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THE WHITE HOUSE

WASHINGTON

APRIL 1, 1992

MEMORANDUM FOR SAMUEL K. SKINNER
HENSON MOORE
CLAYTON YEUTTER
DORRANCE SMITH ✓
DAVID DEMAREST ✓
BOYDEN GRAY

FROM TONY SNOW *TS*
SUBJECT FRIDAY'S SPEECH

Tom Foley and Co. have decided to take the offensive on the reform issue by raving about executive branch perks. They have enjoyed mild success so far: The press really ripped into Judy Smith yesterday about perks, and we didn't have good answers prepared in response.

We shouldn't take the bait. Perks aren't the problem in Washington. The problem is that we're not doing the people's business, and we seem to be wrecking our system of government in the process. Americans want action, not finger-pointing.

This memo covers two topics: 1) a recommendation that we add performance standards to our policy mix for the speech; and 2) a brief discussion of the special possibilities Philadelphia offers as a speech site.

I) A POLICY RECOMMENDATION: PERFORMANCE STANDARDS.

Friday's speech gives us an opportunity to lift the reform discussion to a higher plane. If we simply try to exploit the Democrats' problems on the Hill, we'll prove that we, like the Democrats, don't understand life outside the Beltway.

Americans don't think that their government works, and it's hard to blame them. Taxes and spending continue to rise. Key problems -- lackluster schools, streets increasingly torn by crime, a sluggish economy, feelings of competitive inferiority, etc. -- go unaddressed. We don't pass important legislation; we just set deadlines and argue.

Congress suffers historically low approval ratings (18 percent, according to a recent Washington Post/ABC survey) because of scandals, perks, and performance: It never seems to pass really important legislation, but it always manages to find

time to finance pork-barrel projects. Many people believe that government works for the special interests, not for them. Jerry Brown, Ross Perot and Pat Buchanan all have feasted upon this combination of voter discontent and suspicion of powerlessness. This year's battle cry: When in doubt, throw all the bums out.

If we want to distinguish ourselves from the bums, we must prove that we understand the problem. Here's the problem: The people feel that they've been excluded, and that they're getting ripped off. Jim Payne recently analyzed budget hearings on the Hill and discovered that 82 percent of the people giving testimony either worked for government, or have government backgrounds. A significant portion of the remaining 18 percent work for interest groups that receive federal funds. In short, the budget process -- and hence, the government -- caters to a small, elitist corps of lobbyists and government lifers -- not for the working stiffs who pay most of the taxes.

As I understand it, we're now prepared 1) to submit legislation applying to Congress the same laws it applies to the executive branch, 2) to take another whack at campaign finance reform; and perhaps to promote term limits, through a constitutional amendment or other vehicle.

These items turn up the heat on Congress, but they don't address the fear that government has become a private preserve for the high, mighty and well-connected.

We can answer this fear adding one other reform to our list, performance standards. The President should recommend submitting all laws to a simple test: If programs work, we support them (Head Start, for instance). If not, we eliminate them (as we have with some Defense programs). We might even wish to consider adding sunset provisions to laws, along with designated criteria for success or failure. An attached excerpt from a Peter Drucker book lays out the case for such legislation.

The pitch is simple: We don't want to waste people's hard-earned money. We will measure programs by their results: Do they work? Not: Do they cost really impressive sums of money? In this way we protect the wage earner from the predations of the special interests.

Performance standards also lay a foundation for more ambitious reform proposals. If we decide at some later date to take on bureaucracy or talk in more sweeping terms of government reforms, we can rely on the only measure that counts: Does it work? We could call it the "Truth in Legislation Act." At any rate, this reform embraces common sense and appeals to George Bush's appreciation of basic honesty.

A final benefit: Bill Roth already has submitted legislation advocating performance standards, and our administration has signed off on it -- at least in theory. We could endorse the bill if we have no problems with it. At the very least, we could work with Roth to draft a bill that makes all of us happy.

By adding performance standards to the mix, we take the debate away from the Hill and back to Main Street. We acknowledge people's basic suspicion that they're getting ripped off, and that their government has been seized by staffers and lobbyists. To those people we say: We will give government back to you. Such a statement alone would be powerful, since a simple admission of truth would shock most voters. But we also must be serious. We can't use performance standards as a toss-off line. We should be prepared to offer them up as parts of our standard presentation of legislation.

As a general proposition, we come not to destroy Congress, but to save it. After all, our system depends on three healthy branches of government, each balancing the others. A weakened Congress hurts us all. We should note that we do not regard reform as a stalking horse for Republican candidates. We want reform because it's the right thing to do.

PAC reform, Congressional reform, term limitations, and the other measures send a powerful message -- but they have far more resonance in Washington than elsewhere. We need one element to fulfill the "Damn right!" test. If we say: "The government too often pours your money into programs that don't work, and it's time we put an end to it," half the viewers will slap themselves on the forehead and say, "Damn right!"

Furthermore, performance standards would make government submit to the same scrutiny workers endure when they get their annual performance reviews. By making government accountable, and setting deadlines for results, we tear government from its lofty perch, and return it to the world in which most of our voters work and struggle to build good lives.

Voters and C-SPAN junkies will watch the House investigations of executive-branch perks with interest, and they may conclude that everyone in Washington is on the take. In the end, however, voters don't care much about the your-perks-are-bigger-than-mine debate. They think of a more basic question: What have we (in government) done for them lately? Wouldn't it be nice to demonstrate that we hear their message -- and we have something to offer?

II) PHILADELPHIA POSSIBILITIES

This section may be completely gratuitous, and the suggestions may already be incorporated into the draft. Nonetheless, here goes:

Philadelphia offers spectacular possibilities for the speech. Jefferson drafted the Declaration of Independence here. The founders hammered out the Constitution in the City of Brotherly Love. And in every generation, Americans return in their hearts to Philadelphia by asking: What does the Constitution mean? What kind of government do we want? We have reached such a point again. The entire world has changed in three years, and most nations now look back out our Founders with awe. They want to capture the spirit of Philadelphia -- and so do we.

The speech basically argues for the restoration of checks and balances -- an energetic executive branch; a Congress that represents the will of the people, and an independent judiciary. It would make sense to mention in passing the President's commitment to a judiciary that interprets laws, rather than makes them. That's standard Federalist Society stuff -- and all four founders of the Federalist Society have worked for this administration. We also should mention Clarence Thomas, who is much beloved by the Federalist Society. Clarence is a guaranteed applause line, and adds another nuance to the address.

If we incorporate a philosophical element -- a return to Philadelphia, checks and balances, a government of, by and for the people, etc. -- we can impart a sense of history and weight. That's important. Never underestimate the idealism of the American people, especially when it comes to our Constitution. During last year's Desert Storm euphoria many people believed that America had finally lifted itself from the doldrums, and had restored its higher sense of itself. Americans believe deeply in the goodness and destiny of our country, and much of today's discontent arises from the fact that we seem to have violated that precious heritage.

George Bush travels to Philadelphia to save that system of government, to reclaim the founders' legacy -- and to restore people's rightful claim to power. The President's populism would stand in dramatic contrast to the elitism of the House, and of the Democratic party. It also would provide grist for columnists -- Broder and Will, particularly -- who yearn for such stuff.

If we combine real news -- Congressional reform to restore our system of checks and balances, and performance standards to demonstrate that we understand the source of public discontent -- with the loftier ideals of a government of, by and for the people, we can hit a home run, and establish a basic theme for this election year.

THE LIMITS OF GOVERNMENT

For almost two centuries, we hotly discussed what government *should* do. We almost never asked what government *can* do. Now increasingly the limits and function of government will be the issue. And government is no longer, as political and social theory still postulate, the only power center. In the developed countries both society and polity have become pluralist again, in startling reversal of the trends that prevailed since the end of the Middle Ages. These new pluralisms are very different from anything known earlier. The pluralism of society is one of apolitical, performance-focused, single-task institutions. The pluralism of the body politic is that of the new "mass movements": small, highly organized minorities, single-cause or single-interest in their focus, and totally political.

These new realities make new and different demands on political leadership. To try to satisfy them through "charisma," as so much popular discussion seems to ask for, can only result in misleadership and non-performance.

From Omnipotent Government to Privatization

Very few books in history have had greater impact than Adam Smith's *Wealth of Nations* (1776). It is still the one eco-

over running the prisons to private contractors. Even traditional "progressives" no longer doubt that there are limits to what government can do.

There are three reasons for this dramatic change. One is the failure of government programs and government operations since World War II. The second is that we have learned there are limits to what taxation and spending can achieve. Finally, we now know there are limits to government's ability to raise revenues.

What Can Government Do?

Most government activities of the nineteenth century worked beautifully. The Post Office, for instance, the nationalized railroads of Europe, the health-insurance programs of Imperial Germany, or workmen's compensation first developed in Imperial Austria around 1900 (with Franz Kafka, the great novelist, as one of its most competent administrators). The social programs of Franklin D. Roosevelt's New Deal in the 1930s were successes—at least there were very few failures.

But the only country in which government programs enacted after World War II have still been successful by and large is Japan. In every other country—and in democratic countries just as much as Communist ones—most post-World War II government programs have been disasters. If they achieved any results, these were often the very opposite of what they were enacted for. This goes for the frantic efforts in the Soviet Union since Khrushchev's day to improve farm production and farm productivity; when the Chinese, however, "privatized" their farms, production and productivity shot up almost overnight. But just as ineffectual was Lyndon Johnson's "War on Poverty" or the attempts of successive American administrations to stamp out drug abuse or to put welfare mothers to work.

Worse, the very programs and activities that did so well in the nineteenth century, and up to World War II, are now in

deep trouble in most countries. Fred Smith, the founder and CEO of Federal Express, the multinational courier company, was asked in a meeting in Paris why his company does not operate in Switzerland. "It is the only Western country," he said, "in which the postal service still functions." The nationalized railroads of Europe are running horrendous deficits, as did the Japanese National Railroad before it was split up and privatized in 1986. Yet despite the enormous sums the taxpayers of Europe and Japan have been pouring into their railroads, only the non-governmental American railroads have remained effective freight carriers. No nationalized railroad in the non-Communist world carries more than one tenth of its country's freight. The American railroads carry two fifths—and make money doing so.

We now understand why there are some things government, by its very essence, cannot do. And even for the things government can do, conditions must be right. A government activity can work only if it is a monopoly. It cannot function if there are other ways to do the job, that is, if there is competition. The Post Office in the nineteenth century was a true monopoly. And so were the railroads. There were no other ways of sending information or of moving freight and people over land. But as soon as there are alternative ways to provide the same service, government flounders.

Governments find it very hard to abandon an activity even if it has totally outlived its usefulness. They thus become committed to yesterday, to the obsolete, the no longer productive. And government cannot give up either when an activity has accomplished its objectives. A private business can be liquidated, sold, dissolved. A government activity is "forever." There are now Sunset Laws which prescribe that government activities after a given time lapse unless they are re-enacted. But legislatures rarely refuse to renew an activity, no matter how obsolete or futile it has become. By that time it has become a vested interest.

nomics book that even the least educated have heard about. And yet Adam Smith's main point was virtually forgotten a few decades after the book had come out—and remained virtually forgotten until quite recently. Smith had little love for businessmen and even less for self-interest. He did *not* argue that government does a poor job running the economy. He argued that government, by its very nature, *cannot* run the economy, not even poorly. He did not, so to speak, agree that elephants are poorer flyers than swallows. He argued that government being an elephant can't fly at all.

But soon—no later than the end of the Napoleonic wars—the argument, even among Smith's followers, turned from what government *can* do to what government *should* do. Smith argued from the nature of government. The nineteenth century argued politics.

Even the most uncompromising advocates of the free market did not question government's competence in the nineteenth and twentieth centuries. They argued government's legitimacy. The most extreme opponent of government programs, government controls, and government activism in the late nineteenth century was the English philosopher Herbert Spencer, the last of the great Liberals. He even opposed public education as interference with personal liberty. Yet Spencer never questioned the ability of government to carry out programs. He denied government's legitimacy to do so. Similarly, the father of neoconservatism, F. A. Hayek, in his anti-government tract *The Road to Serfdom* (1944), did not argue government incompetence.*On the contrary, he viewed government as only too potent. He argued the threat to liberty

*Almost fifty years later, Hayek, in his 1989 book *The Fatal Conceit: The Errors of Socialism* (New York and London: Routledge)—published while *The New Realities* was at the printer's—came to the conclusion that the nature of information makes it impossible, both in theory and in practice, for government to manage or even to control the economy.

as the one compelling argument against government interference with the economy.

When the question of the limits of government was first raised two hundred years after Adam Smith's book, it was dismissed as irrelevant, if not as silly. As it happened, I was the first to do so, in my 1969 book *The Age of Discontinuity*. There I also coined the new term "privatization" for the divestiture by government of nationalized companies and industries which I anticipated. But when *The Economist* reviewed the book, it derided the very thought as perfect nonsense and as something that could not possibly happen.

Only eight years later Margaret Thatcher became prime minister of Great Britain and immediately started to privatize. Since then, privatization has not only become the program of Conservatives like Mrs. Thatcher in Great Britain or Jacques Chirac when he became prime minister of France in 1986. The French Socialists, regaining the prime ministership in France in 1988, vowed to continue privatization; indeed, they decided to privatize the biggest of all French nationalized industries, the Renault Automobile Company, despite stiff opposition from the labor movement. Privatization has become the official policy of Communist China. And it has been pushed furthest by a Labor government in New Zealand, which is even privatizing the postal service.

Another form of privatization is moving faster still: letting private contractors take over public services with governments paying them on the basis of competitive bids. First started in the 1970s in Minneapolis-St. Paul, Minnesota, by a political scientist and city administrator, Ted Kolderie, this practice has also spread worldwide. The state of Florida paroles criminals first sentenced to a jail term—about 25,000 at any one time—into the care of the Salvation Army. In many cities, even big ones, street cleaning, fire fighting, even police, are now "farmed out." Some American states have turned

Moral or Economic?

Above all, any government activity almost at once becomes "moral." No longer is it viewed as "economic," as one alternative use of scarce resources of people and money. It becomes an "absolute." It is in the nature of government activities that they come to be seen as symbols and sacred rather than as utilities and means to an end. The absence of results does not raise the question, Shouldn't we rather do something different? Instead, it leads to a doubling of effort; it only indicates how strong the forces of evil are. Economic matters are judged by a cost/benefit ratio. In moral matters, this is a dirty word, a "sellout," an "abandonment of principle." There are of course truly moral matters, in which any compromise is indeed betrayal. But even in a moral matter one should always question the effort if there are no results. By 1917, for instance, both the Germans and the Allies should have questioned the insane trench warfare of World War I with its fruitless human sacrifices. But by then the war had become moral for both sides, with "total victory" the only acceptable goal. This gave us communism in Russia, Hitler in Germany, the Great Depression, and World War II.

Drug abuse is horrible and an evil. But if after twenty years no results are achieved by governmental campaigns against it (and in the U.S. things are only getting worse), one might question the moral approach. It might be more productive then to do the one thing we can do: take the profits out of the traffic in drugs by eliminating criminal penalties on drug use—"immoral" though this sounds.

While drug abuse is indeed evil, and therefore a moral matter, electricity surely is economic. Yet in American politics today it is being treated as moral and a matter of principle. The Tennessee Valley Authority (TVA) long ago outlived the objective for which it was set up in the thirties: to provide cheap electric power to what was then a poor rural region.

The region is now neither poor nor rural; and the TVA's rates for electric power are among the highest in the nation. The whole system is in shambles. Yet when a new general manager recently dared to hint at privatizing it, there was a storm of outrage and moral indignation. What started as a utility and a tool to get cheap electricity had become a symbol, and "sacred."

Just as government can rarely abandon, it rarely innovates. Facsimile transmission does electronically and very fast what the Post Office has been doing very slowly by shipping heavy paper over great distances. Facsimile will probably be the Post Office of the future. But it has not been invented by the Post Office nor introduced by it.

Governments can do well only if there are no political pressures. The Post Office and the railroads did well as long as they had a simple purpose. But very soon, perhaps inevitably, the pressure builds to misuse such services to create employment, and especially employment for people who otherwise would find it hard to get jobs, for example, blacks in the U.S. Postal Service. And as soon as a governmental activity has more than one purpose, it degenerates.

Government services also will not perform if the basic assumptions under which they originated change. When workmen's compensation was introduced in the late nineteenth century, it was based on the assumption that industrial work is inherently dangerous. To be sure, workmen's compensation from the beginning aimed at encouraging employers to make work safer. Employers paid premiums based on their safety performance, which greatly encouraged them to improve their operations. But the basic assumption was still that industrial work, especially work around machinery, carries with it the risk of accident. Hence, workmen's compensation did not ask who was at fault. Its purpose was to make sure that the worker would be compensated no matter who or what was at fault. We no longer accept this assumption—except in

Japan (where, therefore, workmen's compensation still works well). In the West we assume that industrial operations should be safe. If there is an industrial accident, somebody is to blame—and this usually means the employer. Where workmen's compensation awards in the past were aimed at encouraging both employers and employees to improve safety, they now are seen as punishment. The result is distortion of the whole system, with expenses going up steadily and satisfaction and performance going down steadily.

These are stringent constraints on a government activity: that it remain the only way to do a certain task; that it not outlive its usefulness and not be continued once it has attained its objective; that it not be made to serve political ends, however laudable, but remain narrowly focused on specific performance for the public; and finally that the assumptions on which it is based remain unchanged. But these rules admit of no violation. The moment they are not being followed, the activity becomes "politicized." That invariably means fast degeneration of the service.

"Easy" Activities and "Hard" Activities

There also are activities that government cannot do well, and perhaps cannot do at all, even though they seem to meet all conditions for governmental effectiveness. Government will malperform if an activity is under pressure to satisfy different constituencies with different values and different demands. Performance requires concentration on one goal. It requires setting priorities and sticking to them.

Ted Kolderie who, as noted earlier, first advocated the farming out of municipal services to private contractors, talks of "easy" and "hard" government activities. Hard ones government cannot do, and certainly cannot do well. The difference between the two is in their politics. In an easy activity, all constituencies want the same performance—as they did with respect to the nineteenth-century Post Office. Activities

are hard if different constituencies expect and demand different things and have different values and expectations. Most of the government programs since World War II—in the United States but in many other Western countries as well—either promised different things to different people or attempted to make one group in society benefit at the expense of another. Thus they became mired in controversy, and soon lost focus and the ability to perform. They were "hard" programs.

This distinction also explains why government-owned businesses will only work if run as moneymakers pure and simple, as were the Crown monopolies of the eighteenth century (the tobacco monopolies on the continent of Europe, for instance). Government-owned enterprises stop performing as soon as political or social values interfere with the single-minded pursuit of profit. They become hard. An example are the huge money-losing and mismanaged companies owned by the Italian government today and run in part as businesses, in part to employ workers, in part as patronage for politicians and their friends.

We are beginning to understand, though in crude outline only, the lessons of the post-World War II period in respect to government activities.

- There are functions that are clearly governmental which no one but government can be allowed to perform, and which only government can perform. Among them is the governmental monopoly on defense and arms. There is also the governmental function of maintaining law, order, and justice so that citizens can sleep peacefully at night and walk the streets without fear—something governments a century ago did a good deal better than most governments do today.

- There is a far more complicated and far more controversial government function: to maintain what we today call a "level playing field." Government can set ground rules that

are equally binding on everybody. The Securities and Exchange Commission in the United States is effective precisely because it is in everybody's interest to have clear rules which enable the honest, whether buyers or sellers of securities, to do their business, and which keep out the crooks (or at least make it a little harder for them).

We know, in other words, that government can and should be a good deal more activist than the nineteenth-century Liberals such as Herbert Spencer preached and wanted. The role of government has to be much closer to the beliefs of the nineteenth-century Conservatives, who imposed limitations on government precisely because they wanted a strong and effective government.

- We know that not everything government does is forever. Yet to abandon a government activity is difficult and always bitterly resisted. Whatever government does always becomes "morality." Government activities therefore need to be organized as temporary from the outset. A new program, a new agency, should be enacted for a limited—and fairly short—period of time, with a clear statement of the results it is expected to achieve within that period, and with explicit commitment to abolishing it if it should fail to produce the promised results.

- Whatever non-governmental organizations can do better, or can do just as well, should not be done by government at all. What matters is not whether the activity is organized as a "business," with profit as an aim or at least as measurement. What matters is that it not be *run* by government. One way is privatization. Another way is to switch from government as a doer to government as the provider, with the work being done by outside contractors to government-set standards.

What Money Can't Buy

As important as the realization that there are limits to what government can *do* is the realization that there are limits to what government money can *buy*. In fact there are whole areas where spending government money can only make things worse. Can government money, for instance, change society—and how?

Compassion is a legitimate function of government, and so is the protection of the poor and oppressed. Government, the Old Testament prophets preached, should be a shepherd to its people. And the medieval king swore at his coronation to be "Father and mother to the poor." The most successful government programs in all history were programs to help the poor: the nineteenth-century "public works" to give the poor what only the very rich could afford in earlier times—sewers, clean water, public transportation, schools, medical care. These expenditures created, most successfully, an environment in which even the poor could hope to lead a decent life.

In the twentieth century we have been spending much larger sums of government money to change the social conditions of the poor. The results have been almost uniformly disappointing. And in some areas, the conditions of the poor have become worse as a result. The two worst fiascos among the government programs in the post-World War II period are two extremely expensive American ones: low-income housing and welfare. A good deal of the low-income housing the United States built at enormous cost has been abandoned. What's left is often worse than the slums it replaced: crime-ridden, fear-ridden, vandalized, dirty, rat-infested. And despite ever larger and constantly growing expenditures, the "welfare mess" in the United States is getting steadily worse. In fact, a strong case can be made—and has been made—that

the poor in America, and especially the black poor, have become the poorer, the more helpless, the more disadvantaged, the more welfare money is being spent to help them. American welfare spending encourages dependence. It paralyzes rather than energizes.

In glaring contrast to these failures is what is probably the most successful government program of the last forty years: Prime Minister Thatcher's privatization of England's low-income public housing, the English council estates. Buying their flats turned renters into owners. Almost overnight both the spirit and the physical appearance of these slum tenements changed. They will never be an aesthetic delight. But they have become self-respecting, well maintained, and safe; they have become communities.

Should we abandon the idea of social change through government spending? Most of us would be reluctant to do so considering how great the needs are. But how much longer should programs be maintained that are unsuccessful and may well be doing harm rather than good?

What Taxes Cannot Do

Not even a further grace period should be given to the other, even less successful government attempt to change social conditions: the attempt to change income distribution through the tax system.

Oliver Wendell Holmes, the American legal scholar and judge, is widely remembered for his saying: "The power to tax is the power to destroy." But Holmes only put into a pithy phrase what had been known all along. Confiscatory and punitive taxes have a very long history. What was new and a product of Holmes's time was the idea that taxes could be used to reward. Taxes could be used to redistribute income, especially from the rich to the poor, and thus to further social justice and economic equality.

This was first proposed by Germany's "Academic Social-

ists" in the early 1900s. Opposed equally to capitalist exploitation and Marxist class war, these men—mostly economic historians—advocated income redistribution through the tax system as the "third way." It was an English politician, David Lloyd George, who then turned this into government policy in his budgets before World War I. After 1918 it became government policy everywhere. At the very time however that Lloyd George introduced his first budget, the Italian mathematical economist Vilfredo Pareto formulated what is known as Pareto's Law. After a lifetime of studying income distribution, Pareto concluded that government cannot effectively change the distribution of incomes. Modified only marginally by prevailing local customs and values, distribution is determined by the economy's productivity. The less productive an economy, the greater the inequality of incomes. The more productive, the less the inequality.

All our experience has validated Pareto's Law and has shown that the policy started by Lloyd George is ineffectual. To be sure, taxes can shift income and wealth. Lloyd George's inheritance tax has largely expropriated the very rich of 1900 England, the great landowners. But it has only shifted wealth to another group of the very rich—financiers, industrialists, businessmen. Insofar as Britain today is less unequal in respect to incomes and wealth than it was in 1900, it is so because it is far more productive. Because Britain today is however a good deal less productive than West Germany, its income distribution is a good deal less equal—despite a far more redistributive tax system. Inequality in Soviet Russia is probably as great as it is in Mexico—that is, very great. Officially there is, of course, egalitarianism in the Soviet Union. But as everybody knows by now, especially the Russians, the two million "bosses" in the *nomenclatura*—1 percent of the total population—enjoy perks of all kinds: special stores, special schools, special hospitals, special housing, special vacation dachas, reserved transportation, and so on. This gives

them the standard of living and real income of the very rich. In Mexico similarly the very rich account for about 1 percent of the population. The Soviet Union and Mexico—in industry and agriculture—are today on roughly the same level of productivity. And only Pareto's Law can explain why income distribution in all developed countries is remarkably similar despite tremendous differences in tax rates and tax structure.

In fact only one governmental policy seems to be capable of changing the distribution of incomes and wealth: inflation. It expropriates the middle class. But it does so in large measure by destroying productivity.

Income redistribution through the tax system is still widely considered—by politicians as well as by voters—the most effective tool of social policy. But maybe the time has come to return to the old precept: the purpose of taxes is to produce revenue, and to do so with the fewest social and economic side effects.

The Limits of the Fiscal State

In the waning months of World War I, a great economist of the period, Joseph Schumpeter, published a short essay: *Der Steuerstaat (The Fiscal State)*. In it, Schumpeter, reflecting on the experience of the war, predicted a new era in government finance and government policy. Before World War I, he pointed out, there were no absolute governments. No government could raise, either through taxes or through borrowing, more than a very small percentage—perhaps 5 percent—of a country's national income. During World War I, however, every belligerent government raised, year after year, far larger sums—with the governments of the poorest belligerents, such as Austria and Russia, converting so much of their country's wealth into war bonds that their take in several years had been greater than the country's total income. This, Schumpeter predicted, would create a new and different economy in which inflationary pressures would become en-

demically. It would also, as he pointed out, undermine the political system. Since revenues had been limited throughout history, policy makers always had to make choices. They had to say no. With this limitation removed they would become unable to resist demands, especially if based on appeals to need or to conscience. Thus the ability of government to raise revenues would increasingly misdirect the flow of income from productive spending—for example, investment in wealth-producing facilities and new technology—into unproductive governmental spending aimed at redistributing income.

By now we know that Schumpeter was right. We also know that, contrary to Schumpeter, there are still limits. They are less restraining than the limits of a century ago. But they are real. There are limits to what government can actually raise. There are even narrower limits to what government can raise without damaging the economy seriously or undermining the cohesion of the body politic. The first to point this out, twenty years after Schumpeter, was an Australian economist, Colin Clark. Clark asserted, just before World War II, that government could not take more than around one quarter of a country's gross national product or gross personal income without creating irresistible inflationary pressures. Whether 25 percent is indeed the threshold, we do not know; the evidence would indicate that it might be closer to 40 percent. But there is such a limit. Above it, increased government revenue will not stimulate the economy. It will either depress it and create what we now call "stagflation," or it will create mounting inflationary pressures. And in all developed countries except Japan, the limit has been reached beyond which government expenditures become a threat and an affliction. Raising the share that government takes of the country's income above this threshold does not even produce increased revenue. Revenue may actually go down.

The Silent Tax Revolt

There is another, perhaps more serious restraint on the fiscal state. Once the government take, especially if collected through taxes, exceeds a certain percentage of gross national product or gross personal income—the figure seems to be around 35–40 percent or so—a silent but highly effective “tax revolt” starts. People stop working; what is the point if the additional income is being taxed away? Worse, people begin to cheat. In all countries in which the tax take approaches or exceeds 40 percent of gross personal income, a “gray economy” develops. In the United States there was almost no tax cheating before 1960. How big the gray economy in the United States has now become we do not know—there are of course no figures on it—but estimates range as high as 15 percent of the official economy. In countries like Sweden it is more like 30 percent. In Communist China, government economists put it at one third to one half of the total. In Italy, as everyone knows, the “gray economy” is the truly dynamic one—to the point that there have been labor shortages in Northern Italy for most of the last twenty years while the official statistics report unemployment ranging up to 20 percent. The same thing is happening in Spain. The official unemployment rate is well above 20 percent. Yet the figures for consumer spending would indicate an actual unemployment rate even below 10 percent.

Attempts to stamp out or even to curtail the gray economy are ineffectual as long as tax rates remain high. In fact, while everyone loudly condemns the gray economy, most people not only participate in it but consider it morally justified and even “clever.” But this undermines the moral cohesion of society. It produces a dangerous political poison, cynicism. Seventy years ago Schumpeter warned that inflation would destroy free society (a warning he repeated twenty-five years later, in his 1942 book *Capitalism, Socialism, and Democracy*).

The post-World War I inflations in Europe, especially in Germany, amply bore out Schumpeter's warning. But the silent tax revolt of the gray economy is also a corrosive poison, albeit a slow one.

Are we thus at the end of the period in which government acknowledged no limits—either in respect to its activities, or in respect to its ability to change society, or in respect to its revenues? There are some first signs. At least politicians know that no one believes their promises any more. We may thus be approaching the end of the “spending state”—to paraphrase Schumpeter's term.

Will we again accept limitations on government's ability to raise money, whether by taxes or by loans? Will we learn to start again with the available resources in budgeting and in policy decisions rather than with the desirable expenditures? Will we again learn to say no? To make decisions is risky; it is indeed unpopular. But perhaps we are now ready to accept that to make decisions is what politicians are supposed to be doing.

Jim -
From: Gene Schawr

stopping the abuse that results from spreading around what's called "soft money" -- I asked for full disclosure of "soft money" expenditures by all organizations as the only way to clean up the system.

Fourth, spending reform. I have already proposed to freeze domestic discretionary spending in federal employment next year. I have proposed to curb as well the growth of mandatory programs without touching Social Security. I call again for the American people to demand that the Congress pass the same measure that 43 governors have: the line-item veto. In the absence of that important tool I will continue to use whatever means are legally at my disposal, including the line-item-rescission, to protect the taxpayer from the spending excesses of Congress. I will resist any attempt by the Congress to dismantle the only defense the taxpayer has against Congressional overspending -- those budget caps implemented in the 1990 Budget Act. Finally, I again call for a Balanced Budget Constitutional Amendment.

* Fifth, regulatory reform. I have put a ninety-day moratorium on new government regulations. We are revising and eliminating regulations that impede our ability to compete, and we are accelerating regulations that enhance our competitive edge. We have ^{already} cut back ^{numerous} ~~XXX~~ of regulations, ^{and have dramatically reduced the} ~~pages in the Federal Register~~ by ~~XX%~~ just in the last ~~XX months/years~~. ^{number of new regulations published in} Today I am ~~announcing an extension/new review process.~~ ^{90-day review}

I am not aware that such a count has been made.

See OMB

(same for end of 90-day review)

CLOSE HOLD



Document No. 319350

WHITE HOUSE STAFFING MEMORANDUM

DATE: 04/01/92

ACTION/CONCURRENCE/COMMENT DUE BY: 10:00a.m. 04/02

SUBJECT: CONGRESSIONAL COVERAGE LEGISLATION

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HORNER	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SKINNER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MCBRIDE	<input type="checkbox"/>	<input type="checkbox"/>
SCOWCROFT	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MOORE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
DARMAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PETERSMEYER	<input type="checkbox"/>	<input type="checkbox"/>
BRADY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	PORTER	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BROMLEY	<input type="checkbox"/>	<input type="checkbox"/>	ROGICH	<input type="checkbox"/>	<input type="checkbox"/>
CALIO	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROLLINS	<input type="checkbox"/>	<input type="checkbox"/>
DEMAREST	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SMITH	<input type="checkbox"/>	<input type="checkbox"/>
FITZWATER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	YEUTTER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
GRAY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	FINDLAY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HOLIDAY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LIBERMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>

REMARKS:

Please provide any comments directly to Lee Liberman, x6257, Rm. 115, no later than 10:00 a.m. on Thursday, 04/02, with a copy to this office. Thanks.

RESPONSE:

CLOSE HOLD

PHILLIP D. BRADY
Assistant to the President
and Staff Secretary
Ext. 2702

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Memo	C. Boyden Gray to POTUS, re: Congressional Coverage Legislation. (7 pp.)	04/01/92	P-5	

Collection:

Record Group: Bush Presidential Records
Office: Speechwriting, White House Office of
Series: Speech File, Drafts
Subseries:
WHORM Cat.:
File Location: Old House Chamber [Reform Speech] 4/3/92 [4]

Open on Expiration of PRA
(Document Follows)
By SN (NLGB) on 4/5/2005

Date Closed: 9/21/2004	OA/ID Number: 06100
FOIA/SYS Case #:	
Re-review Case #: 2004-2249-S	
P-2/P-5 Review Case #:	

MR Case #:	Appeal Case #:
MR Disposition:	Appeal Disposition:
Disposition Date:	Disposition Date:

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National Security Classified Information [(a)(1) of the PRA]
- P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P-3 Release would violate a Federal statute [(a)(3) of the PRA]
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P-5 Release would disclose confidential advise between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]

- (b)(1) National security classified information [(b)(1) of the FOIA]
- (b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- (b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- (b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- (b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- (b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- (b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- (b)(9) Release would disclose geological or geophysical information

DRAFT

THE WHITE HOUSE
WASHINGTON

April 1, 1992

2 APR 1 P7:44

MEMORANDUM FOR THE PRESIDENT

FROM: C. BOYDEN GRAY *CBG*
COUNSEL TO THE PRESIDENT

SUBJECT: Congressional Coverage Legislation

As you know, on many occasions you have called on Congress to subject itself to the laws it imposes on others. To date, Congress has not acted in any serious manner on this suggestion. The draft of your Friday speech accordingly takes the next logical step. It states that you are transmitting to the Congress legislation that would cover Congress by the same laws as everyone else, and (on the assumption that Congress will just ignore your freestanding bill and continue business as usual) that you will veto future legislation extending special treatment to the Congress unless it is amended to remove the special treatment.

Before putting a draft bill into circulation among the agencies, I wanted to outline for you the general scope of what we are thinking about and the pros and cons of each proposal, so as to enable you to decide whether to go forward in each of these areas.

I. Freedom of Information Act

The Freedom of Information Act presently covers the entire executive branch except for the White House Office and the Office of the Vice President. The draft legislation proposes to expand FOIA to cover the Congress itself, its instrumentalities (such as GAO), and its Committees, but not the personal staffs of the Members of Congress. Analogously, it leaves intact the present White House and OVP exemptions.

Pros

- o Creates parity between the branches.
- o Encourages more accountability on the part of Congress's instrumentalities.
- o Parallel treatment of Congressional Committees and Executive Departments and agencies (which are covered) and White House and Members' personal offices (which are not) should prevent the White House exemption from becoming a major issue.

o Your March 20 speech referenced FOIA as one of the laws from which Congress has exempted itself.

Cons

o Legislative Affairs is concerned that the Members view their Committee and personal staffs as interchangeable, will not accept our argument that the right analogy is between Committees and agencies, and will push to repeal the White House's exemption.

Options

1. Approve present proposal covering Congress's instrumentalities and Committees but not Members' personal offices.
2. Also cover the White House and the Members' personal offices.
3. Leave the law unchanged.

I recommend option 1.

_____ Option 1 _____ Option 2 _____ Option 3

II. Privacy Act

The Privacy Act requires agencies that maintain systems of records on individuals such as information pertaining to their education, financial transactions, medical history, and criminal or employment history to refrain from disclosure of those records except under specified circumstances. It allows individuals to review their own records and request that they be amended if they are inaccurate. It allows them to bring suit to challenge a refusal to amend, and makes it a misdemeanor punishable by a fine of up to \$5000 for any officer or employee to disclose records improperly to third parties.

The Privacy Act presently applies to the entire executive branch except the White House Office and the Office of the Vice President. It does not apply at all to the Congress. (That is why a Congressional leak of the Anita Hill affidavit and/or FBI report probably would not be a crime.)

The draft legislation proposes to extend the Privacy Act's coverage to the White House Office, the Office of the Vice President, the Congress, its instrumentalities, Committees, the Members' offices, and the Members themselves. It does not

propose to extend it to the President or Vice President personally.

Pros

o The problem of improper leaks of private information from the Hill, including by Members of Congress is quite a genuine one. If enacted, this legislation would help deter them.

o This law, along with the civil rights laws and the independent counsel law, can be applied to the Members personally with relative ease. The others addressed in the legislative proposal would cover the staff or some portion, but not the Members. We need a critical mass of laws being applied to the Members personally to be credible in saying that Congress is being covered.

o Members would retain the right to raise any issues on the floor, since the Constitution's speech or debate clause would shield them from criminal liability in that context.

o Compliance with these provisions should not be excessively onerous for the White House staff, since staff members should not be disclosing this type of information anyway.

Cons

o It may be difficult to defend covering Members and exempting the President and Vice President. I do not believe it would be catastrophic to cover the President and Vice President as well, since I believe you or the Vice President would not disclose such information in any event. But I am reluctant to recommend exposing you or the Vice President to any kind of new potential criminal liability, particularly as long as the Independent Counsel statute is law.

o The Privacy Act's scope has historically mirrored the Freedom of Information Act's scope. Expanding the Privacy Act to cover the White House could create new pressure to expand the Freedom of Information Act as well.

Options

1. Approve present proposal covering the White House, the Office of the Vice President, the Congress, committees, instrumentalities, Members' personal offices, and Members.
2. Cover the President and Vice President as well.

3. Approve the present proposal without coverage of Members personally.

4. Leave the law unchanged.

Recommendation

I recommend option 1.

___ Option 1 ___ Option 2 ___ Option 3 ___ Option 4

III. Independent Counsel Act

The Independent Counsel Act presently applies to the President, Vice President, certain campaign officers, the Cabinet and other principal officers of agencies, the CIA Director and Deputy Director, the Commissioner of Internal Revenue, and Department of Justice officials from the Attorney General down through the Assistant Attorneys General and anybody else paid at Executive Schedule III. The draft legislation proposes to apply it in addition to the Members of Congress, the Comptroller General, and the elected officers of Congress (such as the sergeant-at-arms).

Pros

o Members and officers of Congress are at least as likely to exert improper pressure on the Justice Department in order to avoid prosecution as the covered executive branch personnel.

o Conversely, where the Department does bring a prosecution, there can be an appearance that it is politically motivated.

Cons

o This could be viewed as lending legitimacy to the Independent Counsel Act when it is up for reauthorization, which is quite soon. (It would not in fact have that effect, since it would not extend the Act but would merely add to its scope until it expires on December 15, 1992.)

Recommendation

I recommend approving the present proposal.

___ Approve ___ Disapprove

IV. Conflict of Interest Laws

Present law prohibits all members of the executive branch except the President and Vice President from participating in particular matters in which they have a financial interest on pain of criminal sanction. It also prohibits supplementation of the salary of any officer or employee other than the President or Vice President for performing his official responsibilities. Your Ethics Commission recommended extending the first provision to Congressional staff, although not to Members of Congress, and your 1989 ethics package included that recommendation, but Congress rejected that proposal.

The draft legislation proposes to extend both the anti-conflict and anti-supplementation provisions to Congressional officers and employees other than Members. It does not cover Members because it seems absurd to have Members obliged on pain of criminal sanction to remove themselves from voting on legislation that affects their financial interests, because your Ethics Commission recommended against covering the Members, and because the exemption for the President and Vice President seems appropriate.

Pros

- o Creates parity between branches.
- o Addresses a problem on the American people's mind.

Cons

- o The exemption for Members could be criticized.
- o Members will argue that because of the nature of the legislative process, it is their staff's responsibility to represent special interests, and that criminal liability of any sort will chill their ability to do so.

Recommendation

I recommend approving the draft proposal.

_____ Approve _____ Disapprove

V. Civil Rights Laws

Present law treats all executive branch employees other than officers of the United States and those on the White House and Office of the Vice President payroll quite similarly to the private sector with respect to protection against discrimination on the basis of race, color, sex, national origin, religion, age

and disability. In particular, it allows them to have a court determine whether they have been discriminated against and entitles them to jury trials where compensatory damages are sought. The one distinction is that they may not ever obtain punitive damages.

In provisions that the Administration opposed, last year's civil rights bill gave very phony protection to House employees, phony protection to Senate employees, and somewhat less phony protection White House employees, and officers of the United States. House employees cannot bring suit at all, but instead are left to the House's Fair Employment Practices Office. Senate employees are bound by the results of an internal Senate grievance adjudication unless they are "arbitrary and capricious," or not based on substantial evidence, in which case they can get relief from the Federal Circuit Court of Appeals. White House employees and officers of the United States are bound by the EEOC's determinations unless "arbitrary and capricious" or not based on substantial evidence, in which case they too can go to the Federal Circuit.

With two exceptions, the proposed legislation would give full protection to all Congressional and White House employees, including the right to have a court determine their claims, the right to jury trials where compensatory damages are sought, and the right to punitive damages in appropriate cases. For constitutional reasons, the legislation would not protect officers of the United States and elected officers of Congress. It also would not protect employees in the White House Office, the Office of the Vice President, or on the personal staff of a Member, who report directly to the President, the Vice President, or a Member and who are paid at E.S. 1 or above (\$87,000), or members of the uniformed services.

Pros

- o This would give serious civil rights protections to most Congressional employees.
- o It would create close parity between the private sector, the Congress, and the executive branch.

Cons

- o Could lead to politically motivated frivolous civil rights suits against the White House or the Members.

Recommendation

I recommend approving the draft proposal.

_____ Approve

_____ Disapprove

VI. The Hatch Act

Under present law, all executive branch employees other than persons appointed with Senate confirmation and persons on the payroll of the White House Office and the Office of the Vice President are covered by the Hatch Act. No Congressional employees are covered.

The proposal would extend the Hatch Act to all Congressional employees other than those on the Members' personal staffs.

Pros

- o Would create parity between the branches.
- o Reduces incumbent advantages in elections.

Cons

- o As noted in conjunction with the proposal to extend the Freedom of Information Act, Legislative Affairs believes that the Members may disagree with the analogy between Committee and agency employees.

Recommendation

I recommend approving the draft proposal.

_____ Approve

_____ Disapprove

TALKING POINTS



Dave -

I like Philadelphia -

How about quoting Pete D.,
our guy, instead of/on

Issue No. 67, p. 2.

that raises taxes (under the current rules, any tax decrease requires a supermajority). Since 1983, the Democrat-controlled Congress has passed six federal budgets that contained tax increases.

in addition to Boren - Will

"The message is clear," says McCain. "Higher taxes virtually guarantee a weaker economy and a bigger budget deficit. If we're serious about creating prosperity and opportunity, we must force government to change its attitude about taxation of the private sector."

"IT'S OBVIOUS CHANGE IS NEEDED HERE"

Elsewhere in the Congress, Republican lawmakers are heeding President Bush's call for change. Sen. Pete Domenici of New Mexico has called on the Congress to pass a reform that would result in two-year budgets and appropriations, instead of the current annual system. Domenici, along with 53 co-sponsors in the Senate and 192 co-sponsors in the House, wants a bipartisan commission to review the Congress and enact a comprehensive reform of the institution.

"I'm not interested in band aids," says Domenici, the senior republican on the Senate Budget Committee. "I'm interested in changing how the Senate works so we can get our jobs done. It's obvious change is needed here."

WHO YOU GONNA CALL? "PORKBUSTERS"!!

Even in the House of Representatives, home of scandal-of-the-month club, change is on the way. GOP Rep. Harris Fawell of Illinois, co-author of the Spending Reform Act of 1992, and his army of House "Porkbusters" are calling for something different on Capitol Hill: accountability.

"The American people are fed up with pork barrel politics and business as usual in Washington," says Fawell. "What we Porkbusters ask is simple: let's have an up or down vote on each of these projects. That is all we ask. That is all the President asks. Moreover, that is what the American people ask."

THE WHITE HOUSE

WASHINGTON

April 1, 1992

MEMORANDUM FOR CLAYTON YEUTTER

FROM: CHARLES E.M. KOLB *Clark*

SUBJECT: The Congressional Budget Process

If Friday's speech on government reform does not include a discussion of the "part time" Congress, then perhaps it could include a brief discussion of John Cogan's idea for centralizing budget authority. The attached materials explain everything one needs to know about John's ideas and his historical research. In short, we can blame it all on the new deal! (See page 6, table 2, of Cogan's attached research paper.)

Attachment

cc: ✓ Dave Demarest

THE WALL STREET JOURNAL

December 5, 1989

Get Congress Back on the Wagon

By JOHN COGAN

Another legislative session has ended with Congress demonstrating once again that it is hopelessly incapable of taking any decisive action on the budget deficit. Throughout the year, Congress avoided its responsibility by repeatedly violating its own budgetary rules and continually missing its self-imposed deadlines. The budget bill enacted at the session's end, which juggled payments between years, shoved expenditures off-budget and simply declared that spending increases are deficit reductions, was more an exercise in budgetary obfuscation than anything else.

To many observers, failure to take decisive action on the budget deficit is due primarily to tax politics: The president is unwilling to raise taxes and Congress is unwilling to cut spending. To others, the failure is due to a lack of political leadership, or the public's indifference or divided government. But these factors do not explain the persistence of deficit spending since the 1930s. They do not explain the deficit's doubling each decade since World War II.

Answer in History

No, the problem isn't all politics. There is something deeply and profoundly wrong with the congressional budget process. But what is it about the process that leads to continual deficit spending? Both common sense and Congress's own history provide a simple and compelling answer.

Jurisdiction over spending is widely dispersed among a host of congressional committees. Dispersal of spending authority among these "little legislatures" is a recipe for excessive spending and large budget deficits. Since the total level of spending is beyond any single committee's control, political accountability to the electorate for total spending does not exist. Without that accountability, no committee has any incentive to restrain its spending commitments. Worse, as special interests form around each committee, they ac-

tively stimulate competition among committees to spend ever-increasing sums. Without a central committee to balance and check these special interest committees and invoke the general desire for fiscal restraint, the level of spending soon outstrips Congress's willingness to tax.

Imagine a publicly owned forest that is opened to all logging companies that desire access to it. No individual company would have any reason to restrain its logging activities. In fact, each company would have every incentive to cut down as many trees as it could before a competitor did so. In this setting, the inexorable forces of competition would inevitably lead to the depletion of the forest.

The same forces are at work in producing deficits, as the history of Congress demonstrates. When the budget process has been highly centralized, spending has been held in check and the budget has been balanced. When the process is decentralized spending has grown out of control.

During the first 90 years of U.S. history, spending authority was concentrated in a single committee in each House, and budgets were balanced except during recessions and wars. Then, a little over a century ago, the House stripped the Appropriations Committee of much of its spending authority and gave it to numerous authorizing committees. Rep. Samuel Randall, chairman of the Appropriations Committee and a former speaker of the House, warned in 1884, "if you undertake to divide all these appropriations and have many committees where there ought to be but one, you will enter upon a path of extravagance you cannot foresee the length of or the depth of until we find the Treasury of the country bankrupt."

Randall's statement proved prophetic. Immediately after the enfeebling of the

Appropriations Committee, federal spending grew at an unprecedented rate. The 40% budget surplus of the early 1880s

turned into a deficit that persisted throughout the 1890s. By the mid-1890s, federal spending (excluding interest payments) was 50% larger than it had been in 1886, and by 1916 it had risen an additional 45%. This explosive spending growth produced deficits that were more frequent and larger than ever before in U.S. history.

Much like today, all growth in spending relative to GNP from 1866 to 1916 occurred in programs under the jurisdiction of the authorizing committees. But unlike today, Congress recognized its problems and took decisive steps to correct it.

The House of Representatives moved first. In 1919, it established a select com-

The problem isn't all politics.

Jurisdiction over spend-

ing is dispersed among a host

of congressional committees.

mittee on the budget, which quickly recommended that the House adopt a change that "centers on one Committee . . . the authority to report all appropriations." Following a bruising floor fight, the House voted to strip seven authorizing committees of their power to appropriate. The Senate followed two years later.

Concentrating spending authority had a dramatic effect. From 1921 until 1930, expenditures relative to GNP were held constant and the budget was balanced. But Congress was doomed to repeat its own fateful history. In 1932, when Congress created the Reconstruction Finance Corp. and placed it under the jurisdiction of the Commerce Committee, decentralizing began once again. The process moved slowly at first, accelerated significantly in the 1960s and 1970s. In today's Congress jurisdiction over spending is spread among 17 House committees and 15 Senate committees.

The Agriculture Committees have authority over farm price supports, food stamps and other rural programs. A pleth-

ora of entitlement programs including Medicare, Family Support Payments and Supplemental Security Income fall under the tax-writing committees in each House. The House Energy and Commerce Committee has jurisdiction over Medicaid and shares responsibility for Medicare with the Ways and Means Committee. The Appropriations Committee, which in 1930 controlled 90% of non-interest spending, now controls less than one-half.

National Embarrassment

Congress's current budget process and its inevitable outcome is a national embarrassment. The one reform that has proved workable is to consolidate spending authority into a single committee. Article I, Section 5 of the Constitution provides that each House of Congress has the exclusive authority "to determine the rules of its proceedings." The Senate does not need the House's consent, nor does the House require the Senate's. No new laws are necessary, nor is the consent of the president.

Undoubtedly, any effort to consolidate spending authority would face severe opposition. Likely to stand in its way are entrenched special interest committees which will not be willing to loosen their grip on the treasury's coffers regardless of the cost to the country. But, as the 1919 House Select Committee on the Budget argued, it is time for these committee members "to submerge personal ambition for the public good."

Without consolidation, the budget process will continue to lack political accountability and the national debt will continue its relentless upward march. Without consolidation, special interests will continue to dominate congressional spending decisions at the expense of the general interest. And without consolidation, as the 1919 House Select Committee on the Budget put it, "true budgetary reform is impossible."

Mr. Cogan, a former deputy director of the Office of Management and Budget, is a fellow at the Hoover Institution.

WHATS WRONG WITH THE CONGRESSIONAL

BUDGET PROCESS

BY

JOHN F. COGAN

Senior Fellow
Hoover Institution
Stanford, CA 94305

Federal Budget

Deficit spending has been a way of life for the federal government for most years since World War II. A whole generation of elected federal officials has come and gone without ever balancing the budget. The last time that federal budget expenditures were brought into balance with revenues was in 1969, and prior to that the last time was in 1960.

Since World War II, the federal budget deficit has risen almost continually, regardless of which political party has occupied the White House, and regardless of which party has held a majority of seats in the House of Representatives or Senate. As Table 1 indicates, in each of the last four decades, the average size of the federal budget deficit relative to GNP has approximately doubled. Due to the extraordinary string of budget deficits, the national debt is now equivalent to over \$40,000 for every family in the United States.

	SPENDING	REVENUES	DEFICIT
1950-59	18.0%	17.6%	0.5%
1960-69	19.0%	18.2%	0.8%
1970-79	20.5%	18.3%	2.1%
1980-89	23.0%	19.0%	4.3%
1990	23.2%	19.1%	4.1%

The existence of chronic budget deficits during the post-World

War II years stands in stark contrast to the pattern of federal finances during most previous periods in America's history. For most of our history prior to 1940, the federal budget was balanced, except in years of armed conflict and economic recession.

The causes of persistent federal budget deficits during the last 40 years are not well understood. Many observers believe that the cause of the deficit lies in unique policy mistakes during the 1980s, such as the simultaneous reduction in taxes and increase in defense spending. But this explanation ignores the persistence of budget deficits for the three decades prior to the 1980s. It also ignores the fact that, since 1981, expenditures on non-defense programs grew almost as rapidly as those on defense and that the federal tax claim on the country's Gross National Product (GNP) is currently higher than it has averaged during any preceding decade. (see Table 1).

Other observers claim that deficits persist because the American public demands more in government benefits than it is willing to pay for in taxes. Although this explanation has intuitive appeal, it fails to explain why the American public's preferences have changed. Why did Americans previously want the same amount of benefits as they were willing to pay for in taxes?

The Budget Process and the Commons Problem

The Congressional budget process has contributed to persistent budget deficits. The most important feature of the current budget process is its decentralized nature. At no point in the process

does anyone decide on the total amount the federal government will spend. Instead, responsibility for individual legislative bills that determine the total amount of spending is divided up among 15 separate Congressional committees in the Senate and 17 committees in the House of Representatives. The Appropriations Committee has jurisdiction for non-entitlement programs covering about 40 percent of the total federal spending. The remaining 60 percent is made up of entitlement programs, which are handled by various other standing committees. The Agriculture Committees have authority over farm price supports, food stamps and other rural programs. The tax-writing committees in the House and Senate are responsible for Social Security and Medicare. The House Energy and Commerce Committee has jurisdiction over Medicaid and shares responsibility for Medicare with the Ways and Means Committee.

The decentralization of spending authority creates powerful incentives for deficit financing. By spreading responsibility for spending authority among Congressional Committees, the Congress has created a situation known as a "tragedy of the commons." (See Tragedy of the Commons.) The situation arises whenever numerous claimants compete for a commonly-owned resource. The tragedy is that the inexorable forces of competition for the resource lead to over-consumption and eventual exhaustion of the resource.

To understand the commons problem, imagine a publicly-owned forest that is open to all logging companies that desire access to it. No individual company would have any reason to restrain its logging activities. In fact, each company would have every

incentive to cut down as many trees as it could before a competitor did so. On a more personal level, imagine that a mother sends her family to the store, tells her husband to buy beer, her teenage daughter to buy magazines, and her 10-year old son to buy candy. Imagine, moreover, that she sets no limits on how much each can spend. Each family member would then overspend on the various items.

Congress is like that family. From the individual committee standpoint the commonly-owned resource is general fund revenue raised primarily from taxes levied on individuals and corporations. The consumers of this resource are the Congressional Committees. The common resource is "over-consumed" when government spending repeatedly exceeds tax revenue--that is, when chronic budget deficits occur.

A Historical Sketch

An historical look at government spending and the budget process reveals the powerful role the commons problem has played in producing budget deficits. When the budget process has been highly centralized, spending has been held in check and the budget has been balanced. When the process has been decentralized, the growth in spending has outpaced the growth in revenues, and chronic budget deficits have resulted.

TABLE 2

BUDGET DEFICITS

<u>TIME PERIOD</u>	<u>AVERAGE DEFICITS</u>
<u>Centralized Budgeting</u>	(Percent of GNP)
1799-1885	0.26%
1922-1931	- 0.77%
<u>Decentralized Budgeting</u>	
1886-1921	0.69%
1932-1989	3.61%

During the first 90 years of U.S. history, spending authority was concentrated in a single committee in each House, and budgets were balanced except during recessions and wars. Then, in 1885, the House stripped the Appropriations Committee of much of its spending authority and gave it to numerous authorizing committees. This period of decentralized budget decisionmaking lasted until just after World War I.

At the time, some observers recognized the consequences of decentralization. Rep. Samuel Randall, chairman of the Appropriations Committee and a former speaker of the House, warned in 1884, "If you undertake to divide all these appropriations and have many committees where there ought to be but one, you will enter upon a path of extravagance you cannot foresee the length of or the depth of until we find the Treasury of the country bankrupt."

Randall's statement proved prophetic. Immediately after Congress splintered the budget process, federal spending grew at an

unprecedented rate. By the mid-1890s, federal spending (excluding interest payments) was 50 percent larger than it had been in 1886, and by 1916 it had risen an additional 45 percent. This explosive spending growth produced deficits that were more frequent and larger than ever before in peacetime U.S. history. In the five years immediately preceding the House of Representatives decentralized budget decisionmaking, annual revenues exceeded annual expenditures by 40 percent. The subsequent expenditure growth turned this sizeable budget surplus into record peace time deficits in the mid-1890s. Deficit spending persisted throughout the remainder of the decade. During the first fifteen years of the 20th century, the budget was in deficit during one-half of the years.

Much like today, from 1886 to 1916 all growth in spending relative to GNP occurred in programs under the jurisdiction of the authorizing committees. But unlike today, Congress recognized its problems and took decisive steps to correct them.

The House of Representatives acted first. In 1919, it established a select committee on the budget, which quickly recommended that the House adopt a budget process reform that "centers on one Committee ... the authority to report all appropriations." After seven months of deliberation the recommendation sent shock waves reverberating throughout the House committee chambers. The Budget Committee's proposal would stop spending jurisdiction from seven powerful committees. The House voted to strip the seven authorizing committees of their power to

appropriate. The Senate followed two years later.

The corrective step worked. From 1921 until the onset of the Great Depression (1930), expenditures relative to GNP were held constant and the budget was balanced. Unfortunately, during the Great Depression, decentralization began once again. The process moved slowly at first, and accelerated significantly in the 1960s and 1970s as Congress created new programs and placed spending jurisdiction for them in an ever increasing number of Congressional committees. Deposit insurance legislation, enacted in 1934, provided a federal government guarantee for certain deposits in banks and savings and loan institutions. Social Security legislation, enacted a year later, provided pensions to persons age 65 and older and guaranteed matching payments to state governments for the cost of welfare programs. In 1956, the Social Security Disability program was created to provide federal cash assistance to disabled persons. In the 1960s, the Food Stamp program (1964), Medicare (1965), Medicaid (1965), and the Guaranteed Student Loan program (1965) were created. In 1974, the General Revenue Sharing and the Child Support Enforcement programs began.

By the mid-1970s, the process of decentralizing budget decisionmaking by creating new programs was largely complete. The forty-year process had a profound impact on the degree of depression committee spending authority. In 1932, the Appropriations Committee had jurisdiction over more than 90 percent of all programs. No other committee had more than one percent. By the early 1980s, the Appropriations Committee controlled only about

40 percent. Seven other committees shared an additional 55 percent.

This return to decentralized decisionmaking once again introduced the "commons" problem into the Congressional budget making process as it had in the past. The inevitable forces of the commons drove government expenditures upwards at a rate far in excess of government revenues. The chronic federal budget deficits described in Table 1 were the result.

This 200-year review of the relationship between the Congressional budget process and the existence of structural budget deficits has demonstrated the critical role that institutional rules play in determining outcomes. Although other factors, such as a defense build-up or a savings and loan crisis, may have time and place importance in contributing to deficits, it is the institutional rules that create incentives for particular forms of behavior and drive decisionmaking over the long run. An understanding of these rules and the way in which they affect behavior is a necessary first step toward correcting the structural problem of the budget deficits.

--John F. Cogan

BIOGRAPHY

John F. Cogan is a senior fellow at Stanford University's Hoover Institution. He was formerly Deputy Director of the Office of Management and Budget. Professor Cogan is currently directing a project to build a consistent record of government spending

decisions over the post World War II era. When completed, this record will provide the general public and the research community with a valuable tool to achieve a greater understanding of government spending.

FURTHER READING

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David,

There are some
refinements that
strengthen an
already strong
product. I'll
keep "tweaking"
it in hopes of
making it even
better. Danice

Demarest/Aarhus
Draft #2
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PRESIDENTIAL REMARKS AT OLD HOUSE CHAMBER
PHILADELPHIA, PA.
WEDNESDAY, APRIL 1, 1992

Thank you for that kind introduction. [ACKNOWLEDGEMENTS]
Today, I would rather be in Philadelphia. Old Congress Hall is home to great ideas and great debate. In this very room, pivotal and profound discussions occurred — setting in motion a grand experiment in man's ability to chart his own future.

The vision of our Founding Fathers is still our vision today. They wanted their new country to prosper. They knew that prosperity and freedom are inextricably linked. They were determined to preserve the inherent strength of faith and the nurturing haven of the family. They were committed to ensuring that the citizens of our young nation could live in peace -- safe and secure from threats at home and abroad. It took a revolution to achieve their vision, but that vision still stands.

Today, we face a revolution no less significant for being internal rather than external. Today, we face a choice between the old national order -- the status quo -- and changes that will position our nation for world leadership in the new century.

When British General Cornwallis surrendered at Yorktown in 1781, he had his band play "The World Turned Upside Down," as his troops marched before Washington's Continental Army. The song was profoundly symbolic of an old world order coming to a close and the beginning of a new world order.

Now, more than two hundred years later, we face a monumental choice. In recent months, democracy and freedom have -- once again -- turned our world upside down. During the turmoil, America stood firmly on principles and moved to the forefront of a great movement that changed the world.

Those changes have placed our nation at a new threshold. During the 20th Century, there was no question that it was the American Century. Now, as we approach the year 2000 the question we must answer is -- will the 21st Century be a New American Century?

I think this audience and all of American would give a resounding "Yes" to that question. But, if we are to stay at the forefront in world leadership, we must meet six great challenges here at home.

- ◆ First, our nation must help strengthen the nation's families, give people a sense of well-being about their children, and establish a social climate in which our young can mature into productive adults.
- ◆ Second, we must guarantee Americans access to the finest health care system in the world, and make that care more affordable.
- ◆ Third, our people must be educated, literate -- motivated to make learning a lifelong pursuit. We must reform our education system -- literally revolutionize it -- top to bottom.
- ◆ Fourth, our civil justice system must do what it was designed to do: dispense justice for all. Eighteen million lawsuits a year are choking us -- costing individuals and businesses billions of dollars -- and putting a tremendous drag on our civility as well as our economy.
- ◆ Fifth, during the next century, our economic competition and opportunity will come from beyond our borders. We must utilize more foreign markets for American goods and export more services to other countries. Our workers and our companies must become more competitive in order to sustain and create American jobs.
- ◆ And finally, we come to the topic that is our focus today -- reform of our government. During the past decade, one institution after another has been challenged to take a hard look within itself. We must make needed improvements and go back to basic principles to renew our nation's institutions. In short, we must initiate widespread reform.

I've been amused recently to see the television ads for a local kitchen modernization business. A housewife dressed in 1960's apparel and surrounded by 1960's appliances is magically updated through TV technology to the 1990s. What a transformation!

Most Americans have forgotten how dramatic those changes have been. Today, American products are quantifiably better than they were only a few years ago. In the private sector, we have focused on crusades of excellence -- quality products and quality services. It's not often flashy -- sometimes it's a return to old values and standards like "built to last a lifetime," "the customer's always right," or "service with a smile." At other times, it's measuring and evaluating performance to improve output. In many ways, competition has been the driving force in improving quality and performance. Not surprisingly, it has worked.

- Can you imagine how appalled he would be to hear that 98% of Congressmen who seek re-election are, in fact, re-elected.
- Can you imagine how astonished he would be to learn that one party -- the Democrats -- have controlled the Congress 58 out of the last 62 years.
- Can you imagine how dismayed he would be to discover that not one Republican member of the house -- and some of them have over 30 years of service -- has ever been in the majority. Yet, all but five Democrats have never been in the minority.

One-party rule in Congress is a big part of the problem, but that is not the whole story. We have had divided government before in our history -- sometimes during periods of great crisis -- and we pulled together as a nation to meet the challenge that threatened our security or national well-being. No, the larger issue is a systemic problem. Congress is a sticky web -- made up of 284 Congressional Committees, 34 thousand Capitol Hill employees and staff, 2 billion dollars of taxpayer financing, and an overlay of a 117 million dollar re-election war chest in special-interest campaign contributions, and millions more in special-interest influence.

Such a system cannot promote reform and change. Instead, it aggressively protects the status quo. Talk to retiring members and you will hear the frustration. Talk to Senator Warren Rudman of New Hampshire who has given up on trying to break through the log jams. Senator Rudman was asked about the continuing specter of huge budget deficits. He indicted the system, "the fact is that we are unable -- institutionally -- to do what has to be done. We are not just watching the fiddler fiddle while Rome burns, we are watching the entire orchestra."

Let me give you one example of the misplaced priorities on Capital Hill -- the rash of proclamations that Congress spends an inordinate amount of time in passing. Do you know that nearly one third of all the legislation that passes my desk is made up of these items. Three times a week proclamations come across my desk for action -- and these proclamations are passed by a joint resolution of Congress. They might designate a particular day as "National Tap Dance Day" -- true story. Or, they might proclaim a month as "National Digestive Disease Awareness Month." Literally, hundreds of proclamations come the White House for Presidential action each year.

Now, there is nothing wrong with Congress passing a proclamation heralding "National Crime Victims Week." But there is something wrong when Congress spends its time on that proclamation instead of passing a comprehensive crime bill that would actually make people safer in their homes and communities.

"National Asparagus Month" may be good constituent relations, but the problems of American agriculture have to do with our national vitality, not our national vegetable.

For every one of these bills, there are legions of staff churning out public-relations campaigns to accompany them -- both on Capital Hill and in the executive branch. There are constituents contacted, newsletters written, paper -- reams of paper -- produced. Is this a big ticket item in the federal budget? Probably not. But, it is more evidence of a Congress that chooses to spend its time and effort on the easy constituent pleasing activities rather than on the difficult, often controversial issues that determine the future of our country. Maybe it's small potatoes, but the public knows PR when it sees it. For each letter a member receives, 12 thousand go out -- free. That adds up to real money -- taxpayer money, and we must put a stop to it.

These actions undermine the people's confidence in their government the same way as outrageous pork-barrel spending does. [[Just as I sent to Congress ten days ago my anti-pork line-item rescissions, I am telling Congress today that the Executive Branch will not spend taxpayer dollars to fund publicity campaigns for special interests -- so don't send me any more of these pork-barrel proclamations.]]

The American people are a compassionate people -- we are willing to foot the bill to make this country better. But, when taxpayer money goes for special-interest publicity campaigns and pork-barrel projects, people get angry -- they don't trust government to use their hard-earned tax dollars wisely. In dollar terms, one quarter of everything we produce, build, or grow as a nation, is devoured by the central government. There is no bigger appetite on earth.

Today, our government is a trillion and a half dollar business that too often forgets that the taxpayer is original investor, customer, shareholder, and board member all rolled into one.

- Because government has forgotten the customer, it has issued counterproductive regulations -- ones that increase the cost of doing business, but worse, ones that don't really solve the problems they were designed to solve.
- Because government has forgotten the shareholder, it shelters perpetual programs that have outlived their function, but not their funding.

- Because the government has forgotten who is really the boss -- the American taxpayer -- it has become insulated, unresponsive and resists reform. It is almost impossible to adequately reward success, much less punish failure.

Let me make it clear, these comments are not meant for the four million hardworking people in our government offices. Talk to them and most will say the same thing -- they are frustrated, too. But the system, which was good for its time, must now change, and it won't be easy.

Congress has created these giant centralized bureaucracies. It has laid down mandates and funded programs -- then, Congress has protected them, harassed them, investigated them, micro-managed them. With a Congressional subcommittee Chairman as godparent, the bureaucracy has become Congress's coddled pet.

A few examples will show what I'm talking about. The Department of Defense has no less than some thirty different Congressional committees and 77 subcommittees who claim some oversight responsibility. And, some 74 committees and subcommittees compete to exercise jurisdiction over the War on Drugs. Then we wonder why it takes so long to get something done in government.

Think of the time and resources spent by the Executive Branch to fulfill Congressional demands for testimony. Think of the thousands of required reports that must be researched, written and delivered to Capitol Hill. Sixty reports from HUD. Six hundred from the Defense Department -- and so on -- through all the Cabinet departments.

Congress has legitimate oversight responsibilities. And, I know that the federal government cannot be run just like IBM or the local convenience store. But, we can improve government's performance. We must improve its performance. What merely hampered us in the past, will stall us out in the new century. Congress can no longer ignore our proposed reforms. The federal bureaucracy must be reformed; I have proposed reforms in the past and I am proposing additional steps today. These actions will give clarity to the mission of America's government and return our people's confidence in government.

First, we must have universal application of the laws of the land. Federalist paper #57 asserts that elected officials, "can make no law which will not have in full operation on themselves and their friends, as well as the great mass of society." In other words, Congress must govern itself by the laws it imposes on the public -- across the board. No more exceptions. Like civil rights laws. Age discrimination laws. The Americans with Disabilities Act and the Freedom of Information Act.

Congress should also submit to the laws it imposes on the Executive Branch -- the Privacy Act, or Title VI of the Ethics in Government Act of 1978, the independent counsel law. [[To those ends, today I am sending to Congress [name of Administration bill] which will force Congress to be covered by the same laws which govern everyone else. Further, I will veto any new legislation that does not also apply to Congress.]] But that is only a first step toward rebuilding public confidence in our laws and our lawmakers.

Second, we must reform the Congressional committee system. I advocate efforts to trim the overgrown thicket of committees and subcommittees which now paralyze the Congress. Democratic Senator Boren said it best when he described the Congress as "inefficient, unresponsive, wasteful, and compromised by the way it finances its campaigns." The number of Congressional reformers is growing, but they need the support of the American people now more than ever.

Third, we must endorse sweeping campaign finance reform.

- Three years ago -- in 1989 -- I **proposed** the total elimination of Political Action Committees and limits on so-called "leadership PACs."
- I **proposed** increasing the support that the parties can provide to federal campaigns to reduce the influence of special interests.
- I **proposed** increasing the time candidates and incumbents spend fund-raising.
- I **proposed** increasing the legitimate role of our political parties.
- I **proposed** that we reduce allowable contributions by "independent" PACs to federal campaigns.
- I **proposed** laws to ensure that PACs stay truly independent and unaffiliated -- in other words, clean.
- Finally, I **asked** the Congress to join me in stopping the abuse that results from spreading around what's called "soft money" -- I asked for full disclosure of "soft money" expenditures by all organizations as the only way to clean up the system.

Fourth, we must enforce spending reforms. I have already proposed to freeze domestic discretionary spending in federal employment next year. I have also proposed to curb the growth of mandatory programs without touching Social Security. I call again for the American people to demand that the Congress pass the same measure that 43 governors have: the line-item veto.

In the absence of that important tool, I will continue to use whatever means are legally at my disposal, including the line-item-rescission, to protect the taxpayer from the spending excesses of Congress. I will resist any attempt by the Congress to dismantle the only defense the taxpayer has against Congressional overspending -- budget caps implemented in the 1990 Budget Act. Finally, I again call for a Balanced Budget Constitutional Amendment.

Fifth, we must enforce regulatory reform. I have put a ninety-day moratorium on new government regulations. We are revising and eliminating regulations that impede our ability to compete, and we are accelerating regulations that enhance our competitive edge. We have cut back XXX of regulations, pages in the Federal Register by xx% just in the last XX months/years. [[Today, I am announcing an extension/new review process.]]

Next, we must have a new communications policy between the Congress and the Executive Branch. [[Logging reform -- decision memo result. Reform of the nomination process.]]

Finally, we must limit Congressional terms. The cycle of virtually guaranteed re-election through the built-in advantages of incumbency must be broken. [[So today, to truly fix the system, I have sent to Congress legislation to limit terms of United States Senators to two, and Representatives, six terms.]] After all, as President, my terms are limited, the same should apply to members of Congress.

Change is sweeping America, just as it is sweeping the world. Just as our nation faced challenges when it was newly formed, today, we face the challenge of change as we prepare for a new century. The choice is clear. On one side stand the defenders of the status quo. On the other -- the forces of change. The American people must make a choice. That choice must be worthy of those who began the world's only permanent revolution. Back then, that revolution changed the world. Today, we must prepare America for a new century. The reforms I propose will restore the principles of our Founders, guarantee continued freedom for our children, and provide our people with a government worthy of their trust and faith.

We must make the choice for change.

We must make the choice for a revitalized America that is fit and ready for leadership in the new American Century.

Thank you, and may God bless the United States of America.

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Our nation's emphasis on reform has also gone beyond the private sector. Healthy competition has spread across-the-board. For example, the military. In the face of budget cuts, the military has had to get leaner and smarter. In Desert Storm, we proved it worked. Other institutions -- state and local government, unions, trade association, charitable groups -- all organizations that serve the public -- have been influenced by this drive for excellence.

There has been one glaring hold-out -- the federal government. Our government has resisted reform and protected the status quo -- even in the face of overwhelming evidence that change was necessary.

The changes that are sweeping the rest of the country have stopped cold at the Capital Beltway. This entrenched status-quo attitude can be laid squarely at the doorstep of the United States Congress.

We know that government is too big and spends too much. We know that too often the government spends the American taxpayer's money like there will be no tomorrow -- inefficiently, ineffectively, without accountability, and frankly, without compassion. If this keeps up -- tomorrow will be no bright new day. Congress, is simply not up to the job of reforming government; they are too firmly entrenched in the status quo. We've got some very tough problems ahead and Congress has not led the way in solving those problems. Even worse, they have stood in the way of every solution we have proposed.

Let me tell you why that is the case and how we must change things.

Political scientist Morris Fiorina paints a disturbing picture of how Washington really behaves. His picture is all too familiar. Fiorina says that the growth of big government has changed the role of Congress from policymaking to pork-barreling -- changed the Congressional office to a campaign and constituent office. He argues that Congress has set in motion a self-perpetuating cycle of support for unnecessary spending -- creating bigger bureaucracies. Fiorina says that Congress has become lethargic and unresponsive to the needs of the American people.

We have seen Congressional members and their powerful staffs increasingly become the ombudsmen between constituents and the bureaucracy -- where they expedite benefits and procure more pork. These self-serving actions ensure re-election and a continuation of the status quo.

Our Founding Fathers warned us about this. Madison, in Federalist Paper #52, argued that permanent majorities are dangerously undemocratic.