John Semmens

SPENDING LIMITS ARE NOT ENOUGH

THE enormous increase in government expenditures over the last fifty years has inspired efforts to place some sort of control on the expansion of government budgets. One popular approach, favored by the National Taxpayers Union, would enact a Constitutional amendment requiring a balanced budget. Another approach, favored by economist Milton Friedman, would limit government revenues to a fixed percentage of the national income.

While these ideas have merit as devices for placing some degree of constraint on the government's consumption of resources, they are not enough. In fact, unless such proposals are explicitly recognized as interim measures, they could lay the groundwork for a more serious erosion of property rights later on.

The balanced budget proposal focuses on the government's deficit between receipts and expenditures. Beyond question, the perpetual resort to deficit finance must result in the diversion of resources from the private sector to the government's coffers. This can happen either through the "crowding out" of would be private borrowers when large public debt issues absorb available investment capital, or by inflating the money supply. The "crowding out" phenomenon shifts resources from more productive private purposes to less productive government purposes. Inflation employs legal means to diminish the value of all dollar holdings and fixed income receipts. The havoc wrought in the corporate bond markets, where top-rated bonds issued when interest rates were two and three percent now sell for fractions of their original cost, is a dramatic demonstration of the ill effects of both phenomena.

Stopping these ill effects is a worthy objective, but a balanced

Mr. Semmens is an economist for the Arizona Department of Transportation and is studying for an advanced degree in business administration at Arizona State University.

budget alone will not achieve it. The government may just as easily balance the budget by raising taxes as by cutting spending. An increase in taxes does not require Congressional action. The government has all the power it needs to increase taxes without going through the trouble of enacting new levies, although the enthusiasm shown for the imposition of a "windfall profits" tax on oil illustrates the willingness of Congress to use manufactured crises as a means of raising taxes. Because the tax system is "progressive," i.e., the rates increase as the taxable resource rises in nominal value, the government can raise taxes by inflating the money supply. The heart of the President's plan to balance the budget is to increase the tax take by pushing taxpayers into higher tax brackets.

While a balanced budget might be an improvement over the current situation, the key weakness of such a device as a control over government spending is that it says nothing about the magnitude of that spending. The primary evil in government spending is not that it is deficit spending, but that it is consuming ever larger proportions of the nation's wealth. In the last 50 years, the government's "take" of the national income has risen from under 15 per cent to over 40 per cent. It is to remedy this situation that we have the proposals to limit government spending as a percentage of the national income.

Spending limitation measures have been discussed and even, in some jurisdictions, passed as a means of controlling the government's appropriation of resources. Without limits, the projected outcome of existing trends is for the government to consume the entire national income within 30 years. A number of proposals have been introduced in Congress. Whether any of these can serve as a real constraint on spending, however, is doubtful. On the one hand, it is a fundamental principle of legislative procedure that a subsequent body of Congress cannot be bound by an action of a prior body of Congress. Any limitations legislated in one session may be overridden by a simple majority vote in a later session. It is obvious, then, that if a spending limit is to be binding, it must come in the form of a Constitutional amendment.

Limiting spending by Constitutional means was the route taken by the Arizona Legislature in 1978. The problem with virtually all of the proposals to use Constitutional means is the overwhelming reluctance to draw a hard line on the spending issue. Such was the case in Arizona. While the Constitution now limits state spending to no more than 7 per cent of the personal income of the inhabitants, the determination of what constitutes state spending is a matter of legislative enactment. Not all state spending is state spending, or so it seems. Certain categories of revenues and outlays are declared exempt from the spending ceiling. Curiously, the rationale for exemptions is that services rendered for fees should be excluded from the spending limit. This says much about the character of the remaining outlays—namely, that they are not services rendered for fees. This is an admission that the bulk of state government expenditures are for activities that would not be purchased on a fee basis.

One should not be surprised to discover attempts at reclassification of which expenditures are to be exempt. It is barely a year since the enactment of the Arizona spending limit and the legislature has already passed a measure designed to exempt additional gasoline taxes from the 7 per cent limit.

The fundamental problem with the spending limits proposed to date is the lack of respect for basic private property rights. The proposals rest on the premise that the government is entitled to take as much of the national income as it needs. This explains the universal provision for loopholes and escape clauses. In essence, the spending limit proposals are concessions to the current taxpayer outrage. The government is willing to reach a temporary compromise and agree to limit itself to a specified percentage —unless it needs more for unforeseen "emergencies."

Valid as a contingency plan might be—the usual example is a conjured vision of world war—it will be abused. The government itself can create the emergency through its own ineptitude or malicious intent. The "emergency" in Arizona is the deterioration of the road system. If the rather drawn out consequences of inadequate highway maintenance can qualify as an "unforeseen emergency" that necessitates a breach of the spending limit, then there is, in fact, no spending limit.

Arbitrary spending limits concede the government too much. The involuntary nature of taxation has enabled government to decide for itself how much it will take from its citizens. Merely fixing a percentage limit does not deal with the valid issue of the purposes of government activity. It is all too likely that spending limits will serve to legitimize a claim to a portion of the national income that is not subject to question. If the government provides some services or encounters "emergencies" it will have little difficulty enlarging its take.

If there are genuine functions to be performed by governments, then the historical experience of man's economic activities quite clearly indicates that the proportion of income consumed in the provision of such services should be declining. No services can be more valuable or necessary than the provision of food, clothing, and shelter. The marketplace has been coping with the provision of these items for years. In the last 50 years, the proportion of the national income consumed in the production of food, clothing, and shelter has declined by 33 per cent, 50 per cent, and 17 per cent respectively.

The efficiency of the free market is responsible for the decline in cost of these fundamentals of life. The pressure of competition drives suppliers to cut costs. The prosperity engendered by the free market enables consumers' real income to rise so that individuals can afford more than just the necessities.

The government is not subject to the forces of the marketplace. As a result, the proportion of the national income consumed in the public sector has risen by 212 per cent during the past half-century. Insulated from competition, government becomes less and less efficient. Bureaus and rules proliferate, consuming more resources to do less. Unable to generate a desirable product, government, via legislation, simply helps itself to larger shares of consumers' income.

Logic and experience warn that entitling the government to a fixed cut of the national income or demanding that its budgets be balanced is not enough. The government acts beyond the beneficial guidance of the market regimen. This has bred a sloppiness that has led to a dangerous obesity of the public sector. For its own good, the government must be put on a more healthy diet. Its intake must be matched by its output. As much as is possible of its activities must be cut free from the tax-fed trough. Services that are conducive to operating on a fee basis should be placed on a fee basis. Services which are not conducive to such an arrangement require an alternative regimen. Since, by definition, such services cannot be marketed, we must simulate the discipline of the marketplace. One apparent means of doing this would be to enforce spending reductions. Just as the shares of national income going to the production of food, clothing, and shelter have been reduced, so too should government's share be reduced. A *shrinking* spending limit could serve as an artificial simulation for the pressures of competition.

Bloated as it is, the government cannot handle even its traditional responsibilities. It cannot protect its own diplomats. It cannot keep the streets safe. For its own good and for our own good, the government's debilitating obesity must be more than halted, it must be reversed. Spending and taxation must be reduced.

Jack D. Douglas

Totalitarian Collectivism in America

"NOTHING IS more striking to a European traveller in the United States than the absence of what we term . . . government." So wrote Alexis de Tocqueville of American society in the 1830s. What American in 1980 could possibly think of our society as one characterized by an "absence of government"?

Government at all levels now directly controls nearly forty percent of our wealth through *direct* taxation, yet anyone with a smattering of economic knowledge knows that the indirect taxation mandated by government regulation is also huge. American society today is a government-controlled society, a society in which all of us are controlled in innumerable ways by a vast number of proliferating government bureaucracies, agencies, committees, police powers, legislative bodies, judicial decisions.

Tocqueville recognized that government powers might someday grow in America into the huge bureaucratic administration of life that had earlier characterized the mercantilist monarchies of Europe. He realized that the welfare of any nation necessitated the legislation of general principles for the whole society by the central government. But he had forebodings that the American government would go far beyond that and turn mass democracy into democratic tyranny. If the central power, he argued, "after having established the general prin-

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Dr. Douglas is Professor of Sociology at the University of California at San Diego, though his studies of human action range beyond the usual professional or academic bounds of any one discipline. He has written and edited twenty-five books on various aspects of the social sciences and his articles have appeared in many professional journals and other publications.

This article is from the preface of his book, *The Myth of the Welfare State*, forthcoming.