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Taming the Federal
Spending Monster

By Lewis K. Uhler



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We have reached a milestone in federal fiscal irresponsibility: the cash debt of the United States now exceeds the total value of the shares traded on U.S. stock exchanges. In other words, if we were to sell all U.S. stock market-traded stocks, which *Forbes* has calculated to have a current value of about \$2.2 trillion, it wouldn't be enough to pay off the national debt. And there are other ways to put the national debt in perspective:

- ◆◆ A family of four's share of the national debt is equal to a mortgage of nearly \$40,000.
- ◆◆ Interest only on that mortgage for a family of four amounts to \$60 per week.

And that is just the cash debt. Unfunded liabilities are huge but impossible to calculate. But do the national debt and annual deficit really matter? Don't we just "owe them to ourselves?" We certainly do — and to foreigners as well. And we are paying unnecessarily high interest rates for the privilege. Currently the U.S. corporate bond rate hovers around 10 percent. By contrast, the Swiss rate is less than 4 percent.

Our interest rates are directly traceable to monetary policies that are shaped by the fiscal practices of Washington. If Washington were to signal an end to fiscal profligacy by approving a Tax Limitation/Balanced Budget Amendment to the Constitution, U.S. interest rates would decline.

Lower Interest Rates. There is a tendency to think of a balanced budget amendment as a discipline with only long-term effects. That is a misconception. At our request, friends at Oppenheimer and Company in New York surveyed managers of substantial financial portfolios, asking their opinion about the relationship between the uncertainties associated with deficit spending and interest rates. The result confirmed our suspicions. Overwhelmingly, the respondents, who between them have hundreds of billions of dollars under management, concur that congressional approval of a Tax Limitation/Balanced Budget Amendment would generate immediate and substantial downward pressure on both short-term and long-term interest rates.

What would lower real interest rates do? Let us consider just a few of the ways lower interest rates would help the economy, the people, and the government itself. Lower interest rates would:

- ◆◆ Improve U.S. competitiveness with foreign manufacturers by bringing down both the cost of producing goods domestically and the cost of financing their purchase.

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- ◆ ◆ Make housing of all types affordable to a much broader range of buyers and renters.
- ◆ ◆ Turn many marginal or negative cash-flow commercial and industrial properties into money makers, reducing the drain on the Federal Savings and Loan Insurance Corporation (FSLIC) caused by debt-ridden savings and loans saddled with defaulting loans.
- ◆ ◆ Bring down interest rates on the federal deficit. For each one percent decline in interest rates, interest on the national debt would be reduced by about \$25 billion, substantially decreasing the annual deficit.

Long-Term Discipline. Simply stated, every borrower, which means virtually every business and individual in America, is paying a heavy penalty in the form of artificially high interest rates because of the way the national government conducts its fiscal affairs. What have our leaders done to reform federal fiscal practices? The President could have been more forceful in the exercise of his veto power. For example, when Congress delivered its \$600 billion Christmas present to the President last year, he should have carved it up, vetoing the objectionable parts. After all, Congress had violated its own rules by consolidating separate spending measures into one huge grab bag. The President could have asserted a type of veto, an item veto if you will, likely to have prevailed in any court challenge by Congress. I am hopeful the President may still have an opportunity, and will try, to discipline the system this way before he leaves office.

Congress has imposed various statutory restraints on itself to control its fiscal practices: the Budget Act, Gramm-Rudman-Hollings, and even a Balanced Budget Resolution. While GRH has had a beneficial effect, as often as not it has been honored in the breach. As Senator Phil Gramm has said, nothing short of a Constitutional Amendment will finally discipline Congress. GRH, he says, is like the engagement; the Tax Limitation/Balanced Budget Amendment is the marriage, the long-term discipline. But "long-term discipline" as former Congressman Barber Conable has said, "is what the Congress is short on."

Careers Handing Out Public Money. Jim Wright, Robert Byrd, and the rest of the old-timers who have built their careers handing out public money as if it were their private treasure, abhor the mere mention of constitutional restraint on their spending. As many conservative members of the House now concur, Wright's "tour" as Speaker makes them yearn for the "good ole days" of Tip O'Neill.

In the past we have been close to getting Congress to approve an amendment. But passing laws, as many sports, is a game of inches. Close is not good enough. But it is a gauge of the possible. The Senate passed our amendment in 1982, 69-31; it rejected an amendment in 1986, 66-34, one vote shy of the two-thirds necessary. We succeeded with a discharge petition in the House in 1982 but failed to win the two-thirds vote. Currently, more than 50 percent of House members are cosponsors of an Amendment, and about 190 have signed a discharge petition, despite the withering political firepower of "Mr. Ethics" himself, Jim Wright.

It is stylish among wags in the liberal media to pronounce the tax/spending revolt dead. Not so. Last year a *New York Times*/CBS poll revealed that 85 percent of the American

people persist in their desire for a balanced budget amendment. Congress's deferential, although perceptive, treatment of Gramm-Rudman-Hollings signals its institutional recognition that the people want federal fiscal discipline and an end to deficits.

Bulwark Against Excessive Government. In California a few days ago we defeated Proposition 71, the public education establishment's and public employee unions' effort to repeal the constitutional (Gann) spending limit that, with Proposition 13, constitutes California's bulwark against excessive government. Despite being outspent 20 to 1 and having some school districts and the State Department of Education campaign overtly for the measure, we won.

George Bush's "no tax" pledge during the primaries and his recent attacks on Michael Dukakis for ambivalence on tax increases reflect a recognition of public sentiment on taxes. All of this suggest that, to paraphrase Mark Twain, "reports of death of the tax revolt have been greatly exaggerated."

Our challenge is to translate the popular preference for federal fiscal discipline into the law of the land. Properly, the Founding Fathers made it tough to amend the U.S. Constitution. But recognizing that Congress might resist necessary change where it perceived its ox would be gored, the Founders provided a "people power" safety valve in Article V, the power to demand a convention for proposing amendments.

The National Tax Limitation Committee, National Taxpayer's Union, American Legislative Exchange Council, Citizens for America, and other organizations that are part of our broad-based national coalition have been seeking state resolutions for a balanced budget amendment. Initially the AFL-CIO, the American Civil Liberties Union, Common Cause, and similar bedfellows who detest the balanced budget amendment fought state resolutions by criticizing the balanced budget amendment. Finding little popular response, they changed their tactics. They organized a front group called "Citizens to Protect the Constitution." Through it they opposed the process of state resolutions, claiming they would lead to a "runaway convention" that would dismantle the Constitution and repeal the Bill of Rights.

Rejecting Common Sense. More recently the liberals have been joined by the Liberty Lobby, an overtly anti-Semitic little band, the John Birch Society, the Eagle Forum, and a few others, who have succumbed to the notion that a coterie of ultra-liberals are waiting in the wings to seize control of a convention — and they have the power to do so — converting the U.S. into a European-style parliamentary government. As their legal authorities, they cite Harvard's Lawrence Tribe, Gerald Gunther, and others whose liberal credentials need no exposition here. They reject common sense, political reality, careful studies by the American Bar Association, Justice Department, and a host of conservative authorities, who claim that a convention, if ever convened, can and would be limited to the subject matter specified by the states in their calls. They gloss over the fact that the work product of a convention is merely a proposal that must be ratified by 38 states to become part of the Constitution. That 38 states might willingly dismantle the U.S. Constitution tests the credulity of even the most hard-core conspiracy lover.

Over the last several months we have defeated efforts in numerous states to rescind balanced budget resolutions already on the books. Our campaign to make Kentucky the 33rd state (of 34 necessary) to demand a convention came closer to success than in several previous tries. But rescision votes in Alabama and Florida have pulled us back to 30 states. It is time for those who in their zeal have been blind to the political relief they have granted Jim Wright to reassess calmly their deal with the devil.

We intend to redouble our efforts in the states, recognizing the pivotal role they play in this drama. Furthermore, beyond the balanced budget amendment, it is critically important that the Article V convention process does not become a "dead letter." If the potential for state intervention to discipline an errant Congress is abandoned, there is no telling the additional mischief that might be encouraged.

Founders' Farsightedness. We are seeking to use the state power provision of Article V of the Constitution as the Founders intended. State resolutions are a safety valve that allows a pressure release a bit at a time. Close that valve, and change is more likely to occur through an explosion that ruptures the entire body politic. The Founders recognized that the Articles of Confederation requirement of unanimity to amend was an invitation to disaster. Hence, they provided a three-fourths rule for ratification and two ways to propose amendments.

Our effort to use the state resolution process to reform federal fiscal powers honors the farsightedness of the Founders. They gave us this procedure. We did not dream it up. We are merely seeking to use it as they intended.

Those who oppose the Article V convention process are denigrating the Constitution and questioning the wisdom of the Founders. They find a conspiracy to destroy the Constitution behind every tree. They would immobilize us with fear of the fanciful, while the real risk — economic chaos — goes unchecked.

Black Monday. The stock market's 500 point drop on Black Monday, October 19, 1987, was less than a year ago. While not cataclysmic, it was a clear warning that something is dangerously wrong. The predictable Washington response, a budget summit, has done nothing to change the fundamentals. The National Economic Commission, convened to find some answers, is merely fiddling with the budget process. That is akin to rearranging the chairs on the deck of the Titanic.

There is only one solution — and it is constitutional. We must bind, with the chains of the Constitution, the taxing and spending powers of the federal government. No less important than the freedom to speak and worship as we please is our dominion over the fruits of our labors.

Constitutional fiscal discipline transcends mere dollars and cents. It has everything to do with human freedom. Freedom of speech does me little good if I cannot afford to buy a soap box. *La Prensa* in Nicaragua is finding that the freedom to publish is of very little consequence when the Sandanistas deny them the newsprint on which to disseminate their views.

During this election year, we must challenge every office seeker to take a position on the Tax Limitation/Balanced Budget Amendment. George Bush has made his stand clear – he is committed to a Balanced Budget Amendment. Michael Dukakis should follow suit. Unfortunately his opposition to Proposition 2 1/2 in Massachusetts in 1980, Massachusetts' property tax limitation measure, is not very reassuring. The financial community should provide special leadership during this election, demanding that each Senator and Representative commit to fundamental, constitutional discipline, heeding the warning of October 19th, rather than being doomed to repeat it.

Shaping Our Own Destiny. We have a choice. We can do nothing, risking financial disaster with the very real threat of attendant political chaos, as in the post-World War I German experience. Or we can shape our own destiny through constitutional reform.

We invite you to join us in pursuit of the latter course, celebrating the bicentennial in the most significant way possible, by using the means of reform provided us by the Founders themselves.

