24. The Federal Budget

Congress should

- balance the budget without relying on Social Security surplus money,
- keep the budget balanced for at least the next 10 years,
- reduce the size of government from 21 to 16 percent of GDP over five years,
- eliminate some 300 unnecessary and unconstitutional programs,
- reduce the federal tax burden substantially and in ways that would promote economic growth, and
- retire some one-half trillion dollars of the national debt.

Introduction

The culture of spending in Washington that caused Democrats to finally lose control of Congress in 1994 has triumphed again. The powerful political forces that impel Congress to spend tax dollars, rather than save them, have spread like a virus from the Democrats to the Republicans.

Over the past 20 years, we have seen Republican and Democratic presidents and Congresses produce budget plans and bipartisan deals that have balanced the budget many times over, at least on paper. However, none of those initiatives actually curtailed government.

Republicans and moderate Democrats in the 104th and 105th Congresses deserve credit for producing the first balanced budget (at least in terms of the unified federal budget) in 30 years. In 1994 the budget deficit was $200 billion and was projected to stay that high for as far as the eye could see. Fiscal 1998 has ended with a projected unified budget surplus of from $50 billion to $80 billion. That is a remarkable improvement. What's more, with respect to the deficit, the budget outlook for the next 10 years has substantially brightened.

The improvement, however, has not been a result of any shrinkage in the size or scope of government. Almost all of the budget progress has resulted from (1) a strong economic expansion, (2) a record tax burden, and (3) continued cuts in the military budget since the end of the Cold War. Real nondefense spending has expanded by more than $300 billion—or 39 percent—in the past 10 years.

If we remain on our current course, domestic spending will continue to rise. Under the 1997 budget deal, spending rises in virtually every category for fiscal years 1998 and 1999. In fact, spending levels for domestic programs will climb beyond the rate of inflation in each of the five years projected in the deal. In 2001 and 2002 the budget deal promises (but does not guarantee) a slowdown in spending (but not reductions). If history is any guide, the spending caps will become floors, not ceilings.

This chapter provides the 106th Congress a detailed budget blueprint for reversing the growth of federal expenditures. We call our budget reduction strategy the 5 Ds of government downsizing: (1) devolve programs to the state and local governments and to the private sector; (2) delete hundreds of wasteful programs and agencies; (3) redesign Medicare, Social Security, and defense in ways that reduce costs and improve performance; (4) decrease the tax burden; and (5) deny Congress the authority to continually raise taxes and spending in the future.

Assessing the Republican Record

As the 105th Congress wound down, after four budgets designed by the Republican majorities in the House and Senate, the budget was bulkier than ever before. In the spring of 1998 the Republicans approved a budget that calls for spending and tax cuts that are, in the words of Rep. David McIntosh of Indiana, ‘‘anemic and an embarrassment.’’ The federal budget in 1999 will be some $300 billion higher than when the GOP took over the reins of Congress in January 1995. The four-year spending total of $7.5 trillion for 1999–2002 is more money—adjusted for inflation—than America spent to fight World Wars I and II, the Civil War, and the Revolutionary War. In fact, in today’s dollars, it is more money than the U.S. government spent on *everything* from 1800 to 1960.

The failure to restructure the government in ways that make it less intrusive, less expensive, and less bureaucratic is all too similar to that of the Reagan years. In his masterful critique of the failed Reagan budget revolution, *The Triumph of Politics,* David Stockman complained that ‘‘the Reagan revolution amounted to the clearest test of doctrine ever likely to occur in a democracy like our own. And the anti-statist position was utterly repudiated by the forces of the politicians—both Republicans and Democrats.’’ Stockman glumly concluded that ‘‘by 1984 the Reagan White House was nearly bereft of any consistent anti-spending policy principles.’’

That was precisely the case at the end of the 105th Congress. Four years after the earthquake elections in November 1994 that swept Republicans into power on Capitol Hill, there was no strategy and no willpower to cut anything out of the budget—not maple syrup research grants, not Jimmy Carter’s home heating subsidies, not military funding to build skating rinks in Fairbanks, Alaska, not taxpayer handouts to Fortune 500 companies. Nothing.

To get back on the right fiscal track, we believe it is critical to assess what went wrong. We start with an analysis of the things that the 104th and 105th Congresses did right.

What the GOP Has Done Right

We believe that the Republican Congress can properly take credit for three important policy victories since 1994.

First, the 1995 Freedom to Farm bill was far from ideal, but it was the best farm bill in a quarter century. Every farm bill in the 1960s, 1970s, and 1980s was designed to greatly expand welfare for America’s multibillion-dollar agribusinesses. The 1995 Freedom to Farm bill is intended to end most crop payments by 2002 and allows farmers to produce for the market, not for the government. The jury is still out as to whether those subsidies will actually expire when the appointed time comes. The eagerness of the Republican Congress to provide billions of dollars of preelection ‘‘emergency’’ farm aid to midwestern farmers is not an encouraging development.

Second, the 1996 welfare reform bill reversed 30 years of welfare expansionism. The bill terminated the open-ended entitlement nature of welfare payments by requiring work and by devolving many welfare responsibilities to the states. We are already seeing in many states a 30 to 40 percent decline in welfare caseloads. But this bill was a watershed for another reason: for the first time in half a century the left was forced to concede that a massive government undertaking—in this case the $5 trillion Great Society welfare state—had failed. Despite the welfare reform bill's technical flaws and the subsequent restoration of some benefits, it constituted the first major step toward reversing the perverse incentive structure of the Great Society welfare state.

Finally, the most heralded and improbable fiscal accomplishment of the 104th and 105th Congresses was the balanced unified budget. Uncle Sam ended 1998 with a budget surplus of $50 billion or more. This is the first time the budget has not been in the red since Lyndon Johnson's presidency. The surplus almost certainly would not have arrived had it not been for the unwavering crusade of House Budget Committee chairman John Kasich and others for an end to deficit spending. The latest budget forecast suggests that between 1998 and 2002 the federal government could amass $500 billion in surpluses.

Whither the Smaller Government Agenda?

Despite all of those accomplishments, there is still the unavoidable reality that the government—other than military programs—isn't getting any smaller. Republicans have now approved four budgets (FY1996–99) that have allowed total nondefense expenditures to expand by $50 billion more than they did in the four years *before* the GOP took over Congress.

Republicans blame President Clinton for the budget expansions. We reject that excuse as entirely unconvincing. Yes, it is true that in many instances the Clinton White House has tried to expand government. For example, the president's 1999 budget contained nearly $100 billion in new domestic program proposals. But in 1997, after belittling Mr. Clinton as a spendaholic, Republicans proceeded to send to the Oval Office a budget that somehow managed to spend $4 billion *more* than the president requested. ''The truth is,'' Phil Gramm grimly noted in 1997, ''some of our Republican members routinely want to outspend Clinton.''

Republicans defend their budget record by noting that Congress lacks unilateral authority to scale back ravenous entitlement programs—which is where much of the budget growth is. The president's signature is required to change the law on public benefits. But if entitlements are the problem, why have congressional Republicans created five new welfare, health care, and education entitlements?

Senate Budget Committee chairman Pete Domenici of New Mexico valiantly trumpets the GOP budget record by announcing that total federal spending as a share of gross domestic product is falling. Federal spending is now below 21 percent of GDP, or national output, down from its summit of about 23.5 percent in the early 1990s.

There is no mystery about what accounts for this progress. The Cold War ended. Military spending as a share of GDP is now at its lowest level since the late 1930s. The defense budget has been halved from 6 to 3 percent of GDP since 1987. Table 24.1 shows the divergent paths of military spending and domestic spending over the past 10 years. This is the first postwar period in American history in which peace dividend savings have not been passed back to taxpayers through tax cuts.

A lesson of the Reagan years is that, in order to genuinely downsize government over the long run, it's not enough to trim agency budgets. Agencies have to be pulled up by the roots. The bureaucracy has to be thoroughly dismantled. If the infrastructure of a program remains intact, it will soon grow back to its original size. That was a lesson Republicans said they understood back in 1995. Newt Gingrich declared shortly after his elevation to the speakership that ''Republicans will prove to the American people that we can get rid of programs, not just create new ones.''

In the beginning it seemed that proclamation would be carried out. Back in April of 1995 the House Republicans—inspired by the libertarian-leaning class of 72 GOP freshmen—passed a courageous budget (the so-called Contract with America budget). By Washington standards it was an unprecedented blueprint for governmental restructuring. It slated more than 300 indefensible federal programs and three worthless cabinet agencies for the graveyard. Some of those programs are little more than political slush funds for left-wing constituencies—such as the Legal Services Corporation, bilingual education funds, and Bill Clinton's army of $7.27-an-hour Americorps ''volunteers.'' Others—like the Tennessee Valley Authority and the Rural Electrification Administration—are so antiquated that Barry Goldwater pledged to shut them down some 35 years ago when he ran for president. The price tags and the cobwebs are much bigger now. And most of the others on the list are hopelessly ineffectual, including the Economic Development Administration, Amtrak operating funds, fed-

Table 24.1
What Happened to the Peace Dividend? (billions of 1988 dollars)

Year	Defense Spending	Social Spending
1987	$379	832
1998	264	1,160
1987–98	−115	+328
Percent change	−30%	+39%

eral transit grants, the Appalachian Regional Commission, and maritime subsidies. In many ways the original Contract with America budget was reminiscent in its audacity of the first Reagan-Stockman budget in 1981.

It met with much the same fate. When Clinton vetoed the GOP budget and the government shutdown, the GOP panicked and resurrected almost all of the condemned agencies. Appropriations Committee chairman Bob Livingston recently distributed a four-page list of programs that actually have been terminated. It includes indefensible programs such as the Cattle Tick Eradication Program, the U.S. Travel and Tourism Administration, the rural abandoned mine program, the Women's Educational Equity Act, one House parking lot, a warehouse, and a barbershop (all privatized). But every one of the 297 wasteful programs on Mr. Livingston's list had a price tag of less than $1 million—not even a rounding error in our $1.75 trillion budget. The total annual savings from those closures amounts to $3 billion, or a microscopic 0.17 percent of federal largesse. Yes, that is $3 billion more than the Democrats ever saved. But all the big fish got away.

It's worse than that. By our calculations, spending on the 40 biggest programs once slated for termination has actually *risen* by 1.9 percent. Americorp's budget was $426 million when the GOP took over Congress. Now it's $504 million. The odious Goals 2000 education program—''free money'' that some states have actually rejected because of the meddlesome strings attached—has nearly tripled in size, from $231 million to $688 million. In the 1997 appropriations, the bilingual education budget rose by 35 percent, the Appalachian Regional Commission budget by 6 percent (even Clinton wanted to freeze this agency), and the World Bank budget by a whopping 33 percent. Republicans even gave a 10 percent raise to the Internal Revenue Service.

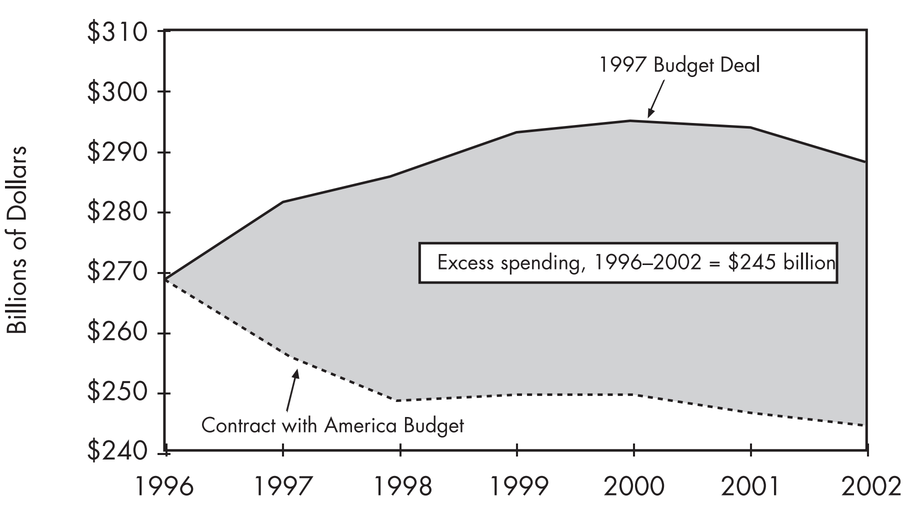
The refinancing of programs that Republicans have railed against for 30 years has been profoundly disappointing. Cutting nonentitlement domestic programs *is* something Republicans have the power to do unilaterally. If the GOP truly wanted to end the National Endowment for the Arts or the Legal Services Corporation, it could cancel the funding tomorrow. The president of the United States cannot appropriate a dime of money for the NEA—or any federal program. Ironically, during the Reagan years Republicans argued (unconvincingly) that the president cannot downsize the government, only Congress can. Now with the parties' roles reversed, many of the same party faithful seem to be saying that Congress cannot cut the budget, only the president can.

Republican leaders have even shown reluctance to eliminate programs with almost no public support or broad-based constituency. Programs falling in this category include foreign aid, the Department of Energy, and Uncle Sam's $70 billion a year corporate welfare slush fund. The reluctance to attack corporate welfare is particularly distressing. Funding parasitic corporations only reinforces the public's general suspicion that the GOP is the party of the rich, the privileged, and the corporate lobbyists. The discredited mercantilist policies of the Commerce and Agriculture Departments are the antithesis of the free-market policies Republicans say they espouse. The handouts have merely created a constituency of statist businessmen who have joined forces with the left to lobby for ever-expanding government. ''If you can't push AT&T and GE off the dole,'' Silicon Valley venture capitalist Tim Draper told the Senate Government Affairs Committee in 1997, ''how can we ever expect to get farmers, unions, artists, and seniors to give up their subsidies?'' Exactly.

Why the 1997 Budget Deal Failed

For all intents and purposes, the GOP's budget-cutting crusade formally ended with the 1997 budget deal. That was a decisive victory for the pro-spending lobby. Figure 24.1 shows that the budget deal allowed federal domestic spending to climb by nearly $250 billion above the level in the original Contract with America budget. A few months after the deal was

Figure 24.1
Promises Made, Promises Broken
(nondefense discretionary spending)



sealed, the *Washington Post* ran a front-page story aptly titled ‘‘Social Funding to Increase Significantly.’’ ‘‘After years of assuming that a balanced budget agreement would inevitably entail deep cuts in domestic programs and catastrophic consequences for the neediest,’’ the story began, ‘‘liberal advocacy groups and other analysts have found an extraordinary surprise: significant increases in funding for the elderly, the indigent, the college-bound, families with children, and immigrants.’’ Funding for health, education, and welfare programs has soared by 29 percent since the Gingrich revolution was launched. Jubilant social welfare agency spokesmen proclaimed that ‘‘we got almost everything we wanted.’’

Of course, the welfare industry’s crown jewel in the 1997 budget pact was the $24 billion Kennedy-Hatch health insurance bill that Kennedy touts as ‘‘a major step forward toward national health care.’’ Steve Pollack, director of Families USA, a liberal welfare advocacy organization, praises it as ‘‘providing the most significant advance in funding for health care coverage since the Medicare and Medicaid programs were enacted 32 years ago.’’

Opponents of the 1997 budget deal predicted that the five-year spending ‘‘ceilings’’ would quickly become spending floors. That prophecy proved correct within just one year of the budget deal’s enactment. The 1999 budget includes an ‘‘emergency’’ supplemental spending bill containing some $9 billion in added spending for farmers, the International Monetary Fund, the year 2K problem, and other such urgencies. Those funds are in addition to the $70 billion in spending already approved for that year.

No single bill exemplifies the decisive rout of fiscal restraint on Capitol Hill in the 105th Congress more than the 1998 highway bill. That $214 billion bill, drafted by House Transportation Committee chairman Bud Shuster, was the most expensive public works bill in American history.

The bill contained some 1,500 white elephant transportation ‘‘demonstration’’ projects—for bicycle paths, bus museums, parking garages, subway systems to nowhere, and university research grants. That’s three slabs of bacon for every congressional district and 10 times more pork projects than in the Democrats’ highway bill that Ronald Reagan vetoed a decade ago. It busted the 1997 budget deal caps by some $30 billion. Yet it passed overwhelmingly in both houses without much protest. One of the few critics in the House, Rep. Chris Shays of Connecticut, a moderate Republican, declared shortly before the House vote, ‘‘This bill is a dramatic sign that the Republican revolution is dead.’’

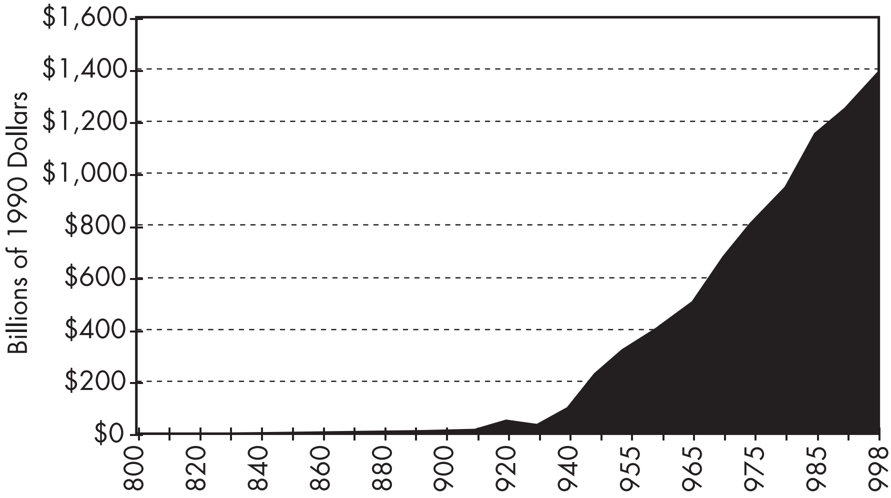
Fiscal Lessons Learned the Hard Way

Despite some notable early successes, Republicans in Congress have made only slight progress in reversing the underlying trend of bigger government in America. Figure 24.2 shows the long-term trend of ever-rising federal expenditures. Federal outlays (in 1990 dollars) climbed from $100 million in 1800 to $8.3 billion in 1900, to $235 billion in 1950, to $1,400 billion in 1995. The federal government now takes 21 percent of GDP, up from 18 percent in 1960 and 4 percent in 1930. The massive government enterprise of today no longer resembles in any way the government established by the Constitution, with very limited spending authority for Congress.

So what lessons should voters and legislators have learned from the collapse of the GOP's budget-cutting agenda in the 104th and 105th Congresses? After four years, the pro-spending wing of the party seems to have triumphed. We take no joy in reporting that the Democratic cardinals on Capitol Hill have simply handed over the reins of power to a cast of Republican cardinals.

Republicans now face a new problem. For 30 years they have dedicated themselves to the mantra of a balanced budget. Now that the unified

Figure 24.2
Real Federal Outlays, 1800–1998



SOURCE: *Historical Tables, Budget of the U.S. Government, FY 1997,* Table 1.1; and Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970,* Part 2, p. 1104, Series Y336.

budget is balanced, many Republicans will no doubt be content to preserve the status quo—and even spend surplus funds on new programs. Rep. Fred Upton of Michigan recently declared that ''with big budget surpluses on the horizon, there is little support in Congress for cutting government agencies.'' The 1998 Senate budget resolution passed in April was emblematic of the fiscal retreat. It specified zero program terminations.

Some analysts conclude from all of this that the goal of limiting government is simply futile—that politicians are giving the voters all the government they want. We disagree. By two-to-one margins Americans still say they prefer fewer government services and lower taxes to more government and higher taxes. The goal is not flawed, but the GOP's game plan has been.

The budget-downsizing agenda has been poorly constructed, and the marketing of it has been even worse. The GOP's policy failures on the budget fall into four categories. First, the Republican budgets have been devised in a purely partisan way that fails to reach out to moderate, ''blue dog Democrats,'' many of whom are more fiscally conservative than old-bull Republicans.

Second, the GOP has failed to recognize that the budget process is still severely biased in favor of spending, rather than cutting. Budget cutters in Congress have devoted insufficient attention to institutional reforms—to changing the fiscal rules of the game to end the pro-spending tilt.

Third, the GOP's claim of a balanced budget—and the implicit conclusion that the budget is now solidly on the right track—has been misleading. The unified budget relies on tens of billions of dollars of Social Security payroll taxes and imputed interest owed to the Social Security trust fund. The public is on to this gambit. In fact, economist Laurence Kotlikoff of Boston University has calculated that an honest accounting of the budget—using generally accepted accounting principles—would still show the budget to be some $200 billion in deficit. Congress has simply not honestly taken account of the federal government's $20 trillion in outstanding liabilities that could explode in the face of the next generation of workers.

Finally, the Republican budget proposals have lacked a compelling theme or message—whereby the public can recognize the freedom and prosperity dividend, for themselves and their children, from a streamlined federal government.

A New Budget Reduction Strategy

To truly trim the size of the federal government and produce an honest and permanent balanced budget, we propose five budget reduction themes for the 106th Congress. These initiatives could be referred to as the ''5 Ds'': devolve, delete, design, decrease, and deny.

First, devolve a number of programs to the state and local level. The federal government's role in transportation, as well as housing and economic development, should be shifted to the state level, just as welfare programs were sent back to state capitols two years ago.

Second, delete numerous programs that have either outlived their usefulness or proven their uselessness. A long list of corporate welfare items begins the list.

Third, design differently, or redesign, programs like Social Security and Medicare. The government's role in those areas must be restructured so as to reduce the open-ended entitlement nature of the programs and encourage more personal responsibility while preserving the safety net features. The Pentagon, too, is long overdue for restructuring.

Fourth, decrease taxes. Tax cuts are possible once Congress makes a firm commitment to a smaller federal government. Voters need to know that, if they want lower taxes, they must support smaller government. The two go hand in hand.

Finally, deny Congress the power to easily expand the size and scope of the federal government by enacting a balanced-budget amendment and other budget reforms.

Devolve

Federal Welfare Programs. All such programs should be devolved to the states and private charities. Thirty years ago, when President Lyndon Johnson launched the War on Poverty, he declared that ''the days of the dole are numbered.'' We have now passed day 10,000. Over this period, some $5 trillion has been spent on this war—more in current dollars than the cost of fighting World War II.

The federal government, along with the states and cities, spends an estimated $300 billion per year on anti-poverty programs. That is almost three times the amount that would be needed to lift every poor family above the poverty level. Still, the poverty rate in the United States remains extremely high and is no lower now than when the avalanche of spending to reduce it began. As Charles Murray of the American Enterprise Institute emphasizes, ''The tragedy of the welfare state is not how much it costs, but how little it has bought.'' The system does not work well for either the poor or the taxpayer.

The welfare state is fundamentally flawed because it rewards bad behavior—illegitimacy and family breakup—and discourages good behavior—work, marriage, and individual responsibility. A recent Cato Institute study shows that welfare benefits are so high for the nonworking, and taxes are so high for the working, poor that a typical female head of household on welfare and receiving public housing would, in most states, have to find a job that paid total benefits of $8.50 an hour to compensate for the loss of welfare benefits. The nonworking poor are not lazy—they are simply responding to the monetary incentives that the welfare state has created.

As mentioned above, the 104th Congress took the first positive step in 30 years to end the welfare state. The primary cash assistance program—Temporary Assistance to Needy Families—will now be run by the states. The entitlement feature of the program has been ended in favor of an annual appropriated block grant. The bill also technically requires work after two years of assistance, but it remains to be seen whether the work requirements will be enforced and, more important, whether the new system will discourage illegitimacy and entry into the welfare system in the first place. Welfare caseloads have fallen by an average of 30 percent in the states since the 1995 bill was enacted. Congress should finish the job by ending the TANF block grant and leaving the funding to the states and private sector as well.

Congress must also recognize that TANF is just one small brick in the modern welfare empire. There are now more than 60 means-tested federal programs to help the poor. Three of the most expensive ‘‘anti-poverty’’ programs are Medicaid, food stamps, and public housing. They should now be returned to the states and, to the fullest extent possible, private charities.

Devolving the remaining welfare programs to the states would be advantageous for several reasons. First, it would allow states full flexibility as innovators and laboratories to devise welfare programs that provide a basic safety net without rewarding destructive behavior. State governments have already begun to experiment with promising reforms in welfare. The most ambitious of those experiments, designed to get people off welfare and into jobs, have been adopted in Wisconsin under Gov. Tommy Thompson and in Michigan under Gov. John Engler. Devolution of welfare to the states would help quickly sort out approaches that work from those that do not. It would also end the federal government’s meddlesome middleman role in welfare. In many cases it stymies reform, as when Washington recently denied a waiver for the state of Texas to privatize welfare agencies. Second, interstate competition would force states to control bureaucratic costs, hold down benefit levels, and impose meaningful restrictions on eligibility—all things Washington has failed to do. Third, states are more likely to see the role of government as one of augmenting successful private charitable support systems than as supplanting them.

If welfare is not fully devolved to the states, a second-best option is to completely abolish all forms of welfare for able-bodied recipients—TANF, food stamps, public housing, Medicaid, Supplemental Security Income, and the like—and use part of the savings to expand the earned income tax credit (EITC). The EITC is the least harmful income support program because—unlike almost all other welfare assistance, which is predicated on the recipient's not working—the tax credit goes only to those who work. The EITC has the added benefit of not requiring a large welfare industry to deliver the benefits. Welfare providers have been the primary beneficiaries and advocates of federal welfare programs.

The Department of Transportation and the Federal Gas Tax. The dreadful 1998 highway bill had one positive impact: it made as compelling a case as could possibly be made that it is time to get the federal government out of transportation policy altogether.

The original rationale for the U.S. Department of Transportation was to build the interstate highway system. That was a legitimate federal function, since all U.S. citizens benefit from a coordinated network of interstate highways. But the interstate highway system was completed 15 years ago. The vast majority of DOT funding is now spent on noninterstate highways, local roads, and urban transit systems. It makes no sense to collect the federal gasoline tax, send it to Washington, D.C., pass it through a federal bureaucratic maze of 65,000 workers at DOT, and then send it back to the states where the funds originated.

In transportation policy, the federal government has become a costly and meddlesome middleman. Until 1996 states were forced to comply with a federal 55 mile an hour speed limit in order to get back their gas tax revenues from Washington. It was the federal government that mandated air bags. Federal highway funds come with other strings attached that inflate construction costs: the Davis-Bacon Act (requiring union wages on federal highway projects), minority set-aside programs, and buy-America provisions. Those add about 30 percent to the cost of federal construction projects and thus contribute to the decay of America's public infrastructure. Moreover, increasingly Congress uses the DOT budget as a pot of money to deliver pork-barrel projects that states would rarely fund if they were spending their taxpayers' own money, as shown in Table 24.2.

Table 24.2
Earmarked Demonstration Projects in Highway Bills

Year	No. of Projects	Cost ($ millions)
1982	10	386
1987	152	1,300
1991	539	6,200
1998	1,500	9,000

SOURCE: General Accounting Office data.

All of this inefficiency and redundancy could be ended by closing down the DOT and repealing the 18.4 cent per gallon federal gasoline tax. States could then raise the gas tax themselves (as much as they wished) to pay for whatever road building and repair were needed. Eliminating the cost of the federal bureaucracy in Washington would cause construction and maintenance costs for highways, bridges, and transit systems to fall. Budget Committee chairman John Kasich and many governors have endorsed this idea as consistent with federalism and the Tenth Amendment.

Delete

Corporate Welfare. The federal government currently spends $70 billion a year on direct subsidies to business. If Congress were to eliminate all corporate spending subsidies, the savings would be large enough to entirely eliminate the capital gains tax and the federal estate tax. Reducing the deficit or eliminating those anti-growth taxes would do far more to benefit American industry and U.S. global competitiveness than asking Congress to pick industrial winners and losers. Then-senator Bill Bradley's attack against the corporate welfare state was accurate: ''The best way to allocate resources in America is through a market mechanism. Tax and direct-spending corporate subsidies impede the market's functioning for non-economic, special interest reasons.''

Even though both Congress and the Clinton administration have pledged to shrink the corporate safety net, those promises are largely unfulfilled. In 1995, for example, the corporate welfare budget was reduced by just 16 percent. In 1996 and 1997 corporate welfare spending actually climbed slightly (see Chapter 7 for more details).

The main villain in corporate welfare is government *spending,* not tax deductions. To the extent the tax code contains unjustified tax favors carved out for specific industries or firms, the loopholes should be closed in conjunction with an overall reform or elimination of the income tax.

The 106th Congress should immediately enact a budget spending rescission bill, perhaps titled ‘‘The Corporate Welfare Elimination Act,’’ terminating a minimum of 40–50 business subsidy programs and closing down the Departments of Commerce and Energy. Savings of at least $200 billion over six years should be targeted. The bill should be crafted in a bipartisan fashion by identifying those programs that have been recommended for extinction by groups such as the Cato Institute, the Heritage Foundation, the Progressive Policy Institute, and even in some cases the Nader group Essential Information. Many Republican deficit hawks, such as Rep. John Kasich, Sen. John McCain, and Sen. Spencer Abraham, have made reductions in corporate subsidies a crusade. They should join with prominent Democrats who have also made good faith efforts to reduce business aid, including Sen. Russ Feingold of Wisconsin and Reps. Rob Andrews of New Jersey and David Minge of Minnesota.

If Congress will not make these cuts itself, then a second-best option is a corporate welfare elimination commission—modeled after the Military Base-Closing Commission of 1995. This commission should be given the charter to identify at least $50 billion a year of corporate subsidies for termination. Congress should then be required to vote up or down on the entire package.

Low-Priority Domestic Programs. In private industry—which drove the recent remarkably bullish economic expansion—sweating out waste and unproductive operations to cut costs has allowed American firms to outcompete international rivals. The $1.7 trillion federal government appears to be the only institution in America immune from competitive restructuring. Over the past 20 years almost no obsolete or ineffective federal government agencies—out of thousands—have been shut down.

Nearly $100 billion a year is spent on domestic programs that have been identified as candidates for termination by such independent agencies as the Congressional Budget Office, the General Accounting Office, the Grace Commission, and even President Clinton himself in budget submissions during his first term. They survive, not because they serve any national interest, but rather because of political or parochial considerations.

As noted above, the 104th and 105th Congresses eradicated few of those agencies. The 1995 budget resolution crafted by House Budget Committee chairman John Kasich would have terminated 300 programs and closed down the Departments of Education, Energy, and Commerce. Unfortunately, Congress retreated from the plan.

The Appendix to this chapter contains a list of recommended program terminations with a total annual taxpayer savings of $197 billion. What has been missing in recent years is a political strategy for eliminating those programs. In addition to attacking corporate welfare, as mentioned above, here are three more strategies that should be pursued:

- **Start with the easy targets.** Many programs have almost no constituency outside of Washington, D.C., and thus should be relatively painless to zero out. Virtually all of the programs within the Department of Energy fall into this category, for example. Programs that incite public hostility, such as the National Endowment for the Arts and Goals 2000, also should be targeted for elimination.
- **Approve the spending cuts contained in President Clinton's budget**. President Clinton's budgets have been lean in the spending reduction department, but they have called for the elimination of or substantial funding reductions for low-priority programs with annual savings of nearly $10 billion a year. Those include
  - wastewater treatment grants,
  - nuclear reactor research and development,
  - HUD special-purpose grants,
  - Small Business Administration grants and loans,
  - impact aid,
  - uranium enrichment programs,
  - selected student loan programs,
  - international security assistance, and
  - the Appalachian Regional Commission.
- **End welfare for the affluent.** Many federal domestic programs primarily benefit Americans with above-average incomes. For example,
  - An estimated 40 percent of the $1.4 billion sugar price support program benefits the 1 percent of sugar farmers with the largest farms. The 33 largest sugar cane plantations each receive more than $1 million. One family alone, the Fanjuls, owners of several large sugar farms in the Florida Everglades, captures an estimated $60 million a year in artificial profits thanks to price supports and import quotas (and to its generous campaign contributions to both political parties).

    - The wool and mohair subsidy program at the USDA (now called the National Sheep Industry Improvement Center) is supposed to help people who have small herds of sheep. The *Wall Street Journal* reported in 1995 that the third largest recipient of wool and mohair subsidies in Lincoln County, New Mexico, is none other than ABC's Sam Donaldson. Each year $97,000 in subsidy checks is delivered to his house in suburban Virginia. The *Journal* reports that farm price support checks worth millions of dollars are delivered to ''farmers'' who live in cities.
    - Amtrak riders—particularly on the Northeast Corridor routes—have average incomes far higher than the national median.
    - Much of the money spent on the National Endowment for the Arts finances operas and art exhibits for wealthy clienteles in affluent areas. The beneficiaries can afford to pay for those programs themselves, if they have value.
- **Privatize federal assets.** Government owns about one-third of all the land in the United States—and in most years it adds to its holdings by purchasing or confiscating properties. Under the Clinton administration, for example, hundreds of thousands of acres in California have been seized by Uncle Sam. Yet only a tiny fraction of the vast federal land holdings are of environmental or historical significance.

  The market value of oil lands alone is estimated to be roughly $450 billion. Government also owns tens of billions of dollars of other assets, including mineral stockpiles, buildings, and other physical capital. Most of those assets are not put to productive use and thus yield little or no return to taxpayers. Some of the federal activities that should be transferred to private ownership include
    - nonenvironmentally sensitive federal lands,
    - federal oil reserves,
    - certain Amtrak routes,
    - the National Endowment for the Arts and the National Endowment for the Humanities,
    - the Corporation for Public Broadcasting,
    - the $250 billion federal loan portfolio,
    - the federal helium reserve,
    - public housing units,
    - federal dams,
    - the Naval Petroleum Reserve, and
    - the air traffic control system.

The 106th Congress should begin a campaign to privatize those and other unneeded federal assets with a goal of raising $25 billion a year. The funds raised from asset sales should be dedicated to retiring the national debt and reducing federal interest payments.

Design

Medicare. Congress should gradually convert Medicare into a catastrophic insurance program.

The good news in health care is that the runaway inflation rate of the 1980s and early 1990s is subsiding. Health care inflation has fallen to its lowest level in 25 years, and medical costs are now growing at half the rate of the early 1990s.

Private-sector competitive forces, not government controls, are finally starting to function in the health industry. ''Markets self correct, and this one is well into that process,'' remarks Mitchell Daniels, vice president of Eli Lilly. Business columnist James Glassman of the *Washington Post* explains the slowdown in health costs: ''The free play of supply and demand is *working*. . . . Private firms are putting intense pressure on insurance companies to freeze or cut premiums, and the insurance companies are putting pressure on hospitals and doctors and pharmaceutical manufacturers.''

Back in 1994, when the White House tried to sell America on a nationalization of the health insurance system, President Clinton declared that ''only comprehensive reform will slow the frightening rate of increase in health care costs.'' We now know he was wrong.

The lesson of the last 10 years in health care is that creating competition among providers and converting patients into cost-conscious consumers are the keys to expanding the affordability of health insurance and maintaining high-quality care.

To the extent that cost inflation is still a major problem in health care, it is in the government-run programs. Between 1987 and 1995 Medicare and Medicaid expanded at an annualized rate of 11 percent. Reductions in private health inflation and some cost-cutting Medicare and Medicaid reforms have cut that rate of increase to 6 percent. Nonetheless, the future projections still are troubling. By 2001 Medicare and Medicaid alone will cost $400 billion, consuming about 20 percent of the budget. When the baby boomers start to retire in the next 10 years, costs will really begin to explode. Over the next 40 years the Congressional Budget Office expects Medicare and Medicaid costs to soar from their current level of 4 percent of GDP to 8 percent of GDP. The long-term unfunded Medicare liability is a staggering $7.9 trillion—larger than the national debt and larger than the celebrated liability of Social Security.

Revamping Medicare and Medicaid won't be easy to do politically. Republicans in the 104th Congress stepped on a hornet's nest when they proposed relatively modest cost-saving reforms of Medicare. The tragedy of the GOP misadventure with Medicare in 1995 and 1996 is that Gingrich and company took the heat for trying to fix the program, but they endorsed solutions that did not fundamentally scale back the program in ways that would have gradually reduced senior citizens' reliance on government for health care. Since then, Republicans and Democrats have gingerly nibbled around the edges of the problem.

The long-term goal for Medicare should be to convert what is now an unjustifiably generous, first-dollar-coverage prepaid health plan for seniors into a catastrophic insurance ''safety net'' program. The Part B deductible for Medicare (physicians' costs) is currently an absurdly low $100. If that deductible had been indexed to medical inflation since the program was created 30 years ago, the deductible would be $400 today. The deductible for Part A (hospital stays) is $716, but most seniors have Medigap insurance to cover the deductible and other copayments, so their out-of-pocket costs are often negligible.

The way to convert Medicare into a catastrophic coverage plan is to raise the Part A and B deductibles over time. Seniors should be responsible for covering routine medical expenses by either paying out of pocket or purchasing Medigap insurance. (Ideally, when medical savings accounts, described below, are made available to all workers, seniors too should be permitted to create tax-free accounts for expenses up to $3,000.) The goal for Medicare should be to lift the combined deductible to $3,000 in 1996 dollars as quickly as possible.

One way to make this restructuring of Medicare politically salable is by income testing the deductible. For example, the combined payments under Part A and Part B of Medicare could first be set at 1.5 percent of adjusted gross income (AGI) and then increased 1.5 percentage points each year for four years. Thus, beginning in 2001, the deductible would be 7.5 percent of AGI, the same rate that the tax code now allows individuals. Payments above the deductible, in most cases, would be fixed payments to the patient per illness or accident. A senior with an income above $40,000 would pay a total deductible of $3,000. Seniors would have security in that they would be protected from the cost of major illnesses or extended hospital stays. And a basic inequity in the health care system would be redressed. Mostly nonworking senior citizens—the wealthiest age group in America—would no longer receive a Cadillac health insurance plan paid for out of the paychecks of relatively lower income working Americans.

Tax Treatment of Health Insurance. Congress should change the tax treatment of health insurance to allow tax-free medical savings accounts (MSAs) as a way to reduce the inflation in private and public health care.

Although the Clinton health care plan was soundly rejected by voters, over the past four years Clinton and the Republican Congress moved us incrementally toward a national health system. Unless an alternative free-market health plan is embraced soon by Congress, America will end up with a socialized medicine plan by the end of the century.

We have 30 years of experience that has taught us that a larger direct federal role in health care will almost certainly have three effects: (1) it will send medical costs soaring for everyone; (2) it will lead to a deterioration in the quality of care that Americans have access to; and (3) it will bust the federal budget.

Probably the only viable defense against a national health insurance system—under which all Americans are required to purchase uniform insurance directly or via the government and people with healthy lifestyles are forced to subsidize those with unhealthy lifestyles—is to make tax-free MSAs widely available as quickly as possible. The Kennedy-Kassebaum law enacted in 1996 provides for a limited MSA pilot project. As discussed in Chapter 25, this option should be made available to all individuals and businesses that wish to participate.

Retirement Age. Congress should raise the retirement age for Social Security and Medicare and fix the consumer price index.

Social Security and Medicare, the two massive income redistribution programs for America's senior citizens, face a combined unfunded liability over the next 75 years of more than $13 trillion, according to the programs' own trustees. That's twice the size of the current national debt. The combined annual budget for Social Security and Medicare is now more than a half trillion dollars. Social Security has passed defense to become the largest single program in the federal budget.

Over time, Social Security and, more recently, Medicare have been interpreted as political contracts between the working-age population and retired people. That constrains the possibility of large savings—other than those described above—in the two programs in the near term. But it should not cause us to defer dealing with the long-term problems of the system—especially because they are so massive and beyond dispute.

The ultimate solution for Social Security is to convert the government's one-size-fits-all program into a system of personal retirement accounts (PRAs). While that is being done, the 106th Congress should move immediately to accelerate the increase in the retirement age that is already scheduled for Social Security. Beginning in 1997 the retirement age (and early retirement age) should be lifted by three months per year for the next 24 years. That would mean that the age at which one would receive full retirement benefits would be 66 in 2000, 67 in 2004, 68 in 2008, until the retirement age reached 71 in 2020. Workers could still retire at 65 but with a reduced benefit.

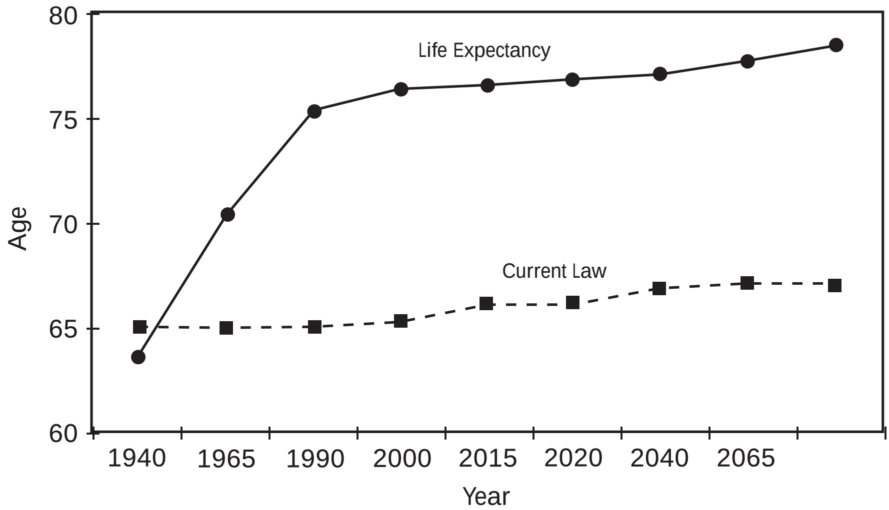
Due to a quirk in current law, the Medicare retirement age is not scheduled to increase at all—despite the program's massive future deficits. Without question, any increase in the retirement age for Social Security should apply to Medicare as well.

Incrementally increasing the age for receiving full benefits under these two old-age programs would be an equitable step toward cushioning the impact of the demographic time bomb that will explode in the next 20 years when the baby-boom generation begins to retire. Without a change in retirement age, the ratio of workers to retirees is expected to fall to fewer than 2 to 1 by the year 2030. Such a dependency ratio would place considerable strain on the economy and a larger burden on today's children—the next generation of workers. It is worth noting that, if the retirement age for Social Security had been indexed to the increase in life expectancy since 1935, when the program was created, the age for receiving full benefits would today be 72 (see Figure 24.3).

Congress should also move immediately to fix the overstatement of inflation in the consumer price index (CPI). A national commission headed by economist Michael Boskin reports that the CPI is overestimated by as much as one full percentage point a year. That means that federal benefits, the most important being Social Security, that are indexed to inflation are receiving increases exceeding the actual increase in the cost of living. The recommendations of the Boskin Commission for fixing the CPI should be adopted by Congress.

Defense. Congress should streamline the Pentagon to reduce costs and increase national security.

Figure 24.3
Retirement Age vs. Life Expectancy



The Cold War really is over. The United States now faces no significant military threat anywhere in the world. Defense spending now constitutes a smaller share (17 percent) of the federal budget than at any time in American history. Over the past eight years the Pentagon budget has fallen by almost $110 billion in real terms. Yet the $265 billion that the Pentagon will spend this year still fails to reflect postwar geopolitical realities. The Pentagon budget is roughly the same in real dollars as when John F. Kennedy was president at the height of the Cold War. It is as high as the military spending of the next 10 nations. It is the largest peacetime budget in American history.

Both the 105th Congress and President Clinton have proposed continuing this high level of spending. On defense issues, conservatives have fallen into the age-old trap that Democrats have fallen into on social programs: measuring success by how much money is spent.

America's vital national security objectives can and should be met without raising overall defense spending levels—indeed, they can be achieved with a streamlined Pentagon budget. Creating a leaner Pentagon and building a stronger national defense are not incompatible goals. What is needed at the Defense Department is not more spending but smarter spending.

In just the past five years the United States has sent troops to Bosnia, Haiti, Somalia, and the Persian Gulf. This is in addition to the 110,000 American soldiers still in Europe, the 37,000 in Japan, and the 37,000 in Korea. It is precisely this military interventionism that has prompted experts inside and outside the Pentagon to raise troubling questions about the combat readiness of U.S. forces. A consensus is emerging that our military is spread too thin. And more than anything, that *does* imperil our security.

Defense spending should continue to be cut. By scaling back missions around the globe, consolidating our defense needs, and canceling unnecessary weapons systems, large savings are achievable. Here are some examples:

- Stop funding weapons systems that are extravagant and expensive and add little to our defense capabilities. Among them are
  - the new attack submarine,
  - the space station,
  - the D-5 or Trident Missile,
  - the C-17 cargo plane, and
  - the M-1 tank upgrades.
- Bring soldiers home. There is simply no security rationale for having 110,000 troops in Europe. Who are they protecting? And from whom? France from Germany? The commitment to permanently police Europe, Korea, and Japan should be ended or at least permanently scaled back. Most of the troops should be brought home and decommissioned for an annual savings of nearly $24 billion.
- End defense pork. The nonpartisan General Accounting Office has identified more than $5 billion in ‘‘nondefense’’ pork spending in the Pentagon budget. The list of high-priority ‘‘national defense’’ programs stuffed inside the defense budget includes $3 million for urban youth programs, $9 million for the World Cup soccer tournament, $57 million for AIDS research, $100 million for breast cancer research, and $10 million for U.S.-Japan management training.

Critics will argue that this new, leaner defense budget would be inadequate to preserve America’s current military role around the world. That is true. But it is consistent with the new geopolitical realities of a post–Cold War world. The proposed funding levels would be adequate to maintain a survivable strategic nuclear force, sufficient active forces to meet the types of minor threats that might arise with short warning, and a sufficient mobilization base to respond to a major threat that could only develop over a period of years.

The proposed force would not be enough to maintain a global military presence *and* deploy a force the size of the one used in Operation Desert Storm, but there are strong reasons to question whether those capabilities are now worth the large cost. On completion of this proposed phasedown, a force as large as that used in Desert Storm could be deployed only with substantial augmentation from Reserve and Guard forces. On net, this limitation is desirable; the willingness to call up Reserve and Guard forces is an important test of whether a foreign development is a substantial threat to our vital national interests.

America can maintain an effective peacetime defense capability at a price tag well below current levels. Newt Gingrich had it right when he declared, ''Congress should not salute government waste just because it's wearing a uniform.'' Even if the budget were reduced to $240 billion by 2000 (generating savings of about $30 billion to $40 billion a year), America would still have the largest military budget in the world and by far the most modern and sophisticated weapons arsenal. (Indeed, Chapter 46 proposes even larger cuts in military spending, which would *still* leave the United States by far the strongest military power in the world.) But we would have to retreat from our recently adopted role as the 911 line for the world. Such a reconsideration of our military strategy would increase America's national security.

Decrease

Taxes. Congress should decrease taxes by $1 trillion over five years.

The budget recommendations in this blueprint would produce $1.475 trillion in savings over the next five years. The savings are detailed in Table 24.3. The plan would finance a $1 trillion peace dividend tax cut and would allow the operating budget of the federal government to be balanced every single year through 2004.

Chapter 5 of this handbook provides the details of how taxes should be reduced. We would only warn here that the tax cut should not be along the lines of the $500 tax credit and other gimmicks enacted in 1997 and 1998. A piecemeal approach to tax reduction has unfortunately become part of Republican dogma in recent years. Rather, tax relief should be aimed at reducing income or payroll tax rates, or both.

There are many justifications for providing American workers with a meaningful tax cut. First, it has been nearly a decade since the Cold War ended, yet Americans have still not received a peace dividend tax cut. This is the first postwar period in American history in which taxes have

Table 24.3
Cato's Recommended Budget Savings

	Savings ($ billions)	
Major Proposals	2000	2000–2004
Send TANF to the states	10	115
Block grant public housing, food stamps, and other welfare	30	215
Devolve transportation programs to the states	20	160
End corporate welfare	30	280
Eliminate foreign aid	10	70
Terminate 300 domestic agencies	50	350
Privatize federal assets*	5	25
Impose Medicare and Medicaid cost-sharing requirements	15	155
Raise the retirement age for Social Security and fix the CPI	5	70
Redesign the military budget	20	145
Total savings	195	1,585

*Interest savings.

been raised, not cut. A $1 trillion five-year tax cut would reduce static revenue collections by just over 10 percent of the nearly $10 trillion in federal tax collections through the year 2004.

A large tax cut is also critical to provide Americans with a dividend for smaller government. Americans have tended to reject prior budget-cutting exercises because they have not seen any direct benefit from them. Small tax cuts have not translated into meaningful savings in the family budget. This tax package would provide almost $2,000 of tax savings per household per year.

Finally, tax cuts—if they are constructed to reduce economically distortive marginal tax rates—can improve the performance of the economy and thus reduce the relative burden of government spending and deficits on the productive private sector. Marginal tax rate cuts in the 1920s, 1960s, and 1980s corresponded with substantial increases in growth and employment. One lesson we have learned in the 1990s is that faster economic growth is virtually a precondition for balancing the budget. If the economic growth rate were increased by one percentage point between 1999 and 2004, we would produce an extra $500 billion in budget savings. Pro-growth tax cuts may enhance the prospects for a balanced budget that remains in balance.

National Debt. Congress should retire $500 billion of the national debt.

After every war in American history, Congress has cut taxes *and* retired some of the wartime debt. That tradition should be, but has not been, upheld in the post–Cold War period. The Cato budget plan would raise $125 billion from asset sales for debt retirement. In addition, as Table 24.4 shows, our budget plan would not only fund a $1 trillion tax cut and reserve $1.28 trillion for Social Security privatization transition but would also leave some $350 billion for debt retirement. Debt retirement would

Table 24.4
Comparison of Budget Plans
(billions of current dollars)

	1998	1999	2000	2001	2002	2003	2004	Total
Federal Budget Baseline (5% revenue growth in 1999–2004, CBO March 3, 1998 outlay path)								
Receipts	173	1,822	1,931	2,028	2,129	2,235	2,347	14,227
Outlays	1,672	1,735	1,790	1,850	1,890	1,975	2,060	12,972
Surplus	62	87	141	178	239	260	287	1,255
Social Security surplus	149	171	173	177	201	203	205	1,279
Operating surplus	−87	−84	−32	1	38	57	82	−24
Cato Budget Baseline ($1 trillion tax cut, $1.5 trillion spending cut)								
Receipts	1,735	1,822	1,771	1,848	1,929	2,015	2,107	14,227
Outlays	1,672	1,735	1,595	1,580	1,619	1,640	1,742	12,972
Surplus	62	87	176	268	310	375	365	1,255
Social Security surplus*	149	171	173	177	201	203	205	1,279
Operating surplus	−87	−84	−3	91	109	172	160	+358

* Surplus includes all federal trust funds.
NOTE: Cumulative surplus 1998–2004 = $358 billion for debt retirement.

lower federal interest expenditures, thus clearing the way for deeper tax cuts in the future.

Deny

Congress has done little to change the budget rules that skew political decisionmaking in favor of ever larger federal outlays. Currently, the deck is stacked against those who wish to reduce expenditures. The lesson from the states is that budget rules that deny lawmakers the power to spend and tax recklessly can be quite effective deterrents to fiscal irresponsibility.

Congress should enact a balanced-budget amendment to the Constitution. Some opponents of the balanced-budget amendment now argue that because we have a balanced unified budget, the amendment is no longer necessary. Those are the same people who used to argue in the 1980s that the deficit was so large that an amendment would be unwise because a balanced budget is unattainable without gut-wrenching spending cuts or throwing the economy into recession. We believe that now is the ideal time to cement in place the balanced budget we have finally achieved. We should forever prevent a return to the fiscally reckless behavior of the past 30 years, when $4 trillion of the federal government's bills was passed on to our children.

Conservatives and liberals offer wrongheaded arguments against the balanced-budget amendment. The flawed liberal attack is that a balanced-budget requirement would prevent Congress and the president from using fiscal policy as a tool for stabilizing the economy. The evidence from the past 40 years suggests that fiscal policy has been more destabilizing than stabilizing. Even under the Keynesian model the idea is to run budget deficits during recessions and surpluses during recoveries. Over the past quarter century Congress has run record deficits in good times and bad.

The flawed conservative attack is that a balanced-budget amendment would give rise to higher taxes. The flaw in the thinking here is that it ignores the fact that the deficit is a tax. Deficits are simply deferred taxes. If the balanced-budget amendment restrained spending, then the true tax burden on the American economy would decline, not rise.

There are two reasons that budget deficits should be eliminated and then permanently constrained via a constitutional prohibition, one practical and one moral. The practical reason that budget deficits are harmful is that deficit finance is a hidden form of taxation. Federal borrowing injects a huge pro-spending bias into the budget process by allowing politicians to pass out a dollar of government spending to voters, while only imposing

80 cents of taxes on them. Because the deficit is largely an invisible tax, voters demand more government than they otherwise would. Outlawing federal borrowing means that Congress has to raise a full dollar of taxes today for every dollar of spending it undertakes. That will substantially increase voter hostility to government spending.

The moral argument for requiring a balanced budget is that federal borrowing is a form of fiscal child abuse. Current deficit spending must be paid for eventually by future generations—that is, by those who have no say in the current political process. In sum, a balanced budget should become a constitutional requirement, because running deficits is the ultimate form of taxation without representation. That is why Thomas Jefferson argued that ''each successive generation ought to be guaranteed against the dissipations and corruptions of those preceding, by a fundamental provision in our Constitution.''

Constitutionality of Federal Spending Programs

Where does the Constitution grant Congress the power to spend money on swimming pools, Beef Jerky TV advertisements, parking garages, and midnight basketball leagues?

The U.S. Constitution confines Congress's spending authority to a few limited areas. The powers of the federal government to spend money are enumerated in the Constitution, mostly in article I, section 8. They include the right to ''establish Post Offices and post roads; raise and support Armies; provide and maintain a Navy; declare War;'' and other mostly national-defense-related activities.

The Constitution grants no authority for the federal government to run the health care industry, impose wage and price controls, provide job training, subsidize electricity and telephone service, lend money to business or foreign governments, require businesses to give their employees mandatory leave when they have children in the hospital, or build football stadiums and tennis courts.

Much of this spending is erroneously defended by reference to the General Welfare Clause of the Constitution. But as Cato constitutional scholar Roger Pilon explains, it is clear from a reading of history that the General Welfare Clause ''was not meant to be a carte blanche for Congress to spend money, but rather was meant as a restrictive clause to prohibit any special interest spending which did not 'promote the general welfare.' '' Thomas Jefferson was often concerned that the General Welfare Clause might be perverted and so, to clarify its meaning, he wrote in 1798:

''Congress has not unlimited powers to provide for the general welfare, but only those specifically enumerated.''

Members of Congress take an oath to uphold the Constitution. They should start taking that oath seriously. When dubious spending programs come before them for funding, they should first ask: is there a constitutional authority for Congress to appropriate this public money? In that way, Congress should establish a ''constitutional veto'' on federal spending that is clearly outside the bounds of the Constitution. For too long, Congress has simply asserted an unlimited power of the purse. That attitude has undermined the role of the Constitution. It has also helped inflame our current fiscal crisis.

Conclusion

Thomas Jefferson once observed, ''Democracy is cumbersome, slow and inefficient, but, in due time, the voice of the people will be heard and their latent wisdom will prevail.'' For two decades, American voters have shown their preference for a smaller, less intrusive federal government. In 1980 they elected a new federalist, Ronald Reagan, to the White House, primarily because he understood and articulated the American public's growing animus toward the federal government. In 1994 voters gave Republicans a congressional majority for the first time in 40 years, largely on the basis of issues like welfare reform and the balanced-budget amendment. At long last, a Democratic president and even some liberals in Congress are beginning to admit that government has grown too big and balanced budgets matter.

President Clinton's declaration that the ''era of big government is over'' was, like so many presidential pronouncements, misleading. At Clinton's insistence, the 1997 budget deal expanded federal spending virtually across the board. Clinton's 1999 budget request called for new initiatives, such as school construction funds, 100,000 new school teachers, and smoking cessation programs, all to be paid for from the multi-billion-dollar settlement with the tobacco industry. Clearly, the president's rhetorical commitment to smaller government is not borne out by his subsequent budget submissions.

But neither is the Republicans'. They, too, have back-pedaled from their attacks on big government. Accordingly, it is time for members of Congress who proclaim their commitment to fiscal restraint and smaller government to place before the American people an honest alternative.

We offer this 5-D strategy as an alternative that responds to the desire of American voters to diminish Washington's reach, downsize Washington's role, and decrease Washington's rate of taxation.

The democratic process may be cumbersome and slow, but American voters have waited long enough. The next Congress must, at long last, deliver a government that costs less.

Appendix: Cato Institute List of Recommended Federal Program Terminations, FY98 Spending (in $ millions)

U.S. Department of Agriculture	
Economic Research Service	$70
National Agricultural Statistics Service	$120
Agricultural Research Service	$810
Cooperative State Research, Educ. and Extension Serv.	$890
Agricultural Marketing Service	$530
Conservation Reserve Program	$1,900
Federal Crop Insurance Corporation	$1,170
Agricultural commodity price supports and subsidies	$8,000
Natural Resources Conservation Service	$1,100
Rural Housing Service	$520
Rural Community Advancement Program	$650
Business-Rural Cooperative Service	$90
Rural Utility Service	$1,000
Foreign Agricultural Service	$660
Market Access Program	$90
Food stamps (devolve to states)	$22,420
Child nutrition subsidies for non-poor	$1,500
Commodity Credit Corporation Export Credit	$200
Export Enhancement Program	$500
P.L. 480 Grants	$950
Land acquisition programs	$160
Forest Service, Renewable Resource Management	$600
Forest Service, Road and Trail Construction	$100
Forest Service, Forest and Rangeland Research	$170
Forest Service, State and Private Forestry	$160
Total Department of Agriculture	$44,360

Department of Commerce	
Economic Development Administration	$440
National Technical Information Service	$80
Economic and Statistical Analysis	$50
International Trade Administration	$280
Export Administration	$50
Minority Business Development Agency	$30
National Ocean Service	$260
National Marine Fisheries Service	$390
Oceanic and Atmospheric Research	$270
Fishery products research, development, and promotion	$10
Advanced Technology Program	$190
Manufacturing Extension Partnership	$110
National Institute of Standards and Technology	$650
National Telecomm. and Information Administration	$80
Total Department of Commerce	$2,890
Department of Defense (see Chapter 46)	
Department of Education	
Education for the Disadvantaged Grants	$7,000
Even Start	$130
Indian Education	$60
Howard University	$200
After School Lunch programs	$40
Education Technology	$60
Goals 2000	$510
School-to-Work Programs	$370
Impact Aid	$1,000
School Improvement Programs	$830
Safe and Drug-Free Schools Act	$560
Office of Vocational and Adult Education	$1,340
Office of Bilingual education	$280
College Work-Study Grants	$830
Office of Educational Research and Improvement	$580
Direct Student Loan Program	$940
Office for Civil Rights	$60
Star Schools	$30
Total Department of Education	$14,620

Department of Energy	
General Science, Research and Development	$1,800
Solar and Renewable Energy, Research and Development	$300
Nuclear Fission, Research and Development	$230
Magnetic Fusion, Research and Development	$230
Energy Supply, Research and Development	$1,590
Uranium Supply and Enrichment Activities	$50
Fossil Energy, Research and Development	$370
Naval Petroleum and Oil Shale Reserves	$120
Energy conservation programs	$550
Strategic Petroleum Reserve	$220
Energy Information Administration	$70
Clean Coal Technology	$150
Power Marketing Administration subsidies	$210
Departmental Administration	$120
Total Department of Energy	$6,010
Department of Health and Human Services	
Agency for Health Care Policy and Research	$90
Health Professions Curriculum Assistance	$290
National Health Service Corps	$120
Maternal and Child Health Block Grant	$680
Healthy Start	$100
Title X Family Planning Program	$200
Indian Health Service	$2,120
Substance Abuse Block Grant	$1,310
Mental Health Block Grant	$280
State Day Care programs	$1,840
Temporary Assistance for Needy Families (TANF)	$16,700
State Welfare Administrative Costs	$2,300
State Child Support Administrative Costs	$2,260
Low-income home energy assistance	$1,070
Refugee assistance programs	$410
Family preservation and support grants	$240
Child Care and Development Block Grant	$980
Social Services Block Grant	$2,440
Head Start	$4,360
Child Welfare Services	$290
Community Services Block Grants	$490
Child Abuse Grants to States	$20

NIH overhead cost reimbursements	\$100
Violent Crime Reduction Programs	\$50
Children's Research & Technical Assistance	\$50
Total Department of Health and Human Services	\$38,790
Department of Housing and Urban Development	
Public Housing Operating Subsidies	\$3,090
College Housing Grants	\$20
Community Development Block Grants	\$5,000
HOME Investment Partnerships Program	\$1,560
Community Development Loan Guarantors	\$30
Low Income Housing Assistance (Sec. 8)	\$16,650
Distressed Public Housing	\$410
Rental Housing Assistance	\$600
Fair Housing Activities	\$20
Federal Housing Administration	\$340
Policy Development & Research	\$40
Supportive Housing Program	\$150
Youthbuild Housing Program	\$10
Drug Elimination Grants	\$290
Hope Grants	\$50
Homeless Assistance Grants	\$610
Total Department of Housing and Urban Development	\$28,870
Department of Interior	
Bureau of Indian Affairs	\$1,750
Bureau of Reclamation water projects	\$840
U.S. Geological Survey	\$270
Migratory Bird Conservation	\$40
North American Wetlands Conservation	\$10
Cooperative Endangered Species Conservation	\$40
National Wildlife Refuge Fund	\$20
Sport Fish Restoration Fund	\$290
Land Acquisition programs	\$190
Total Department of Interior	\$3,450
Department of Justice	
Juvenile Crime Programs	\$200
Community Oriented Policing Services (COPS)	\$840
Violence Against Women Act	\$270
Byrne Law Enforcement Grants	\$140

Correctional Facilities Grants	$730
Substance Abuse Treatment for State Prisoners	$60
State and Local Law Enforcement Assistance	$240
Weed and Seed Program	$30
Antitrust Division	$10
Drug Enforcement Administration	$1,060
Interagency Crime and Drug Enforcement Task Force	$220
Civil Liberties Education Fund	$40
Total Department of Justice	$3,840
Department of Labor	
Adult Training Grants	$960
Dislocated Worker Assistance	$1,340
Youth Training Grants	$130
Summer Youth Employment and Training Program	$870
Welfare to Work	$470
Job Corps	$1,200
Migrant and Seasonal Worker Training	$70
Community Service Employment for Older Americans	$460
Trade Adjustment Assistance	$320
Employment Standards Administration	$380
Total Department of Labor	$6,200
Department of State	
United Nations organizations	$660
Inter-American organizations	$120
North Atlantic Treaty Organization (NATO)	$40
Org. for Economic Cooperation & Development (OECD)	$60
United Nations peacekeeping activities	$260
International Fisheries Commissions	$20
Migration and Refugee Assistance	$650
Foreign aid to Egypt	$2,000
Foreign aid to Israel	$3,000
Narcotics control assistance to foreign countries	$190
Total Department of State	$7,000
Department of Transportation	
Motor Carrier Safety Grants	$80
Intelligent Transportation System	$100
Highway Traffic Safety Grants	$180
Federal Railroad Administration	$400
Amtrak subsidies	$470

Federal Transit Administration	$4,000
Grants-in-Aid for Airports	$1,560
Payments to air carriers (Essential Air Service program)	$50
Maritime Administration	$260
Cargo Preference Program	$370
Transportation Systems Center	$200
Partnership for a New Generation of Vehicles	$220
Coast Guard Boat Safety	$50
Highway Demonstration Project	$2,000
Total Department of Transportation	$9,940
Department of Treasury	
Presidential Election Campaign Fund	$70
Customs Service, Air and Marine Interdiction program	$110
Community Development Financial Institutions	$50
Interagency Crime and Drug Enforcement Task Force	$60
Total Department of Treasury	$290
Department of Veterans Affairs	
V.A. benefits for non-service-related illnesses	$200
V.A. health care facilities construction	$500
Total Department of Veterans Affairs	$700
Other Agencies and Activities	
Agency for International Development	$1,420
Assistance for Eastern Europe	$480
Assistance for Former Soviet Union	$720
African Development Fund	$80
Appalachian Regional Commission	$180
Consumer Product Safety Commission	$40
Corporation for National and Community Service	$600
Corporation for Public Broadcasting (CPB)	$260
Corps of Engineers Construction	$1,000
Davis-Bacon Act	$1,000
Economic Support Fund	$2,400
Equal Employment Opportunity Commission	$240
EPA State and Tribal Assistance Grants	$2,500
EPA Wastewater Treatment Subsidies	$2,400
EPA Superfund	$1,600
EPA Environmental Technology Initiative	$60
EPA Science to Achieve Results grants	$80

Export-Import Bank	$600
Federal Drug Control Program	$240
Federal Labor Relations Board	$20
Federal Trade Commission	$40
Foreign Military Financial Program	$3,000
High Performance Computing and Communications	$800
Inter-American Development Bank	$80
International Development Association	$1,060
International Organizations	$300
International Monetary Fund	$40
International Trade Commission	$20
Legal Services Corporation	$280
NASA International Space Station Program	$2,000
NASA New Millennium Initiative	$400
NASA Reusable launch vehicle technology program	$100
NASA Aeronautics Initiative Research Partnerships	$300
National Endowment for the Arts (NEA)	$120
National Endowment for the Humanities (NEH)	$120
National Flood Insurance	$200
National Labor Relations Board	$100
N.S.F. Program to Stimulate Competitive Research	$40
Neighborhood Reinvestment Corp.	$40
North American Development Bank	$60
Office of National Drug Control Policy	$40
Office of Science and Technology Policy	$20
Overseas Private Investment Corporation	$40
Peace Corps	$240
Securities and Exchange Commission	$100
Selective Service System	$20
Service Contract Act	$600
Small Business Administration	$800
Tennessee Valley Authority, Development Activities	$100
Trade and Development Agency	$60
U.S. Global Change Research Program	$1,900
U.S. Information Agency	$1,200
World Bank	$40
Total Other Agencies and Activities	$30,180
Total Cato Budget Savings	$197,140

Suggested Readings

Moore, Stephen. *Government: America's #1 Growth Industry*. Lewisville, Tex.: Institute for Policy Innovation, 1993.

Hodge, Scott A. *Rolling Back Government: A Budget Plan to Rebuild America.* Washington: Heritage Foundation, 1996.

Penny, Tim, and Major Garrett. *The Fifteen Biggest Lies in American Politics*. New York: St. Martin's, 1998.

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