

Appendix IV
Federal Spending

RAHN: William Niskanen, wise and principled

Cato's chairman leaves behind simple words that could save U.S. economy

By Richard W. Rahn
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If only we had followed his recommendations, the United States and the rest of the world would not be in the present mess. On October 26, the world lost one of its wisest, most competent and principled economists, William Niskanen. Bill did his undergraduate work at Harvard and earned a doctorate from the University of Chicago, where he studied under Milton Friedman. He then taught at a couple of leading universities, was a high-level official at the Office of Management and Budget and the Defense Department, served as chief economist of the Ford Motor Co., was a member and, ultimately, head of President Reagan's Council of Economic Advisers and finally, served for more than two decades as the chairman of the Cato Institute.

For those of us lucky enough to have known and worked with him over the years, we always knew he had done his homework and what he was telling us was what he really believed. His stubborn, principled trait of not tailoring his views to what was politically expected got him fired from Ford. He, at times, got into hot water in the Reagan White House by saying things that happened to be true but gave the media an opportunity to beat up the administration for not being "properly sensitive."

At the moment, the world is in a debt crisis, where the economic illiterates are pushing for tax increases "on the rich," where the eurozone is in shambles, and where ugly trade protectionism is once again rising. Mr. Niskanen had seen all of these problems decades ago and laid out solutions that, if followed, would have avoided the current mess. Bill was a very careful scholar with strong analytical skills, and his opinions were largely a result of where the evidence led him.

For instance, the evidence led Mr. Niskanen to believe, like Milton Friedman, that the optimal level of government spending as a percentage of gross domestic product was probably about 10 percent. But he wrote, "This does not suggest there is no value to government spending above the optimal level, only that the net cost to the economy of this spending is much higher than the direct expenditures for these programs." After careful analysis of the data, he concluded that the marginal cost of government spending and taxes in the United States likely ranged between \$2.75 and \$4.50 per additional dollar of tax revenue. He wrote, "One wonders whether there are any government programs for which the marginal value is that high." To put what he was saying more simply, GDP is reduced by roughly three or four dollars for every additional dollar the government taxes and spends. It was, of course, no surprise to Mr. Niskanen that President Obama's "stimulus" program did not work and only made matters worse.

For four decades, Bill Niskanen worked for a tax-and-spending-limitation amendment to the Constitution. In January 1995, in only 125 words, he presented his proposed constitutional amendment to the House Budget Committee, “consistent with the crisp and majestic language of most of the Constitution.” Here is his amendment. After reading it, ask yourself how much better off the nation would be today if the body politic had passed what he proposed:

“Section 1. Congress may not increase the limit on the public debt of the United States without the approval of three-fifths of the members of each House.

“Section 2. Congress may not levy a new tax or increase the rate or base of an existing tax without the approval of three-fifths of the members of each House.

“Section 3. State and local governments must be compensated for the necessary additional costs of any new federal mandate specific to those governments. In the absence of such compensation, state and local governments need not implement such mandates.

“Section 4. Sections 1 through 3 of the Article shall be suspended in any fiscal year during which a declaration of war is in effect.”

This simple, yet elegant, amendment covers nearly all the bases.

Bill Niskanen was a strong proponent of free trade and free capital movements and thus was critical of much of the current China bashing. He also saw the fatal flaws in the EU. In 2008, he wrote: “The major problem specific to the European Union trade area, however, is that it is difficult for a government to join this area without bearing a proportion of the costs of all EU activities. ... If I were an official in a European government, one of my priorities would be to restore or maintain membership in a European-wide free trade area that does not require membership in the European Union.”

Those desiring more liberty and more cost-effective government could do no better than to support the Niskanen amendment to the Constitution. They should also insist before any government spending or regulatory program goes into effect a thorough cost-benefit study be done, including the \$2.75 to \$4.50 dead-weight loss to the economy for any additional dollar taxed and spent. Those two changes to our governing procedure would take care of our fiscal problems.

Some people have had increased influence after their passing. I would not be at all surprised if Bill Niskanen becomes one of them.

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RONALD REAGAN

40th President of the United States: 1981-1989

1988 Legislative and Administrative Message: A Union of Individuals

January 25, 1988

To the Congress of the United States:

INTRODUCTION

In one sentence of 52 words, the Framers of our Constitution announced the proper ends of government in a free society:

“We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.”

The six purposes listed in the Preamble for establishing the Constitution serve as a lasting measure of the legitimate role of government. An American President has no more sacred duty than to ensure that the government stays within the constitutional limits that protect individual liberty. In assessing this Administration’s policies and proposals now and for the future, the fundamental blueprint remains the Preamble of the Constitution.

In the past 7 years, our Administration has worked to restore a vision of government that was the Founders’ own — a vision of a free and self-reliant people, taking responsibility for its own welfare and progress through such time-tested means as individual initiative, neighborhood and community cooperation, and local and State self-government. The return of responsibility and authority to the individual American is now leading to a virtual renaissance in America of liberty, productivity, prosperity, and self-esteem.

Our foreign and defense policies are geared to protect American freedom against external threats, to guarantee that our liberties are secure from the aggressions of those whose values are not founded in human freedom. Protection of liberty today means not just a strong America, but also a common defense with our allies of the free world. It gives me pride to report that our mutual efforts are being rewarded with a new growth of democracy and a renewed respect around the world for this country and what it stands for. At home our challenge remains to achieve full participation in the longest peacetime economic expansion on record — in the almost unlimited prosperity which flows from genuine human freedom.

This statement of Administration policy is organized according to the six basic tenets for which the American people first ordained and established the Constitution:

- I. To Form a more Perfect Union. [91]
- II. To Establish Justice. [94]
- III. To Ensure Domestic Tranquility. [96]
- IV. To Provide for the Common Defense. [99]
- V. To Promote the General Welfare. [104]
- VI. To Secure the Blessings of Liberty. [119]

I. TO FORM A MORE PERFECT UNION

In setting aside the Articles of Confederation for a new Constitution, the Framers acknowledged that the governmental deficiencies of the new Nation were of their own making. They understood that if the American republic were to endure and prosper, its organizing principles would have to be revised. The constitutional system the Framers produced has been the wonder of the free world, but after 200 years some aspects of that system are in need of repair and reform. Accordingly, I propose the following measures to “form a more perfect Union.”

A. Balanced Budget Amendment

Before the Great Depression, the idea that the Federal government should balance its budget on a yearly basis was treated as though it were part of the Constitution. The economic crisis, and later World War II, forced the abandonment of this policy. But what may have been necessary in those national emergencies is now a permanent feature of the Federal government.

There is no question that continued Federal budget deficits, fueled by higher spending, are bad for the economy. Unfortunately, our political system makes it extremely difficult to reduce the deficit. The public interest in spending restraint is a generalized one, diffused among the entire citizenry. The special interests favoring spending on any particular program are smaller, but they fight much harder to maintain or increase spending.

Certainly, there are constructive proposals that would help control spending. Since 1981, our budgets have sought billions of dollars in reductions of outdated and outmoded programs. Members of the Congress and private think tanks have also identified wasteful spending. But the political process’s inability to overcome inertia, along with the persistence of special interests, has led many Americans to despair of achieving budgetary balance without constitutional reform. That is why 32 States have applied to the Congress to call a constitutional convention for the purpose of proposing a constitutional amendment to require a balanced budget — only two States short of the number required by Article V of the Constitution.

In previous years, the Senate has approved such a balanced budget amendment that would obviate such a convention, but the House has failed to support it. This is clearly the option I prefer to achieve the constitutionally mandated balanced budget desired by the overwhelming majority of the American people.

It is imperative that the Congress consider such an amendment as a major priority for 1988, and I will be a willing partner in that enterprise.

B. Budget Process Reform

It is widely acknowledged, by the Congress, the press, and the American people, that the current budget process is not working. The Budget Act of 1974 was purported to streamline and rationalize the budget considerations by the Congress. The new process was to “force” the various committees to consider their recommendations in the context of the entire budget and ensure that proper attention was paid to the bottom line — the deficit.

In both substance and form, the process has failed. Deadlines are routinely missed or ignored. Enforcement mechanisms are rarely employed. Debates over the same issue occur three and four times a year. And from the size of the deficit, the process has obviously failed to provide fiscal discipline.

Over the last 7 years, total revenues paid to the Federal government have increased by over \$250 billion. But total expenditures have increased by some \$325 billion. Part of the increased spending, \$125 billion, or half of the increase in revenues, was devoted to rebuilding our national defenses. But last year, the government spent

\$140 billion more on domestic programs than in 1981 and \$70 billion more on interest payments due to the deficit. And for every dollar the Congress has cut from my defense request, they have added \$2 to domestic spending.

Nowhere is the failure of the budget process more evident than in the annual process of developing the appropriations bills that establish discretionary spending levels making up just under one-half the total budget. The regular process requires that 13 separate appropriations bills be sent to the President well in advance of the October 1 beginning of a new fiscal year. But the norm has been anything but normal during the last 7 years, the Congress sent only 10 of the 91 required bills on time. In the last 2 years, not one bill has been on time and all 13 have been collapsed into one massive piece of legislation.

These increasingly large spending bills, passed at the last moment before existing funding expires, deny the Congress and the Executive the ability to adequately examine their contents. The Congress cannot truly vote on their merits and the President has little ability to employ a veto.

While Gramm-Rudman-Hollings has helped restore some fiscal discipline, it simply adds another layer to an already broken process. The threat of across-the-board cuts is only partially effective as major portions of the budget are exempt. And G-R-It does not produce what a truly effective budget process should; namely, a thorough consideration of spending priorities within the constraints of available revenues. To assist the next administration in attaining the deficit targets contained in the Gramm-Rudman-Hollings law and achieve a balanced budget within the next few years, the following changes in the budget process are proposed:

- **Joint Budget Resolution.** The budget process has so degenerated in recent years that the Presidential budget is routinely discarded and the congressional one regularly goes unenforced. The product of this breakdown is a concurrent resolution, requiring neither consultation with the Administration nor the signature of the President. As a remedy, I propose that henceforth the Congress and the Executive collaborate on a joint resolution that sets out spending priorities within the revenues available. The requirement of a Presidential signature would force both branches of government to resolve most policy issues before formulating appropriations measures. The budget process could be further improved by including in the budget law allocations by committee as well as by budget function.
- **Individual Transmittal of Appropriations Bills.** The current practice of transmitting full-year omnibus continuing resolutions oversteps appropriation committee/ subcommittee jurisdictions. More important, it does not permit the Legislative and Executive branches to exercise proper scrutiny of Federal spending. Therefore, I propose a requirement that appropriations bills be transmitted individually to the President.
- **Strict Observance of Allocations.** During the 1980s, an unacceptable budget practice evolved of disregarding congressionally approved function allocations. Funds regularly were shifted from defense or international affairs to domestic spending. I strongly urge that each fiscal year separate defense and nondefense allocations be made and enforced through a point-of-order provision in the budget act.
- **Enhanced Rescission Authority.** Under current law, the President may propose rescissions of budget authority, but both houses of Congress must act “favorably” for the rescission to take effect. The Supreme Court in the Chadha decision (1983) effectively moots even this limited authority. I propose a change of law that would cure the legislative veto defect and require the Congress to vote “up or down” on any Presidentially proposed rescission, thereby preventing the Congress from simply ignoring the rescission or avoiding a recorded vote.
- **Adopt Biennial Budgeting.** The current budget process consumes too much time and energy. A 2-year budget cycle offers several advantages — among them, a reduction in repetitive annual budget tasks,

more time for congressional oversight and consideration of key spending decisions in reconciliation, and fewer gimmicks, such as shifting spending from one year to the next. I am calling on the Congress to adopt biennial budgeting, beginning with a trial 2-year Defense budget.

- **Truth in Federal Spending Legislation.** As part of my Economic Bill of Rights proposal, I outlined legislation that provides for “Truth in Federal Spending.” Soon I will transmit legislation that will require any future legislation creating new Federal programs to be deficit-neutral; this will be done by requiring the concurrent enactment of equal amounts of program reductions or revenue increases. Additionally, my proposed legislation would require that all future legislation and implementing regulations be accompanied by financial impact statements detailing the measure’s likely economic impact, including the effect on State and local governments. Enactment of this proposal would be an important step toward reassuring the American people that the Congress is serious about controlling government spending.

C. Line Item Veto

A President should have the same tools to control spending that 43 governors have. I will forward my proposal for a line item veto. It would allow future Presidents to remove from spending bills those items that are extraneous — without threatening the continuation of vital government programs. The Congress could override each veto by a two-thirds vote in each House. The budget crisis, however, also demands immediate action. For example, last month the Congress presented me with a catchall spending bill with many extraneous and costly provisions, some of which had been considered for the first time in conference. I am asking the Congress immediately to accept the responsibility for making its own processes work, rather than giving up and resorting to a continuing resolution.

D. Super-Majority Tax Amendment

Our Founding Fathers knew that without economic freedom there can be no political freedom. Even before our Nation was full-born, nine colonies assembled in a “Stamp Act Congress”, and worked their will to oppose taxation without representation. Today, we must once again resolve to put an end to irresponsible taxation and spending. We have fallen into a costly and dangerous habit, which could threaten our future prosperity, burden future generations, and reduce the incentive of individuals and businesses to create more goods and services. It is clear that we need a mechanism to control expenditures of Americans’ hard-earned money. To this end, I will send to the Congress a proposed constitutional amendment to require a super-majority vote in the Congress in order to increase the tax burden on our citizens. I urge the Congress to act expeditiously in approving this amendment and to send it to the States for ratification

E. Federalism — Returning Power to the People

At the time of my first State of the Union address, it was apparent that the limited national government envisioned by the Framers had been replaced by a national government whose involvement in domestic affairs was limited only by its own will. The Founders understood that unchecked central authority threatens individual liberties. Accordingly, they constituted a Federal system of government, with all powers not specifically granted by the Constitution to the national government reserved to the States and to the people.

We have sought to revitalize the principle of federalism by reforming the institutional processes of the national government. This past October, I signed Executive Order 12612, which requires Executive officials to ensure that all proposed policies and legislation comply with federalism principles and to conduct a formal federalism assessment as appropriate, and which restricts Federal preemption of State laws. The Congress should review its legislative procedures to determine whether reforms similar to those in Executive Order 12612 are warranted. The National Governors Association and the Advisory Commission on

Intergovernmental Relations, as well as State and local officials, have been examining possible amendments to the Constitution that would restore the structural balance of power between the national government and the States. If we in Washington are unsuccessful in reviving the constitutionally crucial principle of federalism, it may become necessary to consider such proposals.

RONALD REAGAN

The White House,
January 25, 1988.

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President Reagan's complete speech is included on pages 3-36 of Appendix IV: www.theccwr.org/ReaganResolve/AppendixIV.pdf