendments, scheduled hearings on balanced-budget amendments during mid-March, but indicated that action would be slow.

✓ Senator Ernest Hollings (D-S.C.) has offered a comprehensive bill rewriting the Communications Act of 1934. (Rewriting has been in progress in the House for two years.) Hollings believes that "competition and diversity are ideas of the future."

✓ The General Accounting Office has put in a fraud hotline for anyone who wants to report the misuse of government funds and property: (202) 633-6987 for Washington; (800) 424-5454 for the rest of the country. GAO has already received over 3,000 leads on fraudulent activities in HEW, Labor, the Veterans Administration, the Community Services Agency, and the Social Security Administration. The Justice Department estimates that fraud in the federal government might reach $50 billion per year.

✓ The House will vote on a bill extending and enlarging the Council on Wage and Price Stability during late March. The AFL-CIO sued the government on Mar. 13, seeking an injunction against enforcement of the present "voluntary" price and wage controls program on the ground that it is illegal. Several members of Congress joined the suit, filing an *amicus curiae* brief. An earlier suit in Oregon was set aside without reaching the legality issue.

✓ Ever hear of the Administrative Conference? You will. It's an obscure agency that the Carter Administration, in an effort to head off more "extreme" proposals on deregulation, is preparing to strengthen. Its job will be to oversee regulatory activities.

✓ The bank exodus from the Federal Reserve System is expected to increase this year unless Congress or the Fed acts to compel membership. Chairman Henry Reuss of the House Banking Committee tabled his H. R. 7, which would compel membership, after the American Bankers Association and the Independent Bankers Association indicated that they would not support it. Reports now are that the IBA has been persuaded by Fed Chairman William Miller to support the general principles of the Reuss bill, and that Reuss will move quickly to get H. R. 7, or a modification of it, out of the Banking Committee despite the ABA's opposition.

✓ In testimony before the Domestic Monetary Policy Subcommittee of the House Banking Committee, Lacy Hunt, senior vice president of the Philadelphia Fidelity Bank, blew holes in the money supply figures calculated by the Federal Reserve and used by virtually all economists. His calculations, which incorporated figures on automatic transfer accounts and overnight loans, show that there is no tight money policy and that the money supply is increasing at about a 9% annual rate. The M-1 figures actually understate monetary growth by about 5%, according to Hunt. The House Banking Committee has been urging the Fed to ease up on its tight money policy in order to avoid a recession.

✓ The Ways and Means Committee is conducting a year-long study of universal Social Security coverage. Its recommendations will be made public in December. Despite the disclaimers, many realize that the massive tax increases, which were enacted in December 1977 but did not take effect until after the 1978 elections, did not solve the financial problems of the system. More and more taxpayers are writing to their congressmen, criticizing the system and asking why they cannot be exempt—just as members of Congress are. ■

Budget Office and committee staff in order to ensure higher spending. One way this is being done is by beginning with figures that have already adjusted every spending program for inflation, whether or not required by law. The proposal by Senators Muskie and Bellmon of an "austerity measure" to eliminate the staff allowance for the other committee members would make it more difficult for other senators on the committee to catch on to the funny numbers.

In spite of the lengths to which big spenders have gone to ensure that the Budget Act cannot be used to cut spending, some senators believe that spending would be even greater if it were not for the Budget Act. It is not clear why they believe this. The Budget Act has not changed the incentive to spend. Neither has it added any constraint on Congress's ability to spend. If anything, it has made it easier for Congress to incur large deficits. Congress looked more irresponsible under the old system whereby the deficit resulted from voting yes on too many spending bills. There was simply no excuse for the deficit other than that Congress just wanted to spend. Under the new system, however, the deficit is justified on the grounds that it is necessary to provide economic stimulation, and this happens before there is any voting on spending bills. Under this new system, experts testify that the deficit is necessary, and so the Congress doesn't look as irresponsible as before.

In addition to justifying deficits, the new budget process is likely to increase the government's power over the economy in other ways as well. By running deficits over the entire business cycle, Congress intensifies inflation while at the same time crowding out private investment. Thus, "stagflation" becomes a more permanent fixture of the economic landscape. Stagflation is good for the government's power for a number of reasons. First, the relative shortage of jobs makes it easier for Congress to provide more public service employment, CETA jobs, and public works. Second, the greater difficulty of earning increases in real income through market activity and productivity gains causes more people to turn to income redistribution and transfer payments as ways of getting ahead. Third, private wealth diminishes, because stagflation forces people into higher tax brackets and reduces the return to capital. Fourth, as different groups try to maintain their position, the government has growing support for credit controls, exchange controls, and wage and price controls. As controls grow, less and less economic activity can take place legally without the government's permission, and government decisions more and more replace private decision-making. A person's relations with government become more important to his success than his market performance. Fifth, as people find it more difficult to save, they become more dependent on transfer payments, and they lose their financial independence.

In short, government hasn't much to gain from a stable, growing economy. In such an economy there is no need for all the government programs and controls that inflation and unemployment justify. When people are enjoying widespread individual success, they don't need the government.

As a result of the Budget Act, the situation on the tax front may get much worse. Advocates of spending may be able to use the budget process to eliminate various tax breaks. Under the Budget Act, tax breaks are defined as "tax expenditures" and are said to be equivalent to expenditures on spending programs. There is already an effort afoot to eliminate tax breaks and, instead, hand the money out through the government agencies. The investment tax credit, for example, would be handed out by the U.S. Department of Commerce as a grant or loan.

To sum up, the Budget Act of 1974 seems to be another case of Congress creating a problem that can then be used as an excuse for legislation enabling further increases in government power. By creating deficits, Congress succeeded in establishing a formal budget process that justifies deficits.

Of course, sometimes success can lead to its own undoing. The large deficits piled up year after year, in spite of protests and promises, have given momentum to the demand from the states for a constitutional amendment to require a balanced federal budget. Forty-three Democrats in the House of Representatives joined this movement in February 1979. Giving up on the congressional budget process, they introduced a Joint Resolution to amend the U.S. Constitution to require a balanced budget—another indication that the budget committees have played the budget game too well. ■

FOOTNOTES

[1] The term "fiscal conservatives" refers to those political figures adamantly opposed to government growth and deficit spending. Unfortunately, today the term is carelessly used to describe those Republican and Democratic members of Congress who prefer relatively "lower levels" to the massive deficits of the last decade.—ED.

[2] From a speech to the National Press Club, Washington, D.C., February 13, 1979.

[3] See F. A. Hayek, *Unemployment and Monetary Policy: Government as Generator of the "Business Cycle,"* and *A Tiger by the Tail: The Keynesian Legacy of Inflation*, Cato Papers nos. 3 and 7 respectively (San Francisco: Cato Institute, 1979). See also, F. A. Hayek, *Prices and Production* (Clifton, N.J.: Kelley, 1967); M. N. Rothbard, *America's Great Depression* (Kansas City: Sheed and Ward, 1975), and *What Has Government Done to Our Money?* (Novato, Calif.: Libertarian Publishers, 1964); G. P. O'Driscoll, Jr., *Economics as a Coordination Problem: The Contributions of Friedrich A. Hayek* (Kansas City: Sheed Andrews and McMeel, 1977); L. von Mises, *Human Action: A Treatise on Economics*, 3rd rev. ed. (Chicago: Regnery, 1963).

[4] Congressional Budget Office, *Understanding Fiscal Policy* (Washington, D.C.: U.S. Government Printing Office, 1978), p. 38.

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"To be governed..."

"Economist Murray Weidenbaum says the over-all cost of complying with federal regulations will cost businesses $100 billion in 1979, about 20% of the federal budget."

—*San Francisco Chronicle*, Feb. 4, 1979

The *Manchester Guardian* of Jan. 28, 1979, has this report on the progress of the British Disease, or the Pox Britannica: "Britain's per capita national income is now below that of East Germany and, on some calculations, beneath that of Czechoslovakia as well."

Great Moments in Economics: "[Illinois Senator Adlai] Stevenson urges the establishment of a Government-controlled corporation to explore for oil around the world and negotiate prices with petroleum-producing nations. 'We leave ourselves at the mercy of a few multi-national corporations that have no incentive to bargain for low prices,' he says."

—*Time*, Feb. 26, 1979

"Under the 1942 Federal Reports Act, all [government] agencies must have their forms approved prior to use by the Office of Management and Budget, which has not proved to be a constraint. In 1972, for example, only 22 out of 2193 forms were disapproved."

—*Wall Street Journal*, Feb. 12, 1979

Ponder this, tax-revolters: "Out of gross federal receipts of some $490 billion, a large portion (approximately $190 billion) is precommitted for such things as interest on debt and trust fund transfers. Those precommitments represent money that Congress cannot spend as it chooses, and when they are subtracted from the total budget, the net federal funds that Congress is able to allocate come down to about $300 billion. Of this $300 billion nearly $120 billion goes for military appropriations." (Mr. Harold Willens, Los Angeles businessman and senior adviser to the Center for Defense Information, quoted in the *Los Angeles Times*, Feb. 4, 1979.)

"Alfred E. Kahn, head of the Administration's campaign against inflation, outlined a plan today to help his cause by forging a broad, grass-roots alliance of Federal, state and local governments and consumer groups," reported the *New York Times* on Feb. 7, 1979.

"Mr. Kahn told a House subcommittee that he wanted consumers to challenge price increases that they think might exceed the Carter Administration's guidelines, but 'without starting vigilante groups all over the country.'"

Mr. Kahn's vigilante group is quite enough, thank you.

House Banking Committee chairman Henry Reuss has made a career out of protecting the poor, oppressed public from the wicked banks. This year he plans to branch out into protecting the poor, oppressed Federal Reserve System from the wicked banks.

"Under present law," Reuss told the *New York Times* on Feb. 8, 1979, "a bank that wants to evade Federal Reserve monetary control can simply resign as a member bank of the Federal Reserve. This has resulted in considerable erosion of the fulcrum of the monetary base, which the Federal Reserve uses [to control the money supply]." To put an end to this disgraceful state of affairs, Reuss has introduced the Monetary Control Act of 1979. This "will strengthen the Federal Reserve's control over the money supply by providing that all banks over a certain size, in this case $100 million, have to maintain reserves at the Federal Reserve."

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