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Bill Bennett and Lamar Alexander to Highlight Education Summit
To: Assignment Desk, Daybook Editor, Education Writer
Contact: Christian Pinkston of Empower America, 202-452-8200
News Advisory:

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| Event: | A Summit for Policy Makers: "Education Reform: State and Nation" |
| Date: | Wednesday, Jan. 25 |
| Time: | 8:30 a.m.-5 p.m. EST |
| Location: | Main Lounge/13th floor<br>National Press Club<br>14th and F Streets, N.W.<br>Washington, D.C. |

Empower America Co-Director William J. Bennett and Lamar Alexander, both former secretaries of education, will highlight an education summit on Wednesday, Jan. 25, in the Main Lounge of the National Press Club from 8:30 a.m. to 5 p.m.

The summit, co-sponsored by Empower America, the Center for Education Reform, and the Educational Excellence Network, will call for reforming the nation's education system, and will involve state education representatives. Agenda highlights include:

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|---|---|
| 8:30-<br>9:45 a.m. | "Reinventing Public Education: Diagnosis and Prognosis"<br>William J. Bennett, co-director, Empower America<br>Jeanne Allen, president, the Center for Education Reform<br>Chester E. Finn, Jr. director, Educational Excellence Network |
| 12:30-<br>1:30 p.m. | Keynote lunch: "Assessing the Real Federal Role"<br>Lamar Alexander, former Empower America co-director<br>Sam Brownback, representative from Kansas |

The press is invited to attend the entire summit, including the luncheon. To reserve your complimentary-for-press space at the lunch call Christian Pinkston at 202-452-8200.

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Mike - I left a note
for Terry too -
should we have someone go / take
note??!

J

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# BILL BENNETT AND LAMAR ALEXANDER TO HIGHLIGHT EDUCATION SUMMIT

* * * **OPEN PRESS** * * *

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(EA 95-08, issued 1/20/95)

# Education Reform: State and Nation

## A Summit for Policymakers

January 25, 1994
National Press Club
Washington,DC

8:00 am Registration

8:30 - 9:45 Reinventing Public Education:
Diagnosis and Prognosis

The Honorable William J. Bennett, Co-Director, Empower America

Jeanne Allen, President, The Center for Education Reform
Chester E. Finn, Jr. Director, Educational Excellence Network

10:15 - 11:45 The New Public Schools

Yvonne Chan, Principal, Vaughn Learning Center, Los Angeles, CA
Greg Morris, Nat'l Assoc. of Charter Schools, Lansing, MI
Thelma Dickerson, Vice President, Hartford, CT School Board

11:45 - 12:15 A Tale of Three Chiefs:
"Local Management and State Sovereignty"

Lisa Graham, Superintendent of Public Instruction, AZ
Leo Klagholz, Commissioner of Education, NJ
Beverly Sgrow, Secretary of Education, VA

12:30- 1:30 Keynote: Assessing the Real Federal Role

The Honorable Lamar Alexander, Co-Director
Empower America and
The Honorable Sam Brownback
Representative from Kansas

Page 2 - Education Policy Summit

1:45 - 3:00 Expanding Opportunities for Parents and Communities

Clint Bolick, Institute for Justice, Washington, DC
Honorable Reggie Beamon, State Representative, CT.
Valerie Barrett, parent and social worker, Milwaukee, WI
Honorable Tom Feeney, Attorney-at-Law

3:15- 4:50 Standards and Accountability

Clark Durant, Chairman, State Board of Education, Michigan
William Moloney, Superintendent of Schools Calvert County, MD
Kay Wall, President, Save our Schools, CT
Bruno Manno, Hudson Institute, Washington, DC

4:50 Closing remarks

5:00 Reception and a chance to visit with the participants

This Summit is being presented by Empower America, the Center for Education Reform and the Educational Excellence Network.

A collection of articles by members of the
Educational Excellence Network and its Education Policy Committee

# What the GOP should do about EDUCATION

*Shaping the Future of American Education*

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*Deputy Director*

**Christopher C. Prawdzik**
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Indianapolis, Indiana 46226
(317) 545-1000

## Education Policy Committee

**Chester E. Finn, Jr.**,
**Diane Ravitch**, *Co-Chairs*

**Joseph Adelson**, Professor of Psychology, *University of Michigan*
**Lamar Alexander**, Former U.S. Secretary of Education; Counsel to *Baker Worthington, Crossley, & Stansberry*
**Jeanne Allen**, President, *Center for Education Reform*
**Leslye Arsht**, President, *Coalition for Goals 2000*
**James K. Baker**, Chairman of the Board and CEO, *Arvin Industries, Inc.*
**Stephen H. Balch**, President and Executive Director, *National Association of Scholars*
**Jim Bencivenga**, President, *Hull Council for Business and Cultural Development*
**William J. Bennett**, Former U.S. Secretary of Education; Co-Director, *Empower America*
**Clint Bolick**, Vice President and Director of Litigation, *Institute for Justice*
**Samuel Brunelli**, Executive Director, *American Legislative Exchange Council*
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**Abigail Thernstrom**, Adjunct Professor, *School of Education, Boston University*
**Herbert J. Walberg**, Research Professor of Education, *University of Illinois at Chicago*
**Robert L. Woodson**, President, *National Center for Neighborhood Enterprise*

# Education Reform: A Three-Point Plan

*By Jim Bencivenga*

- **Run schools like nuclear submarines.**

Pass, or more importantly revoke, federal laws, regulations, programs that don't result in schools that run like nuclear submarines. I'm not being coy here. A nuclear submarine is as much a learning platform as it is a weapons platform. When the dive bell rings, one thing is certain. Two months out when the ship surfaces and sailors breathe fresh air again, most will have learned a heck of a lot. From the kitchen mess to the Captain's wardroom, training, learning and upgrading of skills—necessarily taught by on-board "teachers"—occur.

The submarine navy is designed so that each sailor advances by demonstrating mastery of complex technological systems. Performance review at the end of a cruise is tied to how many sailors step back onto the dock more qualified than when they stepped off the dock. Each sailor is part of an on-board learning community. Each shipmate is a teacher and a student. There is no "pass them along" mentality, either. No grade-flation. At 200 fathoms, as the educationists might say, everyone is "at risk."

Congress must promote a submarine learning ethos when it passes school laws.

- **Court-reform equals school-reform. Make schools lawyer-free zones.**

One of the distinguishing characteristics between public and private schools is the relative absence of lawsuits in the latter. The clear advantage to "choice" schools is that since students choose to go there, they already buy into the school's ethos and approach to discipline; parents know their role as well as the students. Congress must work to eliminate this legal double-standard that so hampers the integrity of public schools.

When the face of authority presented to students isn't the principal in the building, but some out-of-the-building legal entity, school climate suffers, discipline declines and faculty morale wanes. Spend a day in-the-life of any principal or superintendent in any public school in the U.S. See how often he or she picks up the telephone and calls the district's lawyers to see if a teacher or an administrator can do something. Courts emasculate the decision making power of both parents and local school committees.

*Performance review at the end of a cruise is tied to how many sailors step back onto the dock more qualified than when they stepped off the dock ... At 200 fathoms, as the educationists might say, everyone is "at risk."*

Another area ripe for reform is for Congress to pass a law limiting the authority of federal judges when it extends to raising taxes in local school jurisdictions. The Senate should only consent to confirm federal judges who understand that school life needs protection and nourishment from community mores. The arbitrary ether of legalistic constructs foisted by elite law schools that purport to protect individual rights ignore—and actively damage—family and community norms.

Community constructs, not legal ones, enable individual children to get a quality education.

- **Get out of the way of Tim Anderson.**

Who is Tim Anderson you ask? He's the CEO and headmaster of a newly licensed public Charter School in Hull, Massachusetts. Peter Drucker describes his type as uniquely American: a nonprofit entrepreneur. Drucker goes so far as to say that if America is to prosper in the world economy, it must unleash the talents, energies—and most important—ideals, of its Tim Andersons.

Mr. Anderson took a vision, much gumption, and linked both the felicitous policies of the tenaciously competent state Secretary of Education, Piedad Robertson. He spent two years of his life—with no guarantees of compensation—working and planning and doing the myriad of tasks, from policy to personnel, to finding space for classrooms, to bring into being a new kind of public school. It opens next fall. He has no guarantees anyone will come. If what he offers doesn't meet the expectations parents hold for their best and most precious possession—he's out of business before he starts.

Democracy and well educated citizens intersect where parents choose to send their children to schools like Anderson's.

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*Jim Bencivenga is President of the Hull (MA) Council for Business and Cultural Development and a member of the NETWORK's Education Policy Committee.*

# Waiting For Newt: What The New Congress Can Do For American Education

*By William L. Moloney*

Poor Newt Gingrich. As the most compelling symbol of the recent Republican ascendancy, he has become a talisman for the hopes and fears of all those wondering what the new Congress might do for them or to them.

Like all other special interests, educators have been busily holding seminars to divine the real meaning of last November's electoral earthquake. The elite education establishment, like its counterparts in the media, is very unhappy about what the American people wrought with their ballots.

Those of us at the grass roots who identify more with the average American and less with our so called "leaders" see a different picture. In fact polls have shown that ordinary professional educators were very much a part of this electoral revolution for we too believe that it is "business as usual" that has made a shambles of the once proud edifice of American public education.

Now when we look at this fellow Gingrich, whom a mean-spirited media has dubbed "Grinch" or "Scrooge," we see a different Christmas symbol. This guy could turn out to be Santa Claus. He might bring us a gift more precious than money: Freedom.

But isn't this the fellow who accused us of giving diplomas to kids who can't read them? Yes, but what he said was true. In fact all the criticisms Gingrich and other outsiders have leveled at us aren't half as bad as the things we privately say about ourselves when we honestly assess the state of our schools. Listen to teachers talk about the decline of discipline, the student work ethic, values, curricular focus, honest testing and real student achievement, and you know our public rhetoric about "world class school" is a sham. So if Speaker Gingrich and his associates are saying, "Money hasn't worked, let's try freedom," then we should be the first to sign on and them demand proof that they really mean it.

What should be the educational footnotes to the "Contact with America"?

> *To restore the historic character and effectiveness of our schools, we must replace rules with values, mandates with virtues and "compliance" with responsibility.*

If the ills of American public education could be reduced to a single work, it would be: over-regulation. So what is most needed is deregulation.

Over time, the autonomy, flexibility, creativity and responsiveness (i.e., freedom) of local schools have been steadily vacuumed upward, first to central administration, thence to state bureaucracies and finally to Washington. We have exchanged the vision, energy and accountability of our communities for a torpid unresponsive and distant bureaucracy.

To restore the historic character and effectiveness of our schools, we must replace rules with values, mandates with virtues and "compliance" with responsibility. If local people are to be accountable, then we must have freedom from the suffocating blanket of regulation that so hobbles and discourages teachers and administrators in all our efforts to serve children.

The 104th might usefully begin by revisiting the two great educational mistakes of the preceding Congress; i.e., The Elementary and Secondary Education reauthorization and Goals 2000: The Educate America Act. Both of these gems equaled over 1,000 pages of little substance and much mischief. Riddled with bureaucratic pork, they were endlessly inventive in disguising their true purpose of depriving local people of both their money and their freedom. Had both these bills died in committee, it would have been an unparalleled triumph for federal education reform.

Undoing such past damage would powerfully advance the vital agenda of governmental devolution which our people have called for. If the new Congress thus empowers us and makes such a "Contact with American Educators," be assured we shall fulfill our obligations and thereby renew our children's lease on the American Dream.

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*Calvert County (MD) Superintendent William J. Moloney is a member of the Governing Board of the National Assessment of Education Progress and the Network's Education Policy Committee.*

# A Message to the New Congress About Education Reform

*By Robert L. Woodson, Sr.*

Any discussion of reform in the educational system must be guided by one fundamental premise: that the interests of the children and their parents are of paramount importance and that the goal of the system should be to prepare its students, to the greatest extent possible, for productive and successful futures.

This seems like an obvious starting point but, all too often, reforms with great prospect have been obstructed because of charges that they would "damage our system of public education." So it bears repeating: The system exists for the sake of serving its students. It is not an end in itself. And if it is not accomplishing its purpose, we should consider other alternatives.

One strategy for reform that has met with the most vehement opposition by guardians of the system has been the establishment of education vouchers through which parents could send their children to the schools they believe will do the best job of educating them. Opponents of vouchers or "school choice" initiatives have used a tactic of claiming that poor, minority students who would be left in public schools would suffer. Yet those who employ this defense of the system ignore the fact that it is those students who are suffering the most now, for they lack the financial resources that have allowed others to escape from ineffective, dangerous schools.

A recent poll by the Joint Center for Political and Economic Studies revealed that, in fact 88 percent of African Americans surveyed support school choice, and, furthermore, that the level of support increased as the income level of the respondents decreased. In face, statistics show that those who have railed the loudest about the damage that would be caused by introducing competition to the system are among those who have chosen, in highest numbers, to send their own children to private schools. Voucher opponents including Jesse Jackson, Marian Wright Edelman, and the majority of members of the Black and Hispanic Congressional Caucuses have opted to enroll their children in private schools, as did Franklin Smith, superintendent of Washington, D.C.'s public schools. In Chicago, 46 percent of those who teach in the public schools send their own children to private schools, in Milwaukee, 62 percent, and an estimated 80 percent of the public school teachers in Washington, D.C. do not send their own children to the District's public schools.

*...The system exists for the sake of serving its students. It is not an end in itself. And if it is not accomplishing its purpose, we should consider other alternatives.*

When confronted with embarrassing facts—such as the failure of 95 percent of ninth graders in New Jersey's public schools to pass a standardized mathematics exam, or, in Philadelphia, the failure of 50 and 51 percent of public school eighth graders to exhibit proficiency in reading and math (respectively)—apologists for an inept public school system raise a cry for more funding. Yet, statistics show that student performance has plummeted while funding has increased. Since 1950, the government has increased spending by 450 percent in constant dollars. In fact the period of greatest increase in education funding (from 1963 to 1978) was also the period of greatest educational decline in America.

One reason that greater spending has not produced higher student performance is that relatively little of the funds designated for education ever make it into the classroom. For example, a 1990 study of schools in New York revealed that only 33 cents of each public education dollar trickled down to the classroom level; the rest was eaten up by administrative expenses. Yet, throughout the nation, administration continues to rise disproportionately to the student population.

From 1960 to 1984, the number of students remained roughly constant, while the number of teachers grew by 57 percent, supervisors and principals by 79 percent and other non-teaching staff by 500 percent. In Chicago, the public school system has 330 percent the number of administrators per students as do private schools in the city. This may account, in part, for the findings in a Brookings Institute study by John Chubb and Terry Moe which revealed that "[p]rivate-school costs are, on the average, only 50 percent to 60 percent of public schools, yet private-school students exhibit a grade level higher performance than their counterparts in public schools (and in the larger cities, two grade levels higher)."

The National Center for Neighborhood Enterprise has identified literally hundreds of independent schools throughout the nation that have enabled children who have failed in public schools—or who had been stigmatized as being "learning disabled"—to become stellar students. Among these are the Ivy Leaf school in

*Robert L. Woodson, Sr., is President of the National Center for Neighborhood Enterprise.*

Philadelphia and the Chad School in Newark, New Jersey (whose public school "competition" has been described above.)

The Ivy Leaf School was founded as a nursery school by a young mother who could not find the quality of pre-school in the area that she desired for her own three-year-old daughter. Since its inception in 1967 with 17 children it has developed into one of the country's largest independent black private schools with an enrollment of 750 students and literally hundreds of young people on its waiting list. Ninety percent of Ivy Leaf students read above their grade levels on standard achievement tests. By the age of five, they are using first and second-grade readers. Graduates of Ivy Leaf are recruited by the city's most prestigious public and private schools. The school's founder, Liller Green, explains the goals of her institution:

> We take seriously our mission to prepare our students to develop the skills, knowledge, and personal values which will help them develop into active and concerned individuals. Before society has told them they "can't" we have demonstrated to our children that they can!

The Chad school was established in an abandoned parochial school building twenty-two years ago and has since expanded to include two new buildings that house the Chad Science Academy and a facility on a rustic setting which is the site of Chad's high-tech summer camp where students can enjoy fresh air and benefit from the "launch pad" of a curriculum that includes eight areas of study: architecture/construction, aviation/aerospace, audio engineering, computer science, electronics and robotics, film and video, integrated science and math and transportation. Last year, Chad students participated in statewide math competition. A Chad sixth-grader placed first. Overall, Chad students placed in the top seven percent in the competition.

Embarrassed, public school defenders have suggested that Chad's executive director, Leon Moore, must be "creaming" his students. Yet, 75 percent of the children at the Chad school come from single-

done!"

In looking towards education reform, I would have one simple message for the new Congress: Bring market principles to bear in our social service industry. Measure the success of a program or agency in terms of its outcomes, and allow competition that will give its "customers" the opportunity to select the highest quality product.

# A Primer for Education Reform

By CHESTER E. FINN JR.

Yesterday, the aptly named House Committee on Economic and Educational Opportunities opened hearings on the federal role in education. Wisconsin Gov. Tommy Thompson told Uncle Sam to pack his bags and get out of the way, while Education Secretary Dick Riley defended the status quo.

The new GOP majority has an unprecedented opportunity to straighten out 30 years of education policy kinks and repair the damage of recent months. But it just may blow it by meekly supposing (as authors of the "Contract With America" apparently did) that changing the direction of U.S. education will prove too divisive and instead may follow the incrementalist instincts of its new House and Senate education committee chairmen. Or—ironically—it may obsess over the one issue where divisiveness is a valid fear—namely, school prayer.

But there are signs of hope. House bigwigs Newt Gingrich, Dick Armey and John Kasich are said to be interested in a thorough overhaul, as are a number of fired-up freshmen. So is Indiana Sen. Dan Coats, now drafting an education bill in league with former education secretaries Bill Bennett and Lamar Alexander.

## Serious Legislating

Any serious legislating in the field of education needs to begin with these assumptions:

- It's time—past time—to "send education home," in Mr. Alexander's phrase. The schools cannot be fixed in Washington. They are the proper work of states, localities, teachers and parents.
- It's also time to break up the monopoly by shifting power to consumers from producers, to parents from bureaucrats and to laymen from experts. Sound policy will encourage pluralism, choice and a conception of "public education" based on who is served, not who runs the schools.
- Quality results are what the country needs, and national goals, benchmarks and tests may help point the way. But all decisions about how to produce those results must be decentralized.

Building on those precepts, a solid Republican education package will have three main parts.

*First, undo the worst damage.* Restore the six original America 2000 goals set by President Bush and the governors in 1989, before Congress burdened them, in the 1994 Goals 2000 legislation, with things like teacher training; this would put the emphasis back on student achievement and high school completion. Also repeal the provisions that create something akin to a national school board to "certify" education standards and that give federal officials final say over state reform plans. Once federal supervision is gone, those contentious new national standards will have to make their own way in the marketplace of ideas, meaning they'll be used only where they find favor with states and localities. Perhaps the civics and math standards will win many adherents while the history standards gather dust. So be it.

Bar federal agencies from issuing or enforcing regulations, withholding funds or taking other actions that interfere with state/local control of curriculum, standards, instruction, testing, discipline, home-school relations, resources and governance. As insurance, write appropriations language making it illegal to spend a single federal dollar on such interference.

*Second, decapitate the beast.* Since the Department of Education won't have much left to do, downgrade it to an independent agency. (Shrinking it will also save money.) But place a cabinet-level education adviser in the White House to man the "bully pulpit."

*Third, send the programs home.* Today, hundreds of separate federal K-12 education programs spend upward of $18 billion a year. They are highly prescriptive and heavily regulated, substituting Washington's judgments for those of states, communities and families. They are hostile to such innovations as choice, charter schools and private management. Almost all of them strengthen the monopoly and the "education governance" system—superintendents and school boards—rather than empowering governors, legislators or mayors. Parents, of course, have little or no say.

This 30-year-old edifice should be torn down. Responsibility and authority should flow back to families, communities and states. Most of the programs should be bundled and "sent home." Prime candidates are compensatory education for poor children, bilingual and vocational training, staff development, sundry school reform and innovation schemes (including those newly enacted in Goals 2000), and dozens of "discretionary" programs from gender equity to drug free schools to "waste management education." These total about $11 billion annually.

Along with the programs, Congress should hand over the means of paying for them. This might take the form of a big, no-strings, education block grant. It could be a program "swap," whereby the states take full responsibility for education (and perhaps welfare) in return for Washington shouldering the burden of, say, Medicaid. Or it might be a federal tax cut that gives states the fiscal capacity to maintain these activities if they want.

The states can decide for themselves, and not all states will do the same things. Some will move toward vouchers and charter schools while others will invite communities to make their own choices. Some may judge that the money is more urgently needed for orphanages, nursing homes or prisons. A few may keep the education program intact, substituting state regulation for federal. It's their call. Washington should neither mandate nor prohibit.

The same principle applies to the vast pork barrel that feeds education "experts" and their institutions. Legislation signed just a few weeks before the election, for example, will convey whopping sums to teachers' colleges. The "regional education laboratories" have been around for 30 years, a classic example of "feeding the sparrows by feeding the horses." All such schemes should be part of the package handed to the states. If governors want these services, they can purchase them.

Those are the big three. But any thorough cleaning of the federal education stables should also hose out several more stalls. Under the heading of unfunded mandates, for example, the heaviest burden is "special" education, where the money needed to comply with Washington's requirements exceeds the aid that comes with them by billions of dollars. Doing something about this would be welcomed by state and local officials and by parents of nonhandicapped children, although it would bring an outcry from the well-organized "special ed" constituency. (Congressional leaders may want to talk this one through with the governors.)

Civil rights enforcement in education urgently needs attention, too, especially as the Clintonistas run wild. It's been 40 years since the *Brown v. Board of Education* decision and three decades since the great Civil Rights Act. Today's enforcers are preoccupied with color-coding our schools and colleges, imposing quotas in the name of affirmative action, seeking added benefits for approved "victim" groups, harassing state testing programs, and keeping desegregated school systems under permanent court supervision. Nothing would more vividly signal a change in direction than restoring civil rights enforcement to the redress of discriminatory actions against individuals—and the pursuit of a color-blind, merit-based society.

What should remain in Washington? Not a lot: statistics; perhaps a bit of research; the assessment of student performance at the international, national and state levels (the national assessment program needs to have its formerly independent governing board rehabilitated); the few programs that don't get sent home; and the leadership and encouragement that can flow from the bully pulpit.

**Only Do So Much**

But that message also needs attention—and here Congress can do only so much. New faces are needed at the White House, too—people who attend to what the public values in education, rather than waltzing to the rhythms of the teacher unions and the school establishment.

Save for the matter of funding, where misinformation is widespread, Americans know where the serious problems in today's schools lie and what educationist notions don't rate very high. According to a recent survey by the nonprofit group Public Agenda, drugs and violence are the top-ranking concern, named by 72%, followed by low academic standards (61%), insufficient emphasis on "the basics" (60%), not enough money (58%), not enough math, science and computers (52%), schools that don't teach good work habits (52%), classes that are too crowded (50%), schools' failure to teach religious values (47%), and schools that aren't clear and specific about what they want youngsters to learn (47%). Two professional fads that garnered little enthusiasm were calculators in arithmetic class (10%) and mixing students of different ability levels (34%).

That's the public's education agenda. It should be Washington's, too, notwithstanding 30 years of movement in the opposite direction. The new GOP majority in Congress has a chance to begin the transformation.

---

*Mr. Finn, a former assistant secretary of education, is a fellow at the Hudson Institute and a professor of education and public policy at Vanderbilt University.*

*The Wall Street Journal*
January 13, 1995

*Diane Ravitch*

# Goals 2000: Four Ways to Fix It

Almost a year ago, the 103rd Congress passed Goals 2000, the linchpin of the Clinton education strategy. Its purpose is to spur the development of voluntary state and national academic standards, but the complex mechanism put in place by the law is unlikely to create anything but federal interference and another layer of state bureaucracy.

Congress has to decide what to do about this law. It can repeal it, ignore it or fix it. A vote to repeal would undoubtedly be countered by a veto; even if successful, repeal would send an unfortunate message that the new Congress is against academic standards. However, it would be a mistake to leave Goals 2000 untouched, because the law has major flaws that will make the development of meaningful standards nearly impossible.

Goals 2000 should be fixed, and it should be turned into truly bipartisan legislation that has a reasonable chance of achieving real academic standards without inappropriate federal meddling.

Republicans should recall that it was President Bush who started the process of establishing national education goals when he convened the nation's governors at an education summit in Charlottesville in 1989. The president and the governors endorsed six national education goals for the year 2000. The point of setting goals was to focus attention on measurable results (like improving student achievement and increasing the high school graduation rate to 90 percent) and simultaneously to reduce federal and state regulation of schools.

Unfortunately Goals 2000 reversed that formula by minimizing the importance of results (the law strongly discourages student testing, for example) and by imposing burdensome procedures on states that accept federal funds to develop standards. Congress even added two new national education goals (about teacher training and parent involvement), which served to indicate that the goals were to be understood as empty rhetoric rather than as measurable outcomes for education.

It was the 103rd Congress that politicized and distorted the legislation, not the Clinton administration. Everything that is objectionable in the law was added by Congress to the administration's original proposal of March 1, 1993. Stripping the mischief and high-handedness out of the law would restore a bipartisan approach to education improvement.

The following four changes would significantly improve Goals 2000:

First, eliminate the National Education Standards and Improvement Council (NESIC), a 19-member body that was created to certify all state and national standards. Under current law, NESIC will be appointed solely by the president, will be almost entirely professional educators, will not be bipartisan and will endorse national and state standards by a simple majority vote. Neither the Bush administration nor the Clinton administration proposed this one-sided, politically unsound arrangement.

It defies common sense to expect that NESIC will have credibility when its members are from only one political party, when it includes few if any representatives of the lay public and when its decisions about controversial issues may be made by a simple majority. As currently constituted, NESIC is incapable of winning bipartisan support for its actions.

The 104th Congress should turn certification of national (but not state) standards over to the bipartisan National Education Goals Panel, which is dominated by governors but includes representatives from the administration and Congress. The Goals Panel should appoint advisory panels to judge proposals for national standards. These panels should include a substantial representation of lay members of the public and should require a two-thirds majority to approve standards. National standards, even voluntary ones, should not be approved unless they have broad bipartisan support. These changes reflect the Clinton administration's own initial proposal.

Second, Congress should eliminate the restrictions on student testing in Goals 2000, none of which were proposed by either the Bush or Clinton administration. At the behest of anti-testing lobbies, Congress declared that states cannot use their own assessments to make decisions about promotion, graduation or retention for five years. Furthermore, any state tests must meet rigorous technical standards in order to be certified by NESIC. Unless states refuse to submit their tests to NESIC for certification, Goals 2000 will essentially eliminate any meaningful student testing by the states. It is hard to see how higher standards will be produced by a virtual ban on the use of testing.

Congress should recognize that states have the right to develop and use tests as they see fit and should remove any language that attempts to establish federal regulation of educational testing. Congress is not qualified to legislate on psychometric issues. None of the language proscribing the use of tests by states was in the original Clinton bill.

Third, Congress should eliminate the requirement that participating states set up state improvement panels to design a state education reform plan. These panels have few lay members but many representatives of interest groups, advocacy groups and professional organizations. The states should shape their standards as they think best rather than be compelled to honor a prescriptive formula that reflects interest group pressures in Washington. These committees, which in some states have as many as 100 members, have no fiscal accountability to the governor or the state board of education. Yet Goals 2000 gives them extensive powers to redesign the state's educational and social service programs. Nowhere does the legislation explain what happens if a state planning committee recommends doubling or tripling the state's education budget. While any state is free to convene an advisory group, these panels should not be mandated by federal law.

Fourth, Congress should remove from Goals 2000 all references to "opportunity to learn" standards. No one now knows what such standards are, so it seems premature to expect states to establish them. Presumably, "opportunity to learn" standards define the minimum resources — human and financial — that each school must have in order to provide all students with equal opportunity to learn. The states have been struggling with equalization battles in their legislatures and in the courts. Congress should not use a backdoor strategy to impose equalized school spending on the states.

Other parts of the law could easily be pared away, especially those that mandate specific educational practices. The 103rd Congress had an unfortunate habit of legislating matters that should be left to the judgment of teachers and principals. A revised Goals 2000 would allow the nation (not the federal government) to develop voluntary national academic standards in a manner that merits bipartisan support. It would allow states, school districts and schools to manage their affairs without directions from Washington. It would eliminate congressional efforts to micromanage educational reform. Above all, such changes would emphasize the fundamental object of all this activity. Standards for student achievement.

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*The Washington Post*
January 12, 1995

# LOCAL OPTIONS

Congress should return control of education to states, school boards—and parents.

LAMAR ALEXANDER, WILLIAM J. BENNETT, AND DAN COATS

AS IT SETS out to repair the damage wrought by its predecessor, the new Republican majority in Congress needs to look hard at education. Among the least-noticed events of October's closing legislative rush was final passage of HR-6, the Elementary and Secondary Education Act (ESEA), a $65-billion measure that is bad for children, for education, and for American federalism. In 1,000-plus pages it sets back the cause of serious school reform, wastes billions of dollars, and erodes local control of American schools.

At a showy pre-election bill signing in Massachusetts, President Clinton and Senator Edward Kennedy said the law signals a national commitment to our children. Retiring Senate Majority Leader George Mitchell (D., Me.) cited education as one of the jewels in the crown of the 103rd Congress. Education Secretary Dick Riley said no one in Washington, perhaps in the whole country, was serious about education before Clinton's inauguration. And columnist Jack Anderson reported that Morgan Stanley's research department finds Clinton's "political stock . . . blue-chip when it comes to keeping its promises on education reform."

Like so much associated with this Administration, however, what sounds too good to be true turns out to be not entirely true and not very good at all. HR-6 was the legislative equivalent of a stealth bomber, heavily armed with dangerous weapons but scarcely visible save to its controllers and crew.

Part of a comprehensive education package, along with "Goals 2000" and measures such as a "school to work" program and expansion of Head Start, HR-6 did far more than reauthorize ESEA, the keystone of federal school aid since 1965. It reversed a decade of progress toward a coherent, bipartisan education-reform strategy as embodied in the Bush Administration's "America 2000" plan, which sought to roll back federal regulation and replace it with the initiative of teachers, communities, and parents, and which coupled voluntary goals with good tests and accountability for results.

By signing off on HR-6 and Goals 2000, President Clinton transformed a nationwide reform movement into a federal program. The new regulations concern not only the standards and assessments that schools use but also how they discipline student offenders, the topics that teachers and parents must discuss with one another, the content of sex-education courses, and the (rare) circumstances in which denying a child the right to pray may be an infraction. Clinton has even created something akin to a national school board, the National Education Standards and Improvement Council.

Almost as worrying is the resurrection of inputs, resources, and services as gauges of education quality. Three decades of research show no reliable link between what goes into schools and what children learn there. Yet Goals 2000 and HR-6 affirm the routine assertion of the education establishment: If we're not happy with school results, more money and regulations will improve them.

Political correctness pervades many sections of the bill. *Education Daily* matter-of-factly reports that "HR-6 is laced with language on gender equity, from authorizing grants to requiring schools to collect data." The bill also establishes a post-modern definition of the "family," provides day care for the babies of unwed teenage mothers, and conflates school reform with health care, violence prevention, etc.

The law provides vast windfalls for colleges of education and authorizes funds for dozens of pork-barrel projects. More troubling still is the bill's hypocrisy with respect to such promising reform strategies as charter schools and parental choice. While allowing members of Congress to claim that they voted for them, HR-6 actually immobilizes them with rules and conditions. What good, for example, is a school-choice program that lets the "sending school" veto the child's departure? Furthermore, such shackles will help the enemies of school choice argue a few years down the road that these reforms don't work.

## *How It Passed*

THE passage of this legislation reveals much about the opportunities and perils awaiting the new Congress. HR-6 spent more than a year on Capitol Hill after the White House sent it up. Hearings dragged on. The high-profile issues were how to adjust the Chapter One formula to direct more federal dollars toward poor communities and whether to keep or jettison Chapter Two, a block grant that was immensely popular with states and localities. Tucked away in the fine print—but seldom discussed or reported—were dozens of new programs and hundreds of changes in existing ones, as well as intricate linkages between ESEA and the Goals 2000 bill. The Administration's complex proposals were heavily embroidered by Bill Ford's House Education and Labor Committee, and Ted Kennedy's Senate Labor and Human Resources Committee.

Eventually, the House cranked out the most offensive piece of education legislation in memory, the Senate a somewhat milder version. The final edition was cobbled together behind closed doors during August and Sep-

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tember in a "staff conference" dominated by Democratic congressional aides, some of them around since the days of LBJ. Lobbyists and Administration officials played key roles in the process, but nobody else was allowed into the room.

The vast bill emerged from conference about 48 hours before the House voted on final passage. Senators had a couple of additional days to try to get hold of copies and examine the bill. Few did. It is likely that not a single member of either body had actually read the full text of the final version.

The teachers unions and the Washington-based interest groups quietly did their part to round up votes, rousing their memberships with the promise of federal dollars. Business groups went along, perhaps because their education staffs consist mostly of establishment fellow-travelers. Governors, state legislators, and mayors, many of whom had fussed loudly about Goals 2000, were mute about HR-6, though it will cost them substantial control over their schools.

Conservative organizations sat this one out or focused on such narrow items as the school-prayer provisions. Editorialists naïvely supposed that any bill labeled "education" must be a good thing. As for congressional Republicans, most donned their "damage control" garb, curbing the worst Democrat-drafted excesses without challenging the measure's fundamental premises.

What can we do now? When it comes to education, decisions made in Washington are decisions *not* made by parents, teachers, and 15,000 local school boards. Mandates shaped in Washington are programs not fashioned by the states and communities, which foot most of the bill. Regulations crafted in Washington can be counted upon to respond to the demands of special interests rather than the needs of fifty million unique children attending some 110,000 distinctive schools across this diverse land.

Education is not an endeavor where one size fits all. Perhaps we can agree on a core of voluntary goals and standards that make sense for the nation, but it's folly to prescribe a single path to them, or to suggest that Uncle Sam knows best. Worse than folly, it saps initiative and responsibility, curbs creativity, and wrongly pretends that some of the touchiest and most localized issues in American society—the way our children are taught about religion and sex, the place of education in our communities—lend themselves to uniform national solutions. Decentralizing education policy is a way to strengthen communities, to rebuild the culture, to buttress families, and to diffuse—and perhaps defuse—volatile decisions.

## *Horse-Trading*

IN 1986, when one of us was chairman of the nation's governors and another was education secretary, the governors proposed some "old-fashioned horse-trading," namely lifting the regulatory burden from American schools in return for better education results. In time this proposal turned into a consensus about how to reform the schools: local control coupled with gubernatorial leadership; voluntary national goals combined with responsibility for each state and locality to work toward them as it deemed best; wide-ranging choices for families among excellent schools that differ on many dimensions; the fundamental right to flee a bad, or unsafe school for a good one, (plus tests that make it possible to know which are which); and essential skills and serious content taught by talented individuals who are accountable for their results and rewarded for classroom excellence.

That's what America 2000 was all about. And that's still how the American people believe we should tackle our education problems. A recent survey by Public Agenda makes plain that a "safe, orderly environment and effective teaching of the 'basics'" head their list, joined by high standards and clear lines of accountability. But the public has serious misgivings about the trendy schemes beloved of today's education establishment—the very approaches on which money and legitimacy are lavished by HR-6 and the rest of the Clinton package. As Public Agenda reports, "the large majority of Americans are uncomfortable" with such things as "ending the 'tracking' of students, and replacing standardized, multiple-choice tests with new, more 'authentic' assessments." We also know from other surveys that the American people strongly favor school choice and are deeply mistrustful of the Federal Government's ability to improve our schools.

Today Washington is on a collision course with what the American people want and what they know to be right. The recent election results provide dramatic evidence. HR-6 is a large, ugly example of what has gone wrong and what the voters are rejecting. It should be repealed. The "national school board" should be canned, and local control should be restored. Education should be sent home to states, communities, and families.

Indeed, it's time for the Federal Government virtually to withdraw from elementary and secondary education and relinquish the authority it has seized in this domain. Dozens of federal programs ought to vanish. The resources they now consume should be made available—perhaps through a federal tax cut or an expanded version of Chapter Two—to states and localities to do with as they judge best. We're now drafting, and one of us plans in January to introduce, a short, simple bill to accomplish this. The new majority in Congress creates a more hospitable environment for such legislation than we've had since the Great Society pointed federal education policy in the wrong direction.

Insofar as any education functions stay in Washington, their guiding principles should be choice, deregulation, innovation, accountability, and serious assessment keyed to real standards in core subjects. The National Education Goals Panel, made up of governors and state legislators along with Executive Branch and congressional representatives, is where oversight responsibility should rest, not with civil servants, "experts," or the Federal Government. Today's Department of Education could be reduced to something far humbler and less costly.

That doesn't mean Presidents have nothing to say about education. In truth, they should say quite a bit. But they shouldn't try to run the nation's schools. They must not seek to control them. And they need to understand that acceptance of their education agenda depends on the power of their ideas, not on federal red tape. Bill Clinton should tell the country what he thinks a good school is. Those who agree with him can be trusted to create their own. Those who favor a different idea must be free to march to their own drummers. □

*National Review*
December 19, 1994

# Prospects for educational reform

## *Republicans should foster local control*

By Michael Garber

The recent elections were not primarily about education — surprising, given its perilous condition in most states. Nevertheless, many winning GOP candidates — in Congress, as well as at state and local levels — ran on broad themes concerning how government should work, all of which have corollaries in the area of education. They emphasized decentralized governance and greater personal freedom, economic efficiency and public accountability, and pro-family government policy.

In education, several movements correspond to these themes and can make schools significantly more accountable to the people they purport to serve: the creation of autonomous "charter" public schools; parental choice of schools (including, in some plans, religious and other private schools); greater freedom in "contracting out" for services from private providers; and establishing external standards and measures of assessment (to ensure public accountability for tax dollars spent and to help generate information for parents to make informed choices about where to send their children to school).

Though the revolution may be protracted, Republican victors should fire the opening shot, directing their small-government, anti-regulation, free-market inclinations to breaking up the single largest monopoly in the free world — the U.S. public education industry. If they do, Nov. 8 will be remembered as the dawn of a brighter day for American schoolchildren.

Speculation is already rampant about possible big changes in education policy at the federal level. In many ways, how Washington will handle education parallels the big welfare dilemma: whether to "fix it" on a national scale or return the matter to the states. If Republicans stick to their promises of decentralization, less-intrusive government and restoration of power to individuals, then the real action is going to occur in the nation's statehouses. And the opportunity to shift from incremental tinkering to wholesale change has never been more promising.

The GOP made historic gains in gubernatorial elections, picking up 12 seats. That gives the party 30 governors, the first time that Republicans have held a majority of the statehouses since 1970. They made deep inroads in state legislatures as well, with both houses in 17 states now under their control; Democrats control both chambers of 19 legislatures, and the remainder are split (Nebraska's is nonpartisan). Republican lawmakers should capitalize on their recent wins.

Discontent with education-as-usual is clear: Public Agenda, an independent public opinion analysis group, recently found that the public overwhelmingly believes that American schools pay little attention to "the basics," with 96 percent of respondents favoring "tougher and more challenging courses." Sixty percent of Americans questioned now say that academic standards are too low in their local schools, and the figure is 70 percent among black parents with children currently in a public school.

The resonance of Republican calls for tax relief, smaller government, a balanced-budget amendment, and a presidential line-item veto indicates the loss of the public's faith in government to provide the services we expect at a high level of quality and efficiency. While the public has been repeatedly reminded of the "spiraling cost of health care," few recognize that education spending has also gotten out of control — and with far less to show for it. Between 1960 and 1990, while student performance on tests such as the SAT and the National Assessment of Educational Progress faltered, real (inflation-adjusted) spending on K-12 public education rose from $50 billion to almost $190 billion. Per-pupil spending more than tripled — from $1,454 in 1960 to $4,622 in 1990.

School choice, charter schools, subcontracting for services, and standards and assessments are market-based school reforms designed to inject accountability back into American education systems. They do so by replacing regulations with incentives and by placing the needs of education *consumers* above those of its *producers*. It therefore comes as little surprise that these strategies have been hotly contested by the organized interest groups that have the most to lose and the most to hide.

Although official figures are not available — because the two U.S. teachers unions are not required to report all their sources of income — analyst Myron Lieberman estimates the total combined annual revenue from all sources of the National Education Association and the American Federation of Teachers at close to $1 billion. That kind of money has purchased plenty of influence. The NEA and AFT spend millions of dollars each year to thwart the reforms described here — through litigation, anti-reform media campaigns, staffing the phone banks of *status quo* politicians, and other means.

The unions are also not above using strong-arm tactics to block change. In an effort to limit the autonomy of charter schools in Michigan the NEA-affiliated Michigan Education Association threatened Saginaw Valley State University that, if the union was not allowed to review and approve of the charter schools the university authorizes, its 10,000 members would refuse to accept student teachers from the university in their classrooms. In a letter to the university's president, MEA Regional Director David Sabedra wrote that the union would discourage its members who are Saginaw Valley graduates from donating to the university; urge union teachers to stop participating in training or graduate courses at the university; and encourage local school superintendents and school boards to end their involvement with university programs if the university authorized charter schools without union "input."

The recent elections will come as a setback, if not a body blow, to establishment groups in some locales, but these groups are not likely to roll over and die quickly. The unions have distinct political advantages, including the ability to tax their membership for "emergency funds" for political assaults (such as occurred when

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they fought a media battle against the school choice initiative in California); the ability to raise funds through payroll deductions whereas their opponents have no such easy means of raising money; and the ability (based on typical contracts) to block any other payroll deduction a member might want to make to another group.

Despite these advantages, the elections threw a wrench in the establishment's well-oiled political machine. Strongest supporters of the union's version of schooling have been Democratic legislators (in fact, one out of every eight delegates to the 1992 Democratic National Convention was a member of the NEA or AFT). In many places, union heads can no longer count on Democratic majorities to prop up the current system. Moreover, public opinion has shifted dramatically. Citizens have become as weary and wary of the NEA's seemingly benign call to "invest in the children" as they have other forms of government "investment" that provide little or no return. As new Republican leaders shake up the power structure, unions and other established interest groups will find themselves under increasing scrutiny and will face constant efforts to wrest power from them.

Organized labor will have to rethink its role under a new education order, but many of the teachers these groups are supposed to represent will emerge as big winners. Rather than being treated as a collective of more-or-less interchangeable laborers, teachers — under market-based reforms — will be elevated to their proper professional status. As schools compete to attract and retain the best talent, they will provide more opportunities for teachers to pursue additional schooling, greater access to leadership roles, and — for those who merit it — substantially higher salaries and other forms of compensation. The schools that will thrive under such a system will be those that devolve authority and responsibility down the line to those who know the needs of the students best, freeing them of tasks for which they are not well-suited.

On Nov. 8, the public sent out a call for limits to government and declared that most problems are best solved by those who are closest to them. If the new legislators live up to their promises, the coming education revolution will benefit good teachers, and most importantly, it will be good for the children.

*(Los Angeles) Daily News*
December 18, 1994

UNITED STATES DEPARTMENT OF EDUCATION

PUBLIC AFFAIRS

OFFICE OF THE DIRECTOR

February 15, 1995

**MEMORANDUM TO SENIOR OFFICERS**

FROM: Kathryn S. Kahler
Communications Director

The attached material is for your information and use.

Attachment

cc: Senior Staff

**MIKE COHEN**
**SENIOR ADVISOR TO THE SECRETARY**

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# THE CATO HANDBOOK FOR CONGRESS

104th Congress

The Cato Handbook for Congress

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104th Congress

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# Contents

# 8. Budget Reduction

The most critical challenge facing the new Congress is to enact a credible budget plan that will eliminate federal deficit spending over the next five years. We strongly urge members of Congress to pass the balanced-budget constitutional amendment, but even if they do not, the federal budget can and should be balanced without a single penny of new taxes by the year 2000. Indeed, this chapter demonstrates how the budget can be balanced even if taxes are *reduced* by $400 billion over five years. The $400 billion tax reduction we propose is more than twice as large as the Republican tax proposal and four times as large as the president's. (Details of Cato's proposed tax reductions are outlined in a separate chapter.)

Over the next five years the federal government will spend $8.6 trillion. The Cato fiscal plan balances the budget with a generous tax cut by reducing outlays by $1.1 trillion. The significant features of the Cato budget plan are

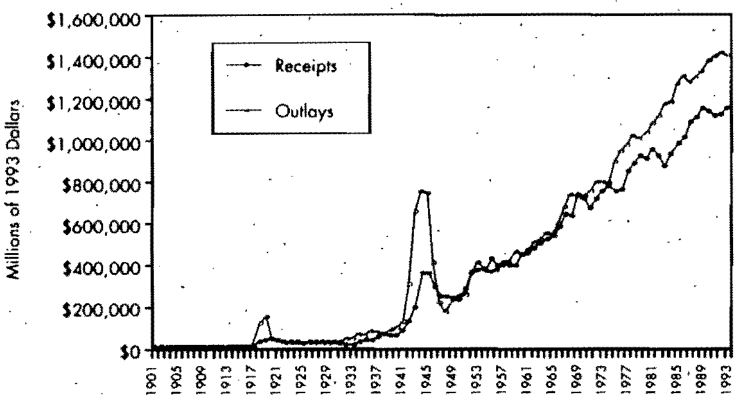
- **a 5 percent across-the-board rescission in all federal programs except Social Security for the second half of 1995 through the end of fiscal year 1996;**
- **the termination of more than 100 federal programs and agencies;**
- **a reduction in the defense budget to $204 billion by the year 2000 to reflect post-Cold War realities;**
- **the elimination of all bilateral and multilateral foreign aid spending;**
- **long-term cost reduction reforms in Social Security, such as significantly raising the retirement age, with the eventual goal of privatizing the program;**
- **a series of health care reforms, including cost sharing and medical savings accounts, to reduce the inflation in Medicare and Medicaid;**

- **a plan to end the federal government's failed role in welfare by turning all public assistance programs over to the states and private charities;**
- **the privatization of at least $100 billion worth of nonenvironmentally sensitive federal lands, oil reserves, and other federal assets, with the proceeds used to lower the national debt and interest payments.**

## *The Washington Spending Juggernaut*

Government was never supposed to even approach the size that it is today. Most of the activities of government today—from dairy subsidies to urban transit grants to middle-income transfer payments—would have been inconceivable throughout most of American history. That point is underscored by Figure 8.1, which shows the expansion of the federal budget and taxes in the 20th century. Real federal outlays climbed from $8.3 billion in 1901 to $255 billion in 1950. Outlays will be $1,510 billion in 1995. Government spending is growing so much more rapidly than inflation that, if federal outlays had been restrained to the consumer price index over just the past 20 years, America would now have a $250 billion budget surplus, rather than a $200 billion deficit.

**Figure 8.1**
***Real Federal Taxes and Spending, 1901–93***




SOURCE: *Budget of the U.S. Government—Historical Tables*, FY 1995, Table 1.1, pp. 13–14; *Economic Report of the President*, February 1994, Table B-59, p. 335; and Bureau of Labor Statistics.



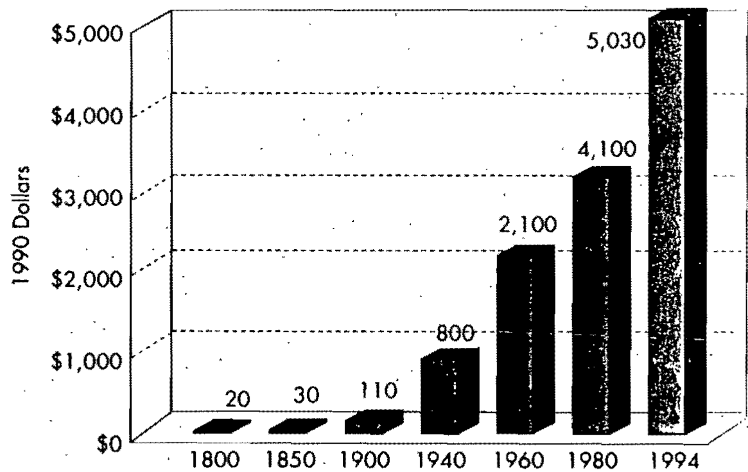


Of course, the nation is much larger today than in earlier periods, so one would expect government also to be bigger—though not proportionately so. Figure 8.2 shows the per capita real level of federal spending over time. Even when adjusting for the growth in population size (and inflation), government expenditures (in 1990 dollars) have mushroomed: the federal government spent $110 per person in 1900, $2,100 in 1960, and $5,030 in 1994.

Even as a share of total economic output government has reached an unprecedented size. Figure 8.3 shows that federal spending consumed less than 5 percent of total output in 1900 and 18 percent of total output in 1960; it now consumes about 23 percent of national output. With state and local spending added, government consumes roughly 35 percent of gross domestic product.

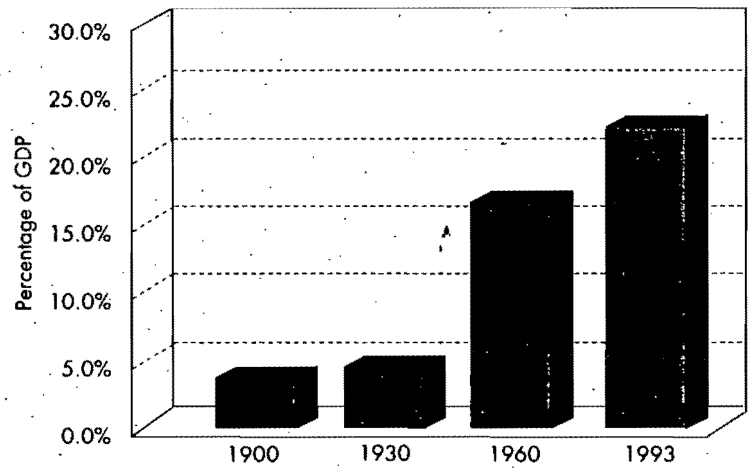
Contrary to the rhetoric from Washington about tight budget caps and fiscal restraint, federal spending has accelerated rapidly in the Bush-Clinton era. The federal government is one-third larger today in real terms than when Ronald Reagan left the White House.

**Figure 8.2**
***Real per Capita Federal Outlays, 1800–1994***




SOURCE: Tax Foundation, *Facts and Figures on Government Finance*, various years; and *Budget of the United States, Historical Tables*, 1994.

**Figure 8.3**
**Federal Outlays as a Share of GDP, 1900–93**




SOURCE: Tax Foundation, *Facts and Figures on Government Finance*, various years; and *Budget of the United States, Historical Tables*, 1994.

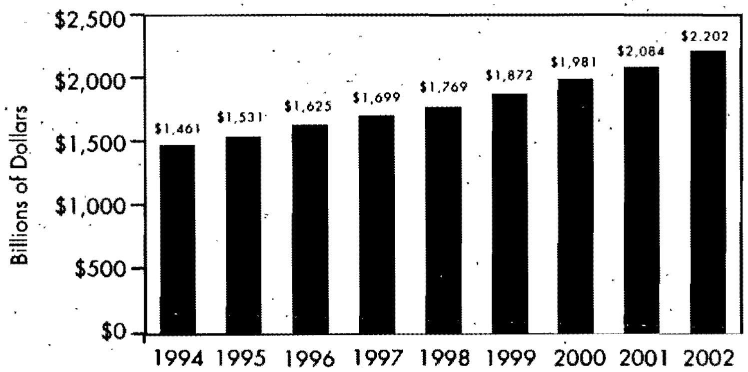
Clearly, there is room for substantial budget reductions over the next five years without even touching the most politically sensitive programs.

## The Clinton Budget: Myths and Reality

Almost everything that is written and said about the federal budget these days is false or misleading. Most notably, federal spending has not been restrained; the budget deficit is not on a downward path, and recent budget agreements have not worked. An accurate interpretation of recent budget developments leads to the following conclusions:

1. The long-term deficit outlook is very discouraging. The Congressional Budget Office forecasts a federal deficit of $284 billion in FY2000, $322 billion in FY2002, and $441 billion in FY2005. The cyclical fall in the deficit this year does not lessen the magnitude of the longer term emergency.
2. The 1990 and 1993 budget deals were failures. The deficit has been higher than the Congressional Budget Office forecasted when Reagan left office for every single year from 1990 to 1995—and those forecasts assumed no new taxes. Almost all of the deficit reduction since 1992 is attributable to three factors: (a) the one-time sale of assets and properties acquired by the federal government during the savings-and-loan crisis of the late 1980s (that alone has accounted for about $75 billion in deficit reduction in recent years), (b) reductions in the military budget resulting from the end of the Cold War, and (c) the cyclical economic recovery.
3. Domestic spending has vastly expanded during the Bush-Clinton era. Real domestic spending has grown by some $200 billion, or nearly 30 percent, since Ronald Reagan left office. If Presidents Bush and Clinton had succeeded in simply holding domestic spending to the rate of inflation over the past seven years, the budget would be in surplus this year.
4. Unless there is a major correction, federal spending will continue to climb rapidly through the end of the century. The federal budget is expected to expand by $450 billion through 2000 and $670 billion through 2002, as shown in Figure 8.4. From 1996 through 2000, federal outlays will approach $13.5 trillion. That is a massive spending buildup at a time of supposed budget austerity.
5. Tax increases to balance the budget are counterproductive. Federal revenue growth over the past five years, even after two large tax increases in 1990 and again in 1993, has been no greater than was expected in 1989 without tax hikes. In fact, federal revenues have been climbing at a slower pace in the 1990s with two tax increases than in the 1980s following Reagan's income tax cut. Tax increases also tend to have no impact on the deficit because, as studies indicate, higher taxes encourage higher spending.
6. Economic growth is a necessary condition for deficit reduction. Pro-growth tax policies such as marginal rate reductions and substantial regulatory rollback measures, would contribute to deficit reduction. Conversely, anti-growth policies, such as higher marginal tax rates, inflationary monetary policy, and more stringent business and labor regulation, would slow growth and raise the deficit.
7. Both the administration and the Republicans in Congress are wrong to call for increased military spending. The Cold War really is over. We won. The Soviet Union is in dissolution. The United States now faces no significant military threat anywhere in the world. The $270 billion that the Pentagon will spend this year is

**Figure 8.4**
**Federal Outlays, 1994 and Projections through 2002**




SOURCE: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Year 1996–2000, A Preliminary Report*, January 5, 1995, Table 4.

more in real dollars than John F. Kennedy spent on the Defense Department at the height of the Cold War. It is five times more than is spent by any other nation. As an integral part of an overall deficit reduction strategy, defense spending should be reduced to roughly $204 billion by the year 2000.

8. Federal spending on the elderly is growing at a financially unsustainable pace. For obvious political reasons, Congress and the president would like to ignore the two largest entitlement programs in the federal budget: Social Security and Medicare. That makes long-term deficit reduction a virtual impossibility. Federal entitlement spending is doubling every eight years. That trend is unsustainable and, worse, it is expected to accelerate in the next century as a result of the aging of the baby boomers. Reforms must be set in motion today. The Kerrey Commission draft report made several sensible recommendations—such as raising the retirement age, indexing benefits, means testing for Medicare, and allowing workers to place some of their Social Security tax payments in individual retirement accounts.





9. A significant part of federal spending generates benefits for high-income people and businesses. Programs that benefit the wealthy and politically well connected corporations should be special targets for termination. At least $80 billion of spending could be eliminated annually through such an approach.
10. Hundreds of domestic programs are no longer necessary, and many never were. They should be abolished. Nearly $100 billion a year is spent on domestic programs that have been identified as candidates for termination by such independent agencies as the Congressional Budget Office, the General Accounting Office, the Grace Commission, and even President Clinton himself in his first two budgets. They survive, not because they serve any national interest, but because of political or parochial considerations.

## The Moral Imperative for a Balanced Budget

Congress has not balanced the federal budget in any of the past 25 years. Why should lawmakers now be required to balance the federal budget and keep it in balance?

There are many flawed arguments for a balanced-budget amendment. For example, there is little evidence that deficits per se crowd out domestic investment or lead to higher interest rates. In the 1980s the deficit rose rapidly and nominal interest rates fell rapidly. In the past two years the deficit has fallen and interest rates have skyrocketed. The truth is that federal *spending* crowds out private investment, not federal *borrowing*.

Conservative and liberal arguments against the desirability of requiring a balanced budget are also unconvincing. One flawed argument against balancing the budget offered by many liberal economists is that a balanced-budget requirement would prevent Congress and the president from using fiscal policy as a tool for stabilizing the economy. The evidence over the past 40 years suggests that fiscal policy has been more destabilizing than stabilizing. Even under the Keynesian model, the idea is to run budget deficits during recessions and surpluses during recoveries. Over the past quarter century, Congress has run record deficits in good times and bad.

On the other side of the aisle, conservatives are misguided when they claim that a balanced budget would lead to higher taxes. The flaw in the thinking here is that it ignores the fact that the deficit *is* a tax. Deficits are simply deferred taxes. And it is very unlikely that voters will be willing to pay $200 billion more in taxes each year—or roughly $2,000 per household—to pay for the trillion-and-a-half-dollar federal budget. More likely, they will demand substantial reductions in federal spending. (The left, of course, fully understands that, which is why every spending constituency from the Children's Defense Fund, to the American Association of Retired People, to major defense contractors opposes the balanced-budget amendment.) And if the balanced-budget amendment leads to less spending, then the true tax burden on the American economy will decline, not rise.

There are two reasons why budget deficits should be eliminated and then permanently constrained via a constitutional restraint, one practical and one moral. The practical reason why budget deficits are harmful is that deficit finance is the ultimate form of hidden taxation. Federal borrowing injects a huge pro-spending bias into the budget process by allowing politicians to pass out a dollar of government spending to voters, while only imposing 80 cents of taxes on them. Because the deficit is largely an invisible tax, voters demand more government than they otherwise would. Eliminating federal borrowing means that Congress has to raise a full dollar of taxes today for every dollar of spending it undertakes. That will substantially increase voter hostility to government spending.

The moral argument for requiring a balanced budget is that federal borrowing is taxation without representation. Current deficit spending must be paid for eventually by future generations—that is, by those who have no say in the current political process. Federal deficits are a form of fiscal child abuse. In sum, the budget should be balanced as a matter of policy and as a matter of constitutional requirement, because running deficits is the ultimate form of tax unfairness.

## The Path to a Balanced Budget

The tough question remains: How do we achieve a balanced budget by 2000 if taxes aren't going to be raised? A measure of the magnitude of the task is shown in Table 8.1, which shows the January 1995 Congressional Budget Office estimate of the FY95 budget and the forecast of the budget through FY2000. Total outlays in 2000 must be reduced by $284 billion to balance the budget by the end of that year, and by an additional $90 billion assuming tax cuts.

The table also makes clear where the budget cutting must be done; three programs—defense, Social Security, and medical care—account for almost two-thirds of total outlays. A "politics as usual" approach clearly won't do the job. Table 8.2 shows the Cato budget alternative. Rather than federal spending climbing from $1.5 trillion to $2 trillion over the





**Table 8.1**
**The Federal Budget Outlook (billions of dollars)**

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | 95 | 96 | 97 | 98 | 99 | 2000 |
| Outlays | | | | | | |
| Programs | | | | | | |
| Defense | 270 | 270 | 278 | 285 | 295 | 304 |
| Social Security | 334 | 352 | 371 | 390 | 411 | 433 |
| Medical | 266 | 296 | 328 | 361 | 398 | 435 |
| International | 21 | 22 | 22 | 22 | 23 | 24 |
| Other | 498 | 507 | 511 | 516 | 536 | 562 |
| Total | 1389 | 1447 | 1510 | 1574 | 1663 | 1758 |
| Deposit insurance | -16 | -9 | -5 | -5 | -3 | -3 |
| Offsetting receipts | -77 | -73 | -76 | -79 | -82 | -84 |
| Net interest | 235 | 260 | 270 | 279 | 294 | 310 |
| Total outlays | 1531 | 1625 | 1699 | 1769 | 1872 | 1981 |
| Revenues | 1355 | 1418 | 1475 | 1546 | 1618 | 1697 |
| Deficit | 176 | 207 | 224 | 222 | 253 | 284 |

SOURCE: Congressional Budget Office, *The Economic and Budget Outlook*, January 1995.

**Table 8.2**
**The Cato Budget Alternative (billions of dollars)**

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | 95 | 96 | 97 | 98 | 99 | 2000 |
| Outlays | | | | | | |
| Programs | | | | | | |
| Defense | 265 | 256 | 240 | 225 | 215 | 204 |
| Social Security | 334 | 350 | 367 | 382 | 398 | 409 |
| Medical | 262 | 280 | 302 | 325 | 349 | 372 |
| International | 20 | 18 | 16 | 13 | 11 | 9 |
| Other | 489 | 472 | 472 | 472 | 472 | 472 |
| Total | 1370 | 1376 | 1397 | 1417 | 1445 | 1466 |
| Deposit insurance | -16 | -9 | -5 | -5 | -3 | -3 |
| Offsetting receipts | -77 | -73 | -76 | -79 | -82 | -84 |
| Net interest | 234 | 250 | 245 | 239 | 237 | 226 |
| Total outlays | 1511 | 1544 | 1562 | 1571 | 1595 | 1605 |
| Revenues | 1340 | 1353 | 1400 | 1466 | 1533 | 1607 |
| Deficit | 171 | 191 | 162 | 105 | 62 | -2 |

SOURCE: Congressional Budget Office, *The Economic and Budget Outlook*, January 1995.

next five years, spending would grow from $1.5 trillion to $1.6 trillion. Table 8.3 specifies where the budget savings to achieve a balanced budget would come from. Finally, Table 8.4 shows that the budget blueprint presented in this chapter contains enough savings to balance the budget by 2000 even with a $400 billion five-year tax cut.

### A Sequester and Freeze

Domestic expenditures have been growing by 6 percent above inflation since 1989. That contrasts with the practices of businesses and households that have been substantially tightening their belts in response to the stagnant economy. The federal government should not be immune from the downsizing that has taken place in the private sector.

The centerpiece of any credible plan to reduce the deficit is to *pull forward* the hard choices. The more common practice of extending budget caps continually into the future, the Bush-Clinton approach for the past six years, defers tough decisions that never seem to be made. Congress must showcase its commitment to long-term fiscal restraint by cutting

**Table 8.3**
**Cato's Proposed Budget Savings (billions of dollars)**

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | 95 | 96 | 97 | 98 | 99 | 2000 |
| Defense | 5 | 14 | 38 | 60 | 80 | 100 |
| Social Security | 0 | 2 | 4 | 8 | 13 | 24 |
| Medical | 4 | 16 | 26 | 36 | 49 | 63 |
| International | 1 | 4 | 6 | 9 | 12 | 15 |
| Other domestic | 9 | 35 | 39 | 44 | 64 | 90 |
| Net interest | 1 | 10 | 25 | 40 | 57 | 84 |
| Total | 20 | 81 | 138 | 197 | 275 | 376 |

Assumptions for savings:

Defense spending: 4 percent sequester for second half of 1995; an additional 3 percent sequester for 1996; then reduced to $204 billion by 2000, 2.25 percent of GDP.

Social Security: Retirement age raised and benefit formula indexed.

Medical: 4 percent sequester for second half of 1995 then cost control measures outlined in this chapter reduce inflation rate from 10 to 7.5 percent.

Other domestic: 5 percent sequester for second half of FY95; an additional 3 percent sequester in FY96; then spending freeze at 1996 level through 2000. Spending cuts to comply with cap as detailed in text.

International affairs: Elimination of all foreign aid programs; an overall 65 percent reduction in international affairs appropriations.

Net Interest: Interest rate savings from deficit reduction assuming a 6 percent interest rate on federal treasury notes and from sale of $100 billion of federal assets.





**Table 8.4**
**Path to Balanced Budget under Cato Plan with $400 Billion Tax Cut (billions of dollars)**

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | 95 | 96 | 97 | 98 | 99 | 2000 |
| Baseline deficit | 176 | 207 | 224 | 222 | 253 | 284 |
| Budget savings | 20 | 81 | 138 | 197 | 275 | 376 |
| Tax cut | -15 | -65 | -75 | -80 | -85 | -90 |
| New deficit | 171 | 191 | 161 | 105 | 63 | -2 |

spending immediately—that is, cuts from the already approved 1995 budget. That can be done by taking the following steps:

1. Congress should approve a 5 percent across-the-board spending sequester starting in the second half of FY95 through the end of FY96. (That would cut 1995 spending for the entire year by 2.0 percent and 1996 spending by an additional 3 percent for a total budget reduction of 5.0 percent.) The sequester should cover *all* programs in the domestic and defense budgets, except Social Security. The benefit levels of other formula-payment programs would have to be reduced by 5 percent. (Sen. Phil Gramm and Rep. Dick Armey have put forward a blueprint for imposing a sequester on entitlement programs.) For discretionary programs, the sequester would be carried out in much the same manner as the 1986 Gramm-Rudman sequester. That would *permanently* lower the baseline spending levels for every program other than Social Security. The savings would multiply in every future year, thus setting a solid foundation for balancing the budget by 2000. A principal virtue of the sequester option is that it would signal to the public, the White House, and financial markets that the new Congress is serious about reducing deficit spending over the next several years.

   The sequester would save $20 billion in 1995 and roughly $65 billion in 1996.
2. A freeze on all domestic outlays other than Social Security should be established at the FY96 spending level over the period FY97 through FY2000.
3. Congress should retain the discretion to allocate funds among programs under the cap. For the overall ceiling to be enforced, any excess spending in one year would require a reduction of equal

magnitude the next year. That would require programs to compete with each other for funding. Congress would be forced to curtail the growth of medical care and other formula-payment programs because, if those programs were allowed to grow unimpeded, they would crowd out other domestic spending. During the Gramm-Rudman era of 1986–89, when a similar cap on expenditures existed, funding for formula-payment programs increased at only 1 percent above inflation.

### National Defense

America can maintain an effective peacetime defense capability—the largest military budget in the world and by far the most modern and sophisticated arsenal—at a price tag far below current levels.

The Republican contract calls for "restoration of essential parts of our national security funding to strengthen our national defense." Congress is right to be concerned about the national security risks associated with President Clinton's adventurous deployment of America's military around the globe. In just the past year, the White House has sent U.S. troops to Haiti, Somalia, and the Persian Gulf. That is in addition to the 100,000 American troops still in Europe and the 30,000 U.S. soldiers in Korea.

Many military experts inside and outside the Pentagon are correctly arguing that our military is spread too thin with current spending levels. That *is* a threat to American national security. The problem is not that the Pentagon budget is too small, it is that a reduction in missions is necessary and desirable.

There are several reasons why Congress should reassess its misguided call for increased military spending. First, the United States faces no substantial military dangers anywhere in the world. The Evil Empire is no more. Second, although defense cutbacks have been made in recent years, President Clinton's $260 billion military budget for 1996 would still constitute the highest level of real peacetime spending ever. Third, Congress should recognize that a leaner Pentagon budget *and* a stronger national defense are not incompatible goals. What is needed at the Defense Department is not more spending, but smarter spending.

A number of responsible defense analysts have concluded that America can maintain an effective peacetime defense capability at a price tag of around $204 billion by 2000, down from the current level of $270 billion. (Indeed, in Chapter 9 Cato's defense analyst makes the case for an even smaller military budget than this.) In many areas, very large savings are achievable. Here are some recommendations:





- **Substantially reduce troops in Europe. There is no compelling rationale for still having 100,000 U.S. troops on the Continent. At the very least, half of those troops should be sent home at a savings of nearly $50 billion.**
- **Implement off-the-shelf procurement and other purchasing reforms long ago adopted in private industry to save an estimated $5 to $10 billion.**
- **End purchases of new B-2 bombers, Seawolf submarines, the D-5 missile, and the C-17 transport plane and slow the acquisition of other new weapons systems to save $20 billion.**
- **Cut the more than $5 billion of "nondefense" pork spending in the Pentagon budget identified by the nonpartisan General Accounting Office. The high-priority "national defense" spending stuffed inside the defense budget includes $3 million for urban youth programs, $9 million for the World Cup Soccer tournament, $57 million for AIDS research, and $10 million for U.S.-Japanese management training.**

To be sure, some areas of the defense budget should be increased. Those include the strategic defense initiative for defense of the United States against ballistic missiles and the military's reserve and National Guard forces to provide force augmentation in an environment of active-force reductions. The United States should also fully maintain an active research and development program.

Critics will argue that these funding levels are inadequate to support America's current military role around the world. The truth is that the proposed budget is consistent with the new geopolitical realities of a post-Cold War world. It would still give America by far the largest military budget in the world. The proposed force structure would be adequate to maintain a survivable strategic nuclear force, sufficient active forces to meet the types of minor threats that might arise with short warning, and a sufficient mobilization base to respond to a major threat that could develop only over a period of years.

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

In sum, the proposed budget and force structure is designed as an insurance policy for a nation without any major potential adversary and should be modified later only if a major potential threat comes from any source.

### Social Security

With a budget of more than $300 billion, Social Security has now passed defense to become the largest single program in the federal budget. Over time, Social Security has been interpreted as a political contract between the working-age population and people who are now retired. That reduces the possibility of large savings in Social Security outlays in the near term, but it should not cause us to defer dealing with the long-term problems of the system—because those problems are massive.

The new Congress should consider three reforms to put Social Security on a sustainable basis. First, the increase in the retirement age that is already scheduled should be accelerated. Beginning in 1995 the retirement age (and early retirement age) should be raised by three months per year for the next 20 years. That would mean that the age at which one would receive full retirement benefits would be 66 in 1998, 67 in 2002, 68 in 2006, until the retirement age reached 70 in 2014. Incrementally increasing the age for receiving full benefits would be a substantial step toward cushioning the impact of the demographic time bomb that will explode in the next 20 years when the baby-boom generation begins to retire. Without a change in retirement age, the ratio of workers to retirees is expected to fall to less than 2 to 1 by the year 2030. Such a dependence ratio would place considerable strain on the economy and a larger burden on today's children—the next generation of workers.

The second recommended change to Social Security is to index the growth of future benefits (technically called the bend points and the earnings history) to the consumer price index rather than to wages. The benefit formula determines the starting cash benefit level of each Social Security recipient. It is based on the earnings history of each worker. As real wages rise over the life of the worker, so does the starting benefit level. If the formula were indexed to inflation, future retirees would still





receive increasing real benefits over time, but the rate of increase would be slower than currently projected. Real benefits under the formula would double rather than triple over the next 70 years. That change would gradually transform the floor for Social Security benefits from one on relative benefits to one on real benefits, protecting the poor but increasing the incentive of others to save so as to have higher retirement incomes. Together, those two reforms would yield only minor savings of from $20 billion to $25 billion by the year 2000. But the resulting savings would be more than $500 billion by the year 2030.

Finally, Congress should immediately take steps to allow workers under the age of 50 to "opt out" of Social Security, by allowing the workers to take a share of their payroll tax each month and place the funds in an individual retirement account. The chapter on Social Security explains how such a program would work.

### Medical Care

President Clinton's national health plan has been soundly rejected by the voters and by Congress. Many in Congress would now prefer the issue of health care to go away entirely. It won't.

There is still a crisis, but it is a crisis, not in health care delivery, but in the runaway inflation of the two major government programs of Medicare and Medicaid. Since 1988 Medicaid has been growing at a 15 percent annual rate. Recent slowdowns in overall health care inflation have helped reduce cost hikes somewhat, but the CBO still predicts an enormous 11 percent growth rate in federal health spending over the foreseeable future.

Medicare and Medicaid will consume $400 billion by 1999. The principal explanation of the runaway inflation in health costs for many years is that government has stimulated the demand for and restricted the supply of medical care. Total expenditures for medical care have increased from about 5 percent to 14 percent of GDP over the past 30 years. It is fairly certain that any health plan designed to expand health care demand through expanded insurance coverage for the 35 million uninsured would place upward pressures on medical inflation.

The crux of the medical care cost crisis is contained in one statistic: the share of health care costs paid directly by the patient has declined from about 50 percent to about 20 percent since 1960. Given the dominance of third-party payments, neither patients nor physicians have an adequate incentive to control the costs of medical care. The demand for medical care will continue to increase in response to an increase in real incomes and the relative size of the elderly population.

The primary focus of policymakers should be on reducing the growth of demand attributable to tax-subsidized private and public health insurance. A substantial part of the benefits of tax subsidization of health insurance accrues to higher income people. Higher income people are more likely to be privately insured, and the value of the tax deduction increases with the marginal tax rate. Similarly, people who have higher incomes are likely to live longer, and the value of Medicare increases with their marginal tax rate. Clearly, the amount of tax-subsidized health insurance could be substantially reduced without much change in the insurance available to the poor.

A reduction in tax-subsidized medical prepayment plans is necessary to reduce the growth of demand for medical care. That subsidy should be reduced primarily for higher income people to ensure that they bear part of the burden of balancing the budget. Tax-subsidized medical plans should be restricted to Medisave or to plans with a high income-tested deductible. One or more of the following measures should be considered as a way of achieving those objectives.

- Maintain the tax deduction only for medical savings account plans. A Medisave plan, in effect, is a medical IRA. Every person would be allowed a tax deduction up to some limit per year for funds set aside in a medical IRA. Individuals would be allowed to draw from those funds to purchase medical insurance or pay for out-of-pocket medical expenses. After some amount is accrued in a medical IRA (say $20,000), the excess may be spent for any purpose. A full deduction for that type of insurance should also be extended to purchasers of individual plans.

- Limit or eliminate the tax deduction. A limit could be set at some rate, such as $150 a month, that would be sufficient only for a high income-tested deductible? In any case, reduce the payroll tax by a corresponding amount; elimination of the tax deduction, for example, would permit a 2.2 percentage point reduction in the payroll tax for all workers with no net effect on federal revenues.

- Establish an income-tested deductible for the sum of payments under Part A and Part B of Medicare. That deductible could, for example, first be set at 1.5 percent of adjusted gross income (AGI) and then increased 1.5 percentage points each year for four years. Thus, beginning in the fifth year, the deductible would be 7.5 percent of AGI, the same rate that is now in the individual income tax code. Payments above the deductible, in most cases, would be fixed payments to the patient per illness or accident.





- Establish a similar plan with a high income-tested deductible for all Americans. That comprehensive catastrophic health insurance plan would replace the current tax deduction for private insurance and the outlays for both Medicare and Medicaid. The plan should probably be augmented to pay for several free visits to physicians each year by pregnant women and infants.

All of those measures would reduce the growth of the demand for medical care, the relative inflation of the price of medical services, and total private and public expenditures for medical care. The measures are listed in the order of increasing budget savings. The CBO projects that federal health care costs will climb by nearly 10 percent per year through 2000. The Cato reform measures are designed to reduce that inflation rate to at most 7.5 percent, thus generating savings of nearly $70 billion by the turn of the century.

### Welfare

Thirty years ago, when President Lyndon Johnson launched the War on Poverty, he declared that "the days of the dole are numbered." We are now on day 10,000, with little end in sight. Over that period, some $4.5 trillion has been spent on this war—more in current dollars than the cost of fighting World War II.

The federal government, along with the states and cities, spends an estimated $250 billion per year on anti-poverty programs. That is almost three times the amount that would be needed to lift every poor family to above the poverty level. Still, the poverty rate in the United States remains extremely high. As welfare expert Charles Murray of the American Enterprise Institute emphasizes, "The tragedy of the welfare state is not how much it costs, but how little it has bought." The system does not work well for either the poor or the taxpayer.

The goods news is that there is now nearly universal agreement that the welfare system is broken. As President Clinton has put it, "We must revolutionize our welfare system. It doesn't work. It defies our values as a nation." There is bipartisan support for "ending welfare as we know it." The only debate is about what should replace welfare.

The most promising approach to welfare is to turn the major programs over to the states entirely. That would have several positive effects. First, it would allow states full flexibility in serving as innovators and laboratories for devising welfare programs that provide a basic safety net without rewarding destructive behavior. State governments have already begun to experiment with promising reforms in welfare. The most ambitious of those experiments, designed to get people off welfare and into jobs, have been undertaken in Wisconsin under Gov. Tommy Thompson and in Michigan under Gov. John Engler. Devolution of welfare to the states would help quickly sort out approaches that work from those that do not.

Second, interstate competition would force states to control bureaucratic costs, hold down benefit levels, and impose meaningful restrictions on eligibility—all things Washington has failed to do.

Third, states are more likely to see the role of government as one of augmenting successful private charitable support systems, rather than supplanting them.

If welfare is not fully devolved to the states, a second-best option is to consolidate Aid to Families with Dependent Children, food stamps, public housing assistance, the earned income tax credit (EITC), child nutrition programs, SSI, and more than 50 other welfare programs in a single public welfare program with a work requirement. That single cash payment program would require all able-bodied recipients who cannot find private-sector jobs to perform a public service job in exchange for a welfare check. That program would reduce welfare fraud by weeding out those who are collecting welfare but working in the private sector already. It would also instill in young women the idea that welfare is not a substitute for work. Welfare would be seen as a temporary hand up, not a permanent handout. A conservative estimate is that those reforms would save $20 billion a year.

### Terminate Unnecessary Federal Programs

Once a cap on federal expenditures is established, the president and Congress will need to set priorities for discretionary domestic spending. That will be a novel experience for federal lawmakers. Since 1980 only a handful of programs of the thousands in the budget have been closed down, despite a growing bipartisan consensus that tens of billions of dollars in savings could be generated by such measures. Even President Clinton now agrees that major program cancellations and restructuring are in order. The appendix to this chapter contains a list of more than 100 program terminations suggested by the staff of the Cato Institute. The list is meant to be illustrative and is by no means comprehensive.





It is essential that the new Congress demonstrates its commitment to deficit reduction and smaller government by eliminating programs, projects, and regulations. The experience of the 1980s proves that if programs are cut back but not eliminated, their budgets can easily be restored very rapidly under a new administration. Some strategies for identifying candidates for closure follow.

1. Repeal all of the $30 billion of new spending in the fraudulent crime bill passed by Congress in 1994. The repeal should not just be restricted to the pork spending, such as midnight basketball and dance classes; it should include funding for prisons and police as well. Those are state and local functions.
2. Accept the list of program terminations in the past two Clinton budgets. That would add to nearly $10 billion in savings per year.
3. Identify and cancel the $75 billion for business subsidies in the budget and eliminate them in combination with a capital gains tax cut. Clearly, a capital gains tax reduction would do far more for creating new businesses in America than 100 Small Business Administrations.
4. Family tax cuts should be combined with cutbacks in programs and regulations designed to "help" families, such as day care subsidies, head start, sex education funding, school lunch programs, and the "family leave" bill. Big government is anti-family.
5. Abolish cabinet agencies. Ideal candidates for closure include any or all of the following: the Department of Agriculture, the Department of Education, the Department of Energy, the Department of Commerce, the Department of Labor, and the Department of Housing and Urban Development. Those departments contain few programs whose costs do not exceed their benefits. The few necessary activities of those departments should be transferred to other departments.

### End Foreign Aid

The federal government spends $22 billion a year on international affairs. Some of those funds go to carrying out the legitimate foreign affairs activities of the State Department. But roughly $12 billion is spent each year on bilateral and multilateral aid to other nations. Those programs include U.S. contributions to the United Nations, the World Bank, and the International Monetary Fund. After tens of billions of dollars of U.S. taxpayer funding of those programs, there is not a scintilla of evidence that they have had any positive effect on economic development. Indeed, Cato scholars Doug Bandow and Ian Vásquez argue persuasively in their book *Perpetuating Poverty* that America's foreign aid programs do real harm to developing countries.

All U.S. bilateral and multilateral foreign aid should be terminated immediately. U.S. economic development assistance to developing countries should be based on a simple principle: trade, not aid.

### Privatize Federal Assets

Government owns about one-third of all the land in the United States—and in most years it adds to its holdings by purchasing properties. Only a tiny fraction of those land holdings are of environmental or historical significance. The market value of oil lands alone is estimated to be roughly $450 billion. Government also owns tens of billions of dollars worth of other assets, including mineral stockpiles, buildings, and other physical capital. Many of those assets are not put to productive use and thus yield little or no return to taxpayers. The federal government should embark on an ambitious agenda of privatization. We recommend $20 billion of asset sales per year for the next 10 years with the proceeds dedicated to reducing the interest on the national debt.

### The Cato Budget: Shrinking the Burden of Government

As shown in Figure 8.3, over the 20th century the price we pay for government has climbed steadily. The federal government has grown from roughly 5 percent to 23 percent of national output. It is our contention that the rising burden of government has led to the slowdown in the rise of Americans' living standards and an erosion of basic liberties.

The Cato budget would dramatically reverse that trend. Table 8.5 shows that government spending as a share of national output would shrink to 17.6 percent by 2000 if all of the Cato budget recommendations were adopted. Federal revenues would be slightly higher. In future years federal spending would be reduced to roughly 16 percent of GDP when all the budget recommendations were fully implemented. We are also confident that the success of such a program would lead to further significant cuts in federal taxes and spending.

## Conclusion

The conventional wisdom in Washington is that it is impossible to cut taxes and balance the budget. This chapter shows that the conventional wisdom is wrong. Both can—and should—be done.





**Table 8.5**
**The Burden of Taxes and Spending under Cato Budget Alternative (percentage of GDP)**

| | Fiscal Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 94 | 95 | 96 | 97 | 98 | 99 | 2000 |
| Outlays | 22.0 | 21.2 | 20.7 | 19.9 | 19.0 | 18.4 | 17.6 |
| Defense | 4.3 | 3.7 | 3.5 | 3.2 | 2.9 | 2.5 | 2.2 |
| Domestic | 14.6 | 14.2 | 13.8 | 13.6 | 13.2 | 13.2 | 12.9 |
| Net interest | 3.1 | 3.3 | 3.4 | 3.1 | 2.9 | 2.7 | 2.5 |
| Revenues | 19.0 | 18.8 | 18.2 | 17.9 | 17.8 | 17.7 | 17.6 |
| Deficit | 3.0 | 2.4 | 2.5 | 2.0 | 1.2 | 0.7 | 0.0 |

Are the program reforms as outlined here politically achievable? They are if the commitment of the new GOP majority in Congress to restraining the size and scope of government matches the rhetoric.

To be sure, making the tough cuts will not be much fun for our federal politicians, but if the Republicans will not make the cuts, they too are part of the problem and should be replaced.

## Appendix to Chapter 8: Cato Institute List of Recommended Federal Program Terminations, January 1995

Dollar amounts in this appendix are in millions.

| | |
|---|---|
| U.S. Department of Agriculture | |
| All Agriculture Crop and Dairy Subsidies | $10,000 |
| Rural Electrification Administration | $1,000 |
| All USDA Land Acquisition Programs | $100 |
| Agricultural Stabilization and Conservation Service | $700 |
| Soil Conservation Service | $600 |
| Children's Nutrition Subsidies for Nonpoor | $1,000 |
| Food Stamps | $25,500 |
| Farmers Home Administration | $3,000 |
| Economic Research Service | $60 |
| Wool and Mohair Subsidies | $200 |
| Foreign Agricultural Trade Service | $100 |
| Nutrition Research and Education Service | $20 |
| Extension Service | $400 |
| National Agricultural Statistics Service | $80 |
| Federal Crop Insurance Corporation | $300 |
| Public Law 480 | $1,200 |
| Agriculture Research Service | $700 |
| Cooperative State Research Service | $500 |
| Agricultural Marketing Service | $500 |
| Commodity Credit Corporation Export Loans | $400 |
| Total Department of Agriculture | $46,360 |
| Department of Commerce | |
| Minority Business Development Agency | $40 |
| Economic Development Assistance | $300 |
| United States Travel and Tourism Administration | $20 |
| Export Administration | $40 |
| International Trade Administration | $200 |
| National Institute of Standards and Technology | $200 |
| Advanced Technology Program | $400 |
| Total Department of Commerce | $1,200 |
| Department of Defense | |
| D-5 Missile Program | $700 |
| C-17 Cargo Plane | $2,000 |





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| Nondefense Spending in Military Budget | $5,500 |
| V-22 Osprey | $500 |
| Seawolf Submarine | $60 |
| M-1 Tank Upgrade | $400 |
| Tri-Service Standoff Attack Missile | $600 |
| Uniformed Services University Health Sciences | $80 |
| ARPA Technology Reinvestment Project | $600 |
| Office of Economic Adjustment | $60 |
| Defense Reinvestment and Conversion | $3,000 |
| SEMATECH | $80 |
| Corps of Engineers Civil Construction Projects | $1,500 |
| Total Department of Defense | $15,060 |
| Department of Education | |
| Elementary and Secondary Education Grants | $6,500 |
| Impact Aid | $900 |
| Office of Vocational Education | $1,500 |
| Bilingual Education | $300 |
| Head Start | $3,300 |
| College Work Study Program | $600 |
| College Housing and Academic Facility Loans | $60 |
| Goals 2000 | $100 |
| Star Schools | $20 |
| School Improvement Program | $1,600 |
| Office of Special Education | $3,400 |
| Educational Research | $300 |
| Even Start | $100 |
| Total Department of Education | $18,680 |
| Department of Energy | |
| Nuclear Fusion | $300 |
| Energy Conservation Programs | $600 |
| Power Marketing Administration Subsidies | $300 |
| General Science and Research Activities | $1,600 |
| Nuclear Fission | $300 |
| Fossil Energy Research and Development | $400 |
| Naval Petroleum and Oil Shale Reserves | $200 |
| Strategic Petroleum Reserve | $200 |
| Energy Information Administration | $80 |
| Clean Coal Technology | $300 |

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|---|---|
| Solar and Renewable Energy Programs | $300 |
| Economic Regulatory Administration | $20 |
| Magnetic Fusion | $300 |
| Energy Supply, Research and Development | $3,000 |
| Total Department of Energy | $7,900 |
| Department of Health and Human Services | |
| Title X Family Planning Grants | $200 |
| Child Care Assistance to States | $800 |
| Refugee Assistance Programs | $300 |
| Social Services Block Grants | $2,500 |
| Low-Income Home Energy Assistance | $2,000 |
| NIH Overhead Cost Reimbursements | $100 |
| SSI Benefits to Substance Abusers and Noncitizens | $200 |
| Child Welfare Services | $300 |
| Community Health Centers | $500 |
| Family Support and Resource Centers | $60 |
| Community Service Block Grants | $500 |
| Health Professions Curriculum Assistance | $200 |
| Maternal and Child Health Block Grant | $600 |
| Healthy Start | $100 |
| Children and Family Services | $4,000 |
| Substance Abuse Block Grant | $1,400 |
| State Welfare Administrative Costs | $1,500 |
| AFDC Day Care | $900 |
| Total Department of Health and Human Services | $16,160 |
| Department of Housing and Urban Development | |
| Community Development Grants | $4,000 |
| Public Housing | $4,000 |
| Federal Housing Administration | $500 |
| Low-Income Housing Assistance (Sec. 8) | $9,000 |
| Homeownership Assistance | $40 |
| Rental Housing Assistance | $700 |
| HOPE Grants | $60 |
| Public and Indian Housing | $200 |
| HOME Investment Partnership Program | $800 |
| Fair Housing Activities | $20 |
| Total Department of Housing and Urban Development | $19,320 |
| Department of the Interior | |
| Bureau of Reclamation Water Projects | $300 |





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| National Biological Survey | $60 |
| Bureau of Mines | $100 |
| Helium Fund and Reserves | $20 |
| Land Acquisition Programs | $200 |
| Sport Fish Restoration Fund | $200 |
| Migratory Bird Conservation | $40 |
| Total Department of the Interior | $920 |
| Department of Justice | |
| All Spending in the 1994 Crime Bill | $5,000 |
| Antitrust Division | $60 |
| Anti-Drug Program | $600 |
| Total Department of Justice | $5,660 |
| Department of Labor | |
| Job Training Partnership Act | $1,000 |
| Job Corps | $1,000 |
| Trade Adjustment Assistance | $200 |
| Community Service Employment for Older Americans | $300 |
| Employment Standards Administration | $200 |
| Native American Job Training | $60 |
| Migrant and Seasonal Worker Training | $80 |
| Summer Youth Employment Services | $800 |
| Dislocated Worker Assistance | $1,000 |
| Job Training Grants to States | $1,500 |
| Total Department of Labor | $6,140 |
| Department of State | |
| Foreign Aid to Egypt | $1,000 |
| Foreign Aid to Israel | $2,000 |
| United Nations Organizations | $600 |
| United Nations Peacekeeping | $400 |
| Inter-American Organizations | $100 |
| NATO | $40 |
| Migration and Refugee Assistance | $600 |
| Total Department of State | $4,740 |
| Department of Transportation | |
| Federal Transit Administration | $4,500 |
| Airport Subsidies | $2,000 |
| Amtrak Subsidies | $700 |

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| Highway Demonstration Projects | $300 |
| Interstate Commerce Commission | $40 |
| Maritime Administration | $700 |
| Federal Railroad Administration Local Freight Assistance | $40 |
| Payments to Air Carriers | $40 |
| Cargo Preference Programs | $400 |
| Total Department of Transportation | $8,720 |
| Department of Veterans Affairs | |
| V.A. Benefits for Non-Service-Related Illnesses | $200 |
| V.A. hospital construction | $600 |
| Total Department of Veterans Affairs | $800 |
| Other Agencies | |
| International Monetary Fund | $300 |
| Small Business Administration | $400 |
| National Endowment for the Humanities | $200 |
| National Endowment for the Arts | $200 |
| National Endowment for Democracy | $40 |
| Corporation for Public Broadcasting | $300 |
| Export-Import Bank | $500 |
| Appalachian Regional Commission | $100 |
| NASA Space Station | $2,000 |
| Inter-America Foundation | $20 |
| EPA Wastewater Treatment Subsidies | $2,400 |
| Consumer Product Safety Commission | $40 |
| Economic Support Fund | $2,500 |
| Superfund | $1,500 |
| Equal Employment Opportunity Commission | $200 |
| Corporation for National and Community Service | $100 |
| Overseas Private Investment Corporation | $20 |
| ACTION | $200 |
| African Development Foundation | $20 |
| Peace Corps | $200 |
| Institute of American Indian Culture and Arts Development | $20 |
| Office of Technology Assessment | $20 |
| Davis-Bacon Act | $1,000 |
| Service Contract Act | $500 |
| World Bank | $900 |
| Agency for International Development | $500 |





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|---|---|
| Legal Services Corporation | $400 |
| National Flood Insurance | $100 |
| Federal Trade Commission | $60 |
| Neighborhood Reinvestment Corporation | $40 |
| Pennsylvania Avenue Development Corporation | $200 |
| Total Cato Budget Savings | $166,640 |

*—Prepared by William A. Niskanen and Stephen Moore*

# 9. The Military Budget

The "peace dividend" resulting from the end of the Cold War could be substantially larger if the United States adopted a more rational and cost-effective security strategy. Contrary to the conventional wisdom, the Pentagon is not underfunded; the United States spends far more on the military than does any other nation in the world. There is, to be sure, a growing gap between military capabilities and security commitments, and the U.S. military is being stretched dangerously thin, but the proper solution to that problem is to eliminate unnecessary commitments, not burden taxpayers with larger defense budgets.

The 104th Congress should resist calls to increase military spending and should instead take the following actions over the next two years:

- **Reduce the defense authorization budget from the fiscal year 1995 figure of $263.8 billion to $205 billion in FY97; the long-term goal would be a budget of $140 billion (1995 dollars) in FY2000.**
- **Eliminate from the military budget all non-defense-related spending—some $5.8 billion in FY95, using the most conservative definition.**
- **Terminate the production of such expensive weapons systems as the Seawolf submarine, the B-2 bomber, and the Trident D-5 missile. They were designed to neutralize military capabilities unique to the Soviet Union, and they have little relevance in the post–Cold War era.**
- **Terminate the purchase of C-17 intertheater cargo planes; the phasing out of unnecessary global security commitments would substantially reduce the need for such airlift capability.**
- **Reduce U.S. force levels to 1.2 million active-duty personnel; the long-term goal would be a force of 850,000 active-duty personnel by FY2000, including no more than 4 Army divisions and 2 Marine divisions.**

- **Eliminate 2 aircraft carrier battle groups and reduce the Navy to 290 ships; the goal by the end of the decade would be 6 aircraft carriers (including 1 carrier used for training purposes) and a 220-ship Navy.**
- **Reduce the number of Air Force, Navy, and Marine tactical air wings to 21, with a long-term target of 15.**
- **Increase funds for the development of an anti-ballistic-missile defense system by at least $1.1 billion in the FY96 budget, with additional increases as necessary in the FY97 and subsequent budgets.**
- **Resist efforts by the Pentagon to retain funding for unnecessary weapons systems and superfluous military units by excessively cutting spending on operations and maintenance; that approach would erode readiness and increase the likelihood of "hollow forces."**
- **Return all savings from reduced military spending to the taxpayers in the form of lower tax rates.**

## The Myth of the Underfunded Military

One of the most tenacious myths, especially among conservatives, is that there has been a dangerously excessive reduction in U.S. military spending since the late 1980s. By almost any measurement, that is not the case. True, the defense budget has shrunk in recent years. Military spending peaked in real terms in FY88 and has since declined by 28 percent. But that decline followed a period of massive spending hikes that began during the last year of the Carter presidency and accelerated during the Reagan administration. The defense budget increased more than 40 percent in real terms during those years, and by FY88 the United States was spending more on the military than it did at the peak of the Vietnam War.

The subsequent decline, in other words, was from an extraordinarily high starting point. Even without taking into account the $25 billion in additional funding over the next six years recently recommended by President Clinton, the defense budgets contemplated in the administration's Bottom-Up Review would have kept spending levels at 85 percent of the average Cold War era level—despite the demise of the superpower threat to America's security.





## U.S. Military Spending: In a League of Its Own

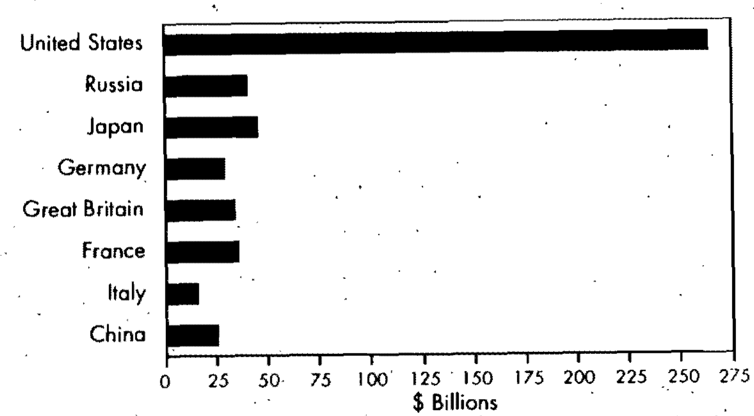
Lawrence Korb, who was an assistant secretary of defense in the Reagan administration, has pointed out that the United States spends more on the military than all of the other industrialized nations *combined*. Figure 9.1 confirms that Korb is not exaggerating.

The great disparity in spending between the United States and other industrial nations places an enormous burden on American taxpayers. It costs each American more than $1,000 a year to pay for the military. Yet it costs each German or Japanese less than $360 a year.

## The Price of "Global Leadership"

Although it would be unwise to shortchange national defense, the enormous difference between U.S. military spending and that of other major economic powers is hard to justify. The democratic nations of Western Europe and East Asia can clearly provide for their own defense and take responsibility for the security and stability of their respective regions.

**Figure 9.1**
**Military Spending of Industrialized Countries**




SOURCES: Figures are from International Institute for Strategic Studies, *The Military Balance, 1994–1995* (London: Brassey's, 1994); Center for Defense Information, "1995 Military Spending: The Real Story, *Defense Monitor* 23, no. 5 (1994); and other sources.

NOTE: Estimates of Russian and Chinese military spending vary widely, and official budget figures published by those countries almost certainly understate actual spending. The figures cited are in the middle of the range of estimates.

Instead, they have chosen to rely on U.S. security guarantees rather than to spend additional money on the military.

That is clearly an attractive arrangement for them, but the benefits to the United States are, to put it mildly, less apparent. The principal justification offered by U.S. policymakers is that a dominant U.S. role around the world helps preserve "stability" and prevents the reemergence of the destructive great power rivalries that led to previous wars. According to that reasoning, the United States does not want Japan or the major powers of Western Europe to play more active military roles, because that might prove disruptive to international stability.

Although there is some validity to that argument, the costs and risks entailed in preserving U.S. dominance are extremely high. Not only does such a strategy require U.S. forces to risk involvement in actual or potential conflicts that have little direct relevance to America's security, but it requires the United States to maintain a much larger—and more costly—military than would otherwise be necessary.

It is Washington's global policing role that accounts for the huge disparity between U.S. military spending and the spending levels of other industrial countries. To take just one example, it is not possible to justify the existence of 12 aircraft carriers without reference to the various U.S. security commitments in Europe, East Asia, the Persian Gulf, and elsewhere.

Put simply, Washington's global commitments require a certain force structure to be credible. And the various obligations are quite expensive. Even with the drawdown of U.S. forces in Europe since the end of the Cold War, America's commitment to NATO still costs nearly $90 billion a year. The commitments to Japan, South Korea, and other allies in East Asia run more than $35 billion a year, while the increasingly difficult mission of stabilizing the Persian Gulf region costs at least $40 billion a year.

Phasing out those commitments and demobilizing at least some of the military units and weapons systems that are designated for such missions would enable the United States to make sizable cuts in U.S. force structure and the defense budget. Instead of encouraging the prosperous and capable West European and East Asian nations to remain forever dependent on the United States for their security, Washington should encourage them to take responsibility for their own defense and the security of their regions. Such a devolution of responsibility is an essential foundation for major reductions in U.S. military spending.





## Weapons to Fight the Last War

Although the elimination of obsolete and unnecessary security burdens around the world would be the source of most potential savings, there are also some other opportunities to save. One area involves weapons systems that were designed for an all-out conflict with the Soviet Union. For example, the B-2 stealth bomber was developed for the explicit purpose of penetrating sophisticated Soviet radar defenses during a nuclear war and taking out hardened targets. Indeed, the principal reasoning of the bomber's supporters was that such an aircraft would be needed to eliminate targets that had survived the initial U.S. ballistic missile strikes.

The notion of spending billions on a plane whose mission was to improve the chances of "victory" *after* a thermonuclear exchange was bizarre enough even during the Cold War. With the collapse of the USSR, the danger of World War III has receded dramatically, and the need for a bomber to deliver a nuclear payload with pinpoint accuracy is now extremely remote. Northrop, the principal contractor, and other proponents have, predictably, switched their justification for the plane, touting it now as an efficient conventional bomber. But no other potential U.S. adversary has the radar defenses that the B-2 was designed to overcome—and even Russia's capabilities appear to have eroded. Moreover, at more than $1 billion a plane, the B-2 is an unjustifiably expensive conventional bomber. Congress should refuse to purchase any additional B-2s.

Another weapons system designed for an all-out struggle against the Soviet Union is the Seawolf submarine. As has that for the B-2 bomber, the rationale for the Seawolf has largely disappeared with the end of the Cold War. The Seawolf's mission was to counter the most modern submarines in Moscow's fleet. Yet Russia is scaling back its military expenditures, and the readiness of Russia's existing naval forces has eroded significantly in recent years. The prospect of the United States' having to counter a large fleet of new-generation Russian submarines is increasingly improbable. And there is no comparable threat from the navy of any other nation. Building Seawolf subs seems to have more to do with preserving jobs at the Groton shipyard in Connecticut than it does with bona fide U.S. defense needs. Unfortunately, that is an all too common problem.

## Eliminating Military Pork

The defense budget has often been used as a massive federal jobs program or as a source of political pork to help ensure the reelection of congressional incumbents. The most egregious example of waste in the military budget is the growing array of items that have nothing to do with national defense. By even the most conservative estimates, spending on such items accounts for $5.8 billion, and by some definitions (including dubious "gray area" expenditures) nearly $8 billion. Nondefense expenditures in the FY95 budget include funds for a wild horse roundup in New Mexico, seismic research, U.S.-Japanese management training, and small business development in Hawaii. Every penny of such frivolous expenditures should be deleted from the FY96 defense budget.

Other expensive elements of military pork are not so easily identified, but they involve billions of dollars in potential savings. Any weapons program that the United States does not need for national defense but still funds to keep the relevant military contractors and subcontractors (and their employees) happy rightfully belongs in that category. The same is true of dozens of unneeded military bases throughout the country that are kept open because they provide jobs and other economic benefits to the surrounding communities. American taxpayers cannot afford to bear the burden of such thinly disguised social welfare spending in the name of national defense.

## Toward a More Rational Defense Budget

For the first time in nearly six decades, the United States does not confront a major power that poses a serious threat to its security. Nor is such a threat likely to emerge in the foreseeable future. The United States already has a military force that is vastly more powerful and technologically sophisticated than that possessed by any other country. America, in short, has a more than ample security "cushion"—if Washington does not dissipate resources and lives by subsidizing the defense of other nations and pursuing the futile mission of attempting to police an inherently turbulent world.

Congress should exploit America's advantageous position in the post–Cold War era to radically downsize the military budget. Even with the reductions recommended in this analysis, the United States would still have a $140 billion defense budget (1995 dollars) in FY2000—approximately three times as much as any other country is likely to be spending. That should give America an entirely adequate margin of safety.

It is crucial that the reductions in force structure and spending levels be made the right way, however. Congress must avoid the mistake made in the 1970s, when forces were simply "hollowed out" by excessive cuts





in operations and support categories. Instead, the goal should be smaller forces with state-of-the-art weapons manned by well-motivated, well-paid personnel.

Instead of attempting to maintain an oversized active-duty force, we need to rely substantially on the reserves and the National Guard. Those forces represent a relatively low-cost insurance policy that would enable the United States to expand its military force structure if the global threat environment turned more ominous. Active-duty units, on the other hand, ought to be viewed as instruments for inflicting immediate punishment if an aggressor trespasses on a vital U.S. interest and constitute the core of expanded forces if an unexpectedly large contingency arose. Those units must, therefore, always be kept in a high state of readiness.

There needs to be an uncompromising eradication of military pork wherever it is found in the defense budget. It is also important to eliminate an array of expensive weapons systems that were designed for a Cold War confrontation that is no longer probable. But the bulk of the potential savings are contingent on the adoption of a new security strategy for the United States. Washington should take advantage of a post–Cold War world in which there are new, multiple centers of power. America can receive indirect benefits from more vigorous defense efforts of other major democratic nations that, to protect their own vital interests, will be compelled to contain threats and promote stability in their respective regions.

The United States need no longer play the role of Atlas, bearing all the world's security burdens. It is time for long-beleaguered American taxpayers to enjoy the full potential peace dividend from the end of the Cold War.

### Suggested Readings


Carpenter, Ted Galen. *A Search for Enemies: America's Alliances after the Cold War.* Washington: Cato Institute, 1992.

Ravenal, Earl C. *Designing Defense for a New World Order.* Washington: Cato Institute, 1991.

Gerlach, Jeffrey R. "Pentagon Myths and Global Realities." Cato Institute Policy Analysis no. 171, May 24, 1992.

______. "Politics and the National Defense: The 1993 Defense Bill." Cato Institute Foreign Policy Briefing no. 22, January 20, 1993.

Isenberg, David. "The Pentagon's Fraudulent Bottom-Up Review." Cato Institute Policy Analysis no. 206, April 21, 1994.

Preble, Christopher. "The Cold War Navy in the Post-Cold War World." Cato Institute Policy Analysis no. 195, August 2, 1993.


*—Prepared by Ted Galen Carpenter*

## 10. Tax Reduction

Very few Americans would argue with the proposition that our current tax code is arcane and anachronistic. The American public wants a tax code that is fair, simple, and pro-growth. The current system fails miserably on each of those counts.

The source of the problem is the income tax itself. The past several rounds of "tax reform" should have taught us that the income tax cannot be fixed or simplified. It must be scrapped entirely. The Cato Institute has published a plan that calls for replacing the personal income tax, the corporate income tax, the estate tax, and the capital gains tax with a simple flat rate national retail sales tax. The incoming Ways and Means Committee chairman, Bill Archer of Texas, has cited the need for just such a fundamental restructuring of our tax system.

Replacement of the income tax would immediately jump-start the U.S. economy. The rate of savings, investment, and capital formation would be positively promoted. For the typical American worker who has suffered stagnant real wages over recent years, the abolition of the income tax would be the single most effective way to raise the standard of living, for both this generation and future generations. More important, if the GOP is genuinely committed to the idea that the federal government is too big, too costly, and too intrusive in the lives of American families and businesses, then it must close down the Internal Revenue Service. The IRS is the belly of the beast of big government.

To that end, Congress should

- **abolish the capital gains tax,**
- **outlaw the passage of all retroactive taxes,**
- **end the withholding tax,**
- **send an annual tax disclosure form to all taxpayers,**
- **require a supermajority vote to raise taxes,**

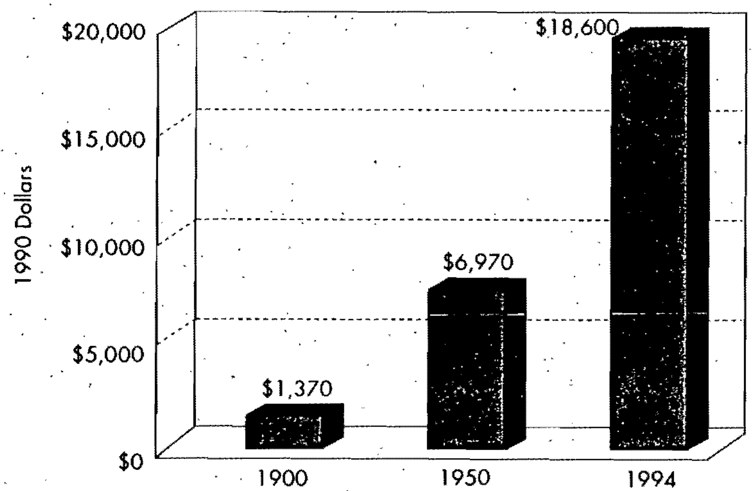
- **enact a flat tax,**
- **replace the income tax with a national sales tax.**

## America's Taxes: How Burdensome?

Justice John Marshall wrote many years ago, "The power to tax is the power to destroy." He was referring to a 2 percent tax rate proposal. Today's tax system, which is undermining the nation's economy, would have been unimaginable in Marshall's day. Figure 10.1 shows how taxes at all levels of government have been relentlessly climbing over the 20th century. The typical household paid about $7,000 in taxes in 1950 (in 1990 dollars) and almost $19,000 in 1994. It is doubtful that many American households believe they are receiving $19,000 worth of benefits each year from government. (If the hidden taxes of federal borrowing are included in the calculation, the average American household pays closer to $23,000 a year for government.)

One reason Americans' take-home pay has been flat or even declined in recent years is that taxes are capturing an ever-larger share of workers'

**Figure 10.1**
**Real Total Taxes per Household, 1900–94**




SOURCE: Tax Foundation, 1994.

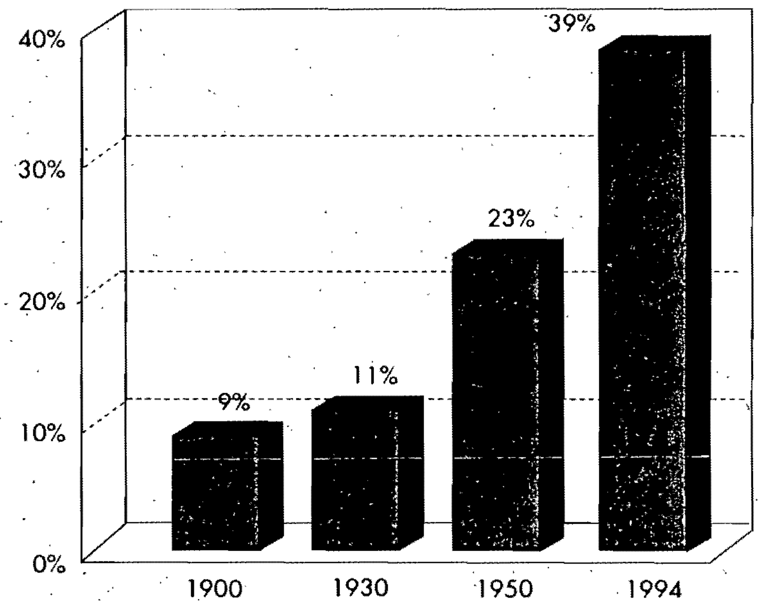




earnings. Figure 10.2 shows that in 1930 American workers surrendered 11 percent of their paychecks to federal, state, and local government; by 1950 they surrendered 23 percent. In 1995, with the Clinton tax hike, they will surrender just shy of 40 percent of their incomes to taxes.

Those numbers are surprising to many Americans because we are repeatedly told by the media that President Ronald Reagan slashed taxes in 1981. Unfortunately, that tax cut proved to be short-lived. Congress raised taxes in 1982, 1983, 1984, 1987, 1988, 1990, and 1993. Every dollar of the tax cuts enacted by Reagan in 1981 has since been replaced with roughly $1.10 in new taxes. Consequently, from 1980 to 1991 total federal tax receipts more than doubled and tax burdens actually rose. What the right hand of the federal government giveth in tax cuts, the left hand taketh away with a relentless stream of tax hikes.

**Figure 10.2**
**Federal, State, and Local Taxes as a Share of National Income**




SOURCE: Tax Foundation, 1994.

## The Victims of America's High Taxes

American workers and businesses are harmed not only by the overall *level* of federal taxes but also by the economically destructive way that the federal government collects taxes. The most destructive element of the current tax code is high marginal income tax rates.

Thanks to "soak-the-rich" tax hikes in recent years, the highest marginal income tax rate at the federal level today is 42 percent. If state taxes are included, many individuals pay more than half of their earnings in taxes. Studies show that high income tax rates apply in large part to small business owners, who are a major source of new jobs. Paradoxically, punitive tax rates designed to soak the rich have tended to erode economic opportunities for lower and middle-income workers. For example, in the 1980s, after Reagan cut income tax rates, the share of income taxes paid by the wealthiest 1 percent of Americans rose from 22 to 26 percent. But since the 1990 tax rate increases, the share of taxes paid by the rich has fallen from 26 percent to 23 percent.

A study by economist Robert Genetski shows that high marginal tax rates are inversely related to productivity growth, as shown in Figure 10.3. Productivity and ultimately wages tend to rise when marginal income tax rates are low, but productivity and wages fall or grow very slowly when marginal income tax rates are high—as they are today. Harvard University economist Dale Jorgenson estimates that every additional dollar raised by Uncle Sam reduces the output available for other uses by about $1.34. Jorgenson calculates that the United States could raise roughly the same amount of tax revenue as we do today and increase the income of the average American family by more that $2,000 a year by simply moving toward a simpler, less punitive tax system.

## The Capital Formation Tax

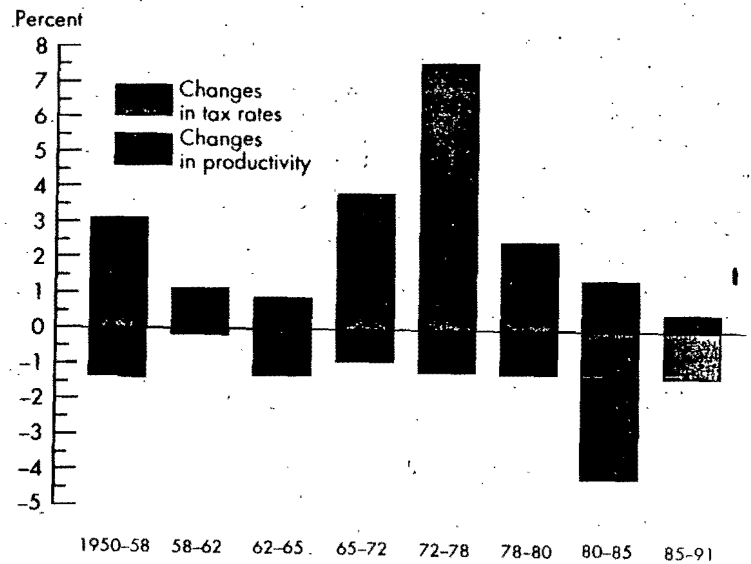
Capital—both human and physical—is the vital engine of growth for a modern economy. Capital is the equipment, the tools, the computers, and the skills that workers use on the job to expand their output.

Unfortunately, America's high income tax rates on the owners of capital, the corporate income taxes on the earnings of capital, capital gains taxes on the proceeds from capital, and taxes on the purchase of capital, through depreciation rules, conspire to make capital investment less attractive and thus less available. Table 10.1 shows that the United States has one of the highest capital gains taxes of the industrialized nations.





**Figure 10.3**
**Changes in Tax Rates and Productivity**




SOURCE: R. J. Genetski, *Taking the Voodoo Out of Economics* (Chicago: Regnery Gateway, June 1986).
NOTE: Tax changes are differences in effective marginal rates from beginning to end of period. Productivity changes are diferences in the annualized underlying trend from the previous period.

The capital gains tax, which should really be called the "capital formation" tax, is especially onerous. The following are among the problems with the capital gains tax.

- The capital gains tax is a double and in some cases a triple tax on investment income.
- The capital gains tax hurts the working men and women of the United States. Studies indicate that 80 to 90 percent of the gains from capital formation accrue to labor; the other 10 to 20 percent accrue to the owners of capital.
- In large part, the owners of capital are today's middle-income working families. The ownership of capital is more widely disbursed today than ever before with the spread of 401 K plans, mutual funds, stock

### Table 10.1
### International Comparison of Individual Capital Gains Rates: United States versus 14 Other Industrialized Nations, Maximum Rate

| Country | Short-Term Capital Gains | Long-Term Capital Gains | Holding Period for Long-Term Gains |
|---|---|---|---|
| United States | 28.00 | 28.00 | 1 year |
| Australia | 49.25 | 49.25* | 1 year |
| Belgium | 0.00 | 0.00 | N.A. |
| Canada | 19.33 | 19.33 | N.A. |
| France | 16.00 | 16.00 | N.A. |
| Germany | 56.00 | 0.00 | 6 months |
| Hong Kong | 0.00 | 0.00 | N.A. |
| Italy | 0.00 | 0.00 | N.A. |
| Japan | 20.00 | 20.00 | N.A. |
| Netherlands | 0.00 | 0.00 | N.A. |
| Singapore | 0.00 | 0.00 | N.A. |
| South Korea | 0.00 | 0.00 | N.A. |
| Sweden | 42.00 | 16.80 | 2 years |
| Taiwan | 0.00 | 0.00 | N.A. |
| United Kingdom | 40.00 | 40.00* | N.A. |

SOURCE: Data compiled by the American Council for Capital Formation, 1990.
*Capital gains indexed for inflation

ownership plans, and simply the increased numbers of Americans who own stocks individually.

- The capital gains tax is not indexed for inflation, meaning that much of the paper "gains" that Americans report when they sell a business, a property, or a stock is purely an inflation gain. For stocks that have been held since the early 1970s, most if not all of the "gains" disappear when inflation is taken into account. Hence, not taking into account the inflationary portion of capital gains is highly unfair.

- High capital gains tax rates create a "lock-in" effect, whereby the owners of assets hold on to them to avoid paying the tax rather than selling them and investing in new business enterprises. Estimates of the locked up capital in the United States are in the trillions of dollars. Reducing the tax on capital gains would unlock those assets and free hundreds of billions of dollars of start-up capital for new and medium-sized businesses that will be the future of our country.





In sum, the capital gains tax is a tax on the American dream. It makes Americans of every income group poorer.

## The Income Tax: The Working Man's Burden

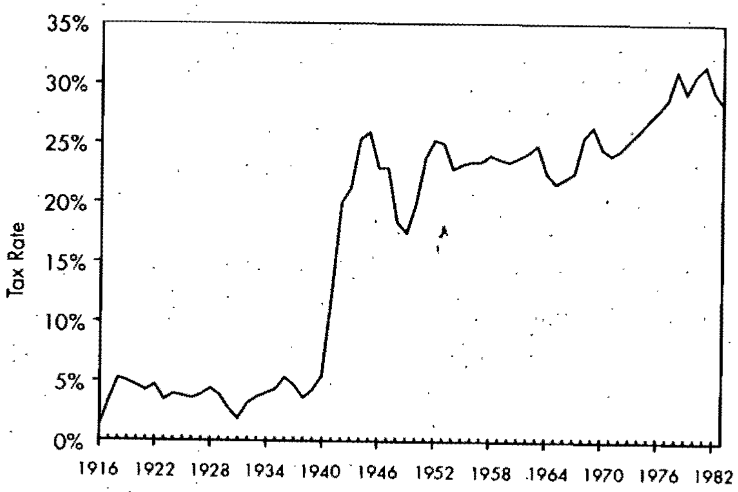
For the vast majority of Americans, the most dreaded and reviled tax is the income tax. Until the ratification of the Sixteenth Amendment in 1913, there was no federal income tax in peacetime—the Supreme Court had consistently ruled it unconstitutional. No law has contributed to the growth of government and the surrender of personal liberties and privacy rights more fully than the federal income tax. Today the IRS has broad and sweeping powers to investigate the personal activities, records, and finances of Americans. "When men get in the habit of helping themselves to the property of others, they cannot be easily cured of it," insisted the *New York Times* in a prophetic editorial slamming the constitutional amendment creating the income tax in 1909.

Today, without a search warrant, the IRS has the right to search the property and financial documents of American citizens. Without a trial, the IRS has the right to seize property from Americans—and it does so routinely. Last year Congress added 5,000 IRS agents (to the 120,000 already on the job) even as that agency was forced to acknowledge that hundreds of auditors were illegally searching the returns of American citizens.

Rep. Cordell Hull, who drafted the first income tax, argued that its purpose was to force "the Carnegies, the Vanderbilts, the Morgans, and the Rockefellers with their aggregated billions of hoarded wealth" to pay a fair share of taxes. But the truth is that the income tax has always been the middle-income worker's burden. In fact, Congress has never been able to pump much additional money into the public coffers by raising income tax rates on the wealthy. Figure 10.4 shows that the effective income tax rate on a family with the equivalent of a 1991 income of $50,000 was never more than 4 percent until World War II. Since then, it has never fallen below 22 percent; it reached as high as 33 percent during the high-inflation, bracket-creep years of the 1970s. The original income tax required less than 1 percent of Americans to file a return; today virtually all American families must do so.

So for the middle class, the income tax has been the ultimate political bait and switch. Allowing politicians carte blanche to raise rates on the wealthy has punished the middle and upper middle income groups. Nobel laureate F. A. Hayek lamented that "the illusion that by means of progres-

**Figure 10.4**
**Average Marginal Tax Rate, 1916–83**




SOURCE: Bruce Bartlett, "The Futility of Raising Tax Rates," Cato Institute Policy Analysis no. 192, April 8, 1993.

sive taxation the tax burden can be substantially shifted onto the shoulders of the wealthy has been the chief reason why taxation has increased as fast as it has done. . . . Under the influence of that illusion, the masses have come to accept a much heavier load than they otherwise would have."

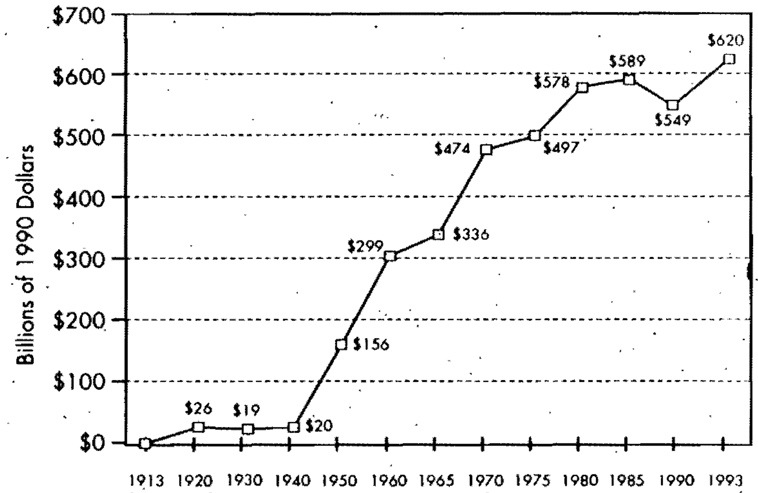
There is little question that the income tax has been an engine of government growth in this century. Here are some numbers to confirm that: the original income tax raised less than $50 billion in 1990 dollars. In 1995 the federal government will raise about $700 billion from the income tax. Figure 10.5 shows the increase over time. The first income tax amounted to about $150 per family (1990 dollars), whereas today the per household federal income tax burden is close to $7,000.

Another cost of the current income tax system is its dizzying complexity. The original income tax included a two-page form, which was printed on the front page of the *New York Times*. Today, after several rounds of congressional tax simplification, there are still dozens of tax forms, hundreds of pages of instructions, and tens of thousands of tax attorneys and accountants who are paid to figure it all out. In *Costly Returns*, James L. Payne reaches the following conclusions.





**Figure 10.5**
**Federal Income Tax Receipts, 1913–93**




SOURCE: Tax Foundation, 1994.

- American workers and businesses spend at least 5.4 billion man-hours a year figuring out their taxes (Table 10.2). According to George Mason University economist Walter Williams, that is more man-hours than it takes to build every car, van, and truck manufactured in the United States.
- That generates a dead-weight output loss of some $100 billion to $200 billion each year. If a simpler system could reduce the complexity by just 20 percent, the savings would be as much as $40 billion a year.
- The average fee for preparation of a tax return is now almost $200. In 1985 about 45 million individual returns were done by tax preparers at an estimated cost to taxpayers of $6 billion.

Large numbers of Americans are concluding that there must be a better way to pay. They are right.

## Tax Reform for the New Congress

In its first 100 days the new Congress should concentrate on (1) reducing selective taxes that are particularly odious and counterproductive and (2) ensuring that future Congresses cannot easily raise taxes.

**Table 10.2**
**Time Spent on Taxes**
**(million man-hours)**

| | |
|---|---|
| Individual taxpayers | |
| Record keeping | 783 |
| Learning about tax requirements | 313 |
| Preparation | 553 |
| Copying and sending forms | 164 |
| Subtotal | 1,813 |
| Business taxpayers | |
| Record keeping | 1,957 |
| Learning about tax requirements | 196 |
| Obtaining materials | 133 |
| Locating and using preparer | 207 |
| Preparation | 1,034 |
| Copying and sending forms | 86 |
| Subtotal | 3,614 |
| Total | 5,427 |

SOURCE: James Payne, *Costly Returns* (San Francisco: Institute for Contemporary Studies, 1993).

## Abolish the Capital Formation Tax

The correct rate of tax on capital gains would be zero. The tax should be ended as part of any comprehensive tax restructuring. In the meantime, the following steps should be taken to end the worst inequities of the tax.

- Allow full indexing of the capital gains tax. The tax on inflation should end immediately both as a matter of simple fairness and as a boost to growth.
- Allow full deductibility of losses against gains. If gains are fully taxed, then losses should be fully offset.
- Allow investors to roll over their current asset holdings into new equities without having to pay a capital gains tax. The capital gains tax, to the extent there is one, should be paid only on funds that are withdrawn from capital markets.

## Outlaw All Retroactive Taxes

One of the most offensive features of the Clinton tax hike was the retroactivity of the new income and estate taxes. The Supreme Court in





the *Carlton* case upheld the constitutionality of retroactive taxation—which essentially gives Congress unlimited taxing authority.

In the final analysis, retroactive tax hikes amount to nothing more than a partial government taking of private property. One might expect such seizures of money and property from the governments of authoritarian nations but not in a constitutional democracy like the United States. James Madison described retroactive laws as "contrary to the principle of the social compact." Congress should pass legislation permanently banning the imposition of retroactive taxes. Sen. Paul Coverdell of Georgia has promoted that idea.

## End the Withholding Tax

The withholding tax was introduced in 1943 as part of the war effort to facilitate the collection of taxes at a time when even clergymen and Disney's Mickey Mouse were enlisted by the U.S. government to increase Americans' tax payments. Legislators spoke openly of taxes that needed to be "fried out of the taxpayers." One senator cheered the provision as a way to "get the greatest amount of money with the least amount of squawks."

Withholding was of dubious constitutionality during a period of crisis, such as war, but during normal times it is clearly an excessive power of government. The central objection to withholding is that it is the ultimate hidden tax. People don't miss what they don't see. Many Americans even regard the refund check they get from too much withholding as a gift from government. Income taxes should be paid monthly, or at the end of the year, by the earner's writing a check to the IRS. That would allow Americans to calculate on a regular basis whether they are getting their money's worth from government.

This proposal will be difficult to enact, precisely because members of Congress and the spending lobbies recognize just how difficult it would be to get Americans to pay several thousand dollars in taxes at one time. But the government is not entitled to more revenue than citizens choose to assign to it, so making taxes visible is essential to making the tax system honest.

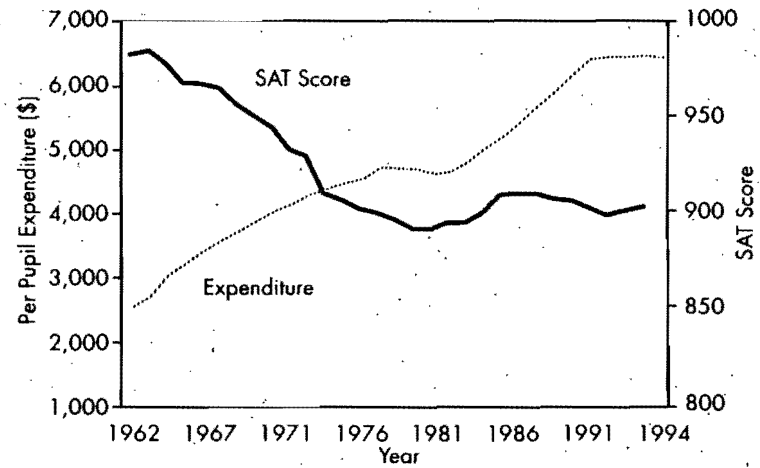
## Send an Annual Tax Disclosure Form to All Taxpayers

Each year when the IRS sends its tax forms to American families, it should be required to send a tax disclosure form listing all federal taxes and estimating all state taxes paid by the family in the previous year. The

# 11. Education

There is little question that American education has declined over the past three decades. Scholastic Aptitude Test scores have dropped precipitously, even as spending has continued to soar, as shown in Figure 11.1. U.S. students consistently finish last or nearly so on international math and science tests. And their flagging performance is beginning to affect the economic well-being of the nation. David Kearns, former chairman of the Xerox Corporation, has estimated that American business spends at least $25 billion a year to bring new employees up to the standard

*Figure 11.1*
*Spending and Achievement in American Schools*




Sources: Educational Testing Service; U.S. Department of Education, *Digest of Education Statistics 1994* (Washington: National Center for Education Statistics, 1994), Tables 127 and 165.

Note: SAT scores for 1961–67 are means for all students; subsequent scores are averages for college-bound seniors.

of high school graduates—and a majority of those employees have finished high school. There is no evidence of improvement since the creation of the U.S. Department of Education 16 years ago. Recognizing the failure of federal education policy, Congress should

- **eliminate the $31.4 billion U.S. Department of Education and return education to states and communities;**
- **pending dismantlement of the department, repeal Goals 2000;**
- **privatize the college loan program;**
- **abolish Title I of the Elementary and Secondary Education Act.**

## The Problems

What's wrong with the nation's educational system? The answer to that question is complicated and controversial, but most analysts agree on at least three reasons for the current plight of our schools.

1. Some of the problems have little to do with the educational system itself—with the quality of teachers or the nature of the curriculum. The collapse of order in American society in general and the breakdown of the family in particular have created societal and behavioral problems that did not exist 30 or 35 years ago, at least not on such a grand scale. Today millions of children bring those problems to school daily, and it is little wonder that teachers and administrators find it hard to maintain discipline and promote learning. Many modern theories of education have contributed to that breakdown, and we should not underestimate the part bad schooling has played in creating poverty and family breakdown. Poor schools are a major reason that poor people remain trapped in poverty.
2. Children are not spending enough time on traditional academic subjects. According to a recent report by the National Education Commission on Time and Learning, U.S. students spend only 41 percent of their school day on academic courses such as math, geography, language, and science. French, German, and Japanese students spend more than twice as much time on such pursuits. To put it another way, our children are spending most of their instructional hours on activities like self-esteem building, gender equity, diversity training, and drivers ed.
3. Too many educators have come to believe that their chief mission is to indoctrinate their students with politically correct ideas in order to transform society. Educational bureaucrats are using courses like sex education and counseling with psychotherapeutic techniques to promote an agenda that attacks traditional values and teaches children to reject the authority of their parents and churches, which brings us back to point 1. The monopoly nature of public schooling makes it difficult for parents to choose schools that reflect their own values.





In addition, it is time to reexamine the popular premise that the main purpose of our education system is to provide technicians for multinational corporations to compete in the global marketplace. Both Republicans and Democrats have assented too readily to this proposition, as evidenced by the wording of the bipartisan National Education Goals. To be sure, schools should be equipping children with the knowledge and skills necessary to be productive members of society, but we must not turn our educational system into a vast and soulless vocational training program for corporate employees. Schools have other intellectual and social tasks to perform. They do not need to be told daily that their chief responsibility is to prepare for the imminent arrival of the global village. Better to concentrate instead on teaching our children to read and count and explaining to them what America is all about.

## Solutions

What can be done to restore the academic integrity of our schools? Again, the answer is complicated, but we must begin by asking fundamental questions—questions like "Where should educational decisions be made?" and "What should be the federal role in improving education?"

The answer to the first question is that the Founding Fathers had it right. The federal government has no business running the educational system or even telling others how to run it. Education is perhaps the clearest example of a function that should be returned to the states, local communities, and private sector. The small amount of money the federal government contributes—about 7 percent of total spending on public schools—has bought Washington bureaucrats entirely too much control over educational policy. States and school districts, which bear the major financial burden, are all too eager to accept federal dollars in exchange for the right to manage their own schools. For example, any state that receives funding from the Department of Education's Goals 2000 program must submit all future plans for reform to federal authorities for approval.

The U.S. government did not give state and local school agencies tax dollars until the middle 1960s, and the U.S. Department of Education was not established until the end of the Carter administration. Since then it has become a full-fledged force with enough money to subvert sensible school policy and to intimidate good sense. In the 1980 presidential campaign, Ronald Reagan promised to abolish the department. However, the Reagan administration made little effort to do so, and the department has grown bigger every year. But Reagan's original goal was correct and even the *Washington Post* wrote in a December 1994 editorial, "There is a lot right about considering whether certain Cabinet departments deserve to be abolished. America's schools are not noticeably better because a Department of Education was created."

When the Education Department was created in 1979, many critics warned that a secretary of education would turn into a national minister of education. Rep. John Erlenborn (R-Ill.), for instance, wrote, "There would be interference in textbook choices, curricula, staffing, salaries, the make-up of student bodies, building designs, and all other irritants that the government has invented to harass the population. These decisions which are now made in the local school or school district will slowly but surely be transferred to Washington." Dissenting from the committee report that recommended establishing the department, Erlenborn and seven other Republicans wrote, "The Department of Education will end up being the Nation's super school board. That is something we can all do without."

Such concerns were not limited to Republicans. David W. Breneman and Noel Epstein wrote in the *Washington Post*, "Establishing a cabinet-level department is a back-door way of *creating* a national education policy." And Richard W. Lyman, president of Stanford University, testified before Congress that "the two hundred year old absence of a Department of Education is not the result of simple failure during all that time. On the contrary, it derives from the conviction that we do not want the kinds of educational systems that such arrangements produce."

The intervening years have done nothing to alleviate those concerns. Even during the Reagan-Bush years, the department's budget rose steadily, and the department began to devise national tests and a national curriculum. Those trends have accelerated in the past two years. It is time for Congress to acknowledge that the Education Department has wasted taxpayers' money, taken control of schools away from parents and communities, and done absolutely nothing to improve the quality of education. The Education Department should be abolished.





## Immediate Steps

Hearings will need to be held on abolition of the Department of Education, but the new Congress can do some things immediately.

### Repeal Goals 2000

This program, a Clinton administration project, established the foundations of a federal bureaucracy that could ultimately control decisionmaking in our schools. Goals 2000 created "model standards" for curriculum, despite the fact that the Department of Education is forbidden by law to interfere in curricular decisions; a new, unelected "national school board" to certify those new model standards; a mandate to report to the federal government on their programs such as health care, nutrition, and child care—the kinds of courses that are often used to impose a particular set of cultural values on school children across the country; and a new, broad-based "citizens panel" that would usurp the powers of state boards of education.

Although the Bush administration's America 2000 initiative was meant to spearhead a voluntary national movement to help states, its swift conversion into the far more statist Goals 2000 shows that there is no such thing as "good" federal intervention. And the recent draft model of American history standards—courtesy of a panel funded and assembled by the Bush administration—indicates the dangers of any federal presence in education. That panel has now produced draft "model standards" that eliminate any reference to Robert E. Lee, Thomas Edison, the Wright Brothers, or Albert Einstein yet manage to mention the Ku Klux Klan 17 times. Those standards are little more than propaganda. States have already shown that they can do a better job of drafting standards than the national "experts" have done—and parents can identify schools with high standards if they have the right and ability to choose the schools their children attend. The congressional education committees should hold hearings—what William Kristol calls "show trials"—to reexamine Goals 2000 in front of a national audience and then scrap the curriculum standards along with the rest of the Goals 2000 program.

### Eliminate Student Loans

The enormously expensive and badly managed program of grants and loans to college students should be eliminated. This massive program, $12.9 billion in fiscal year 1995, administered by the Office of Postsecondary Education, is one of the great unexposed scandals of government. It has cost American taxpayers billions in loan defaults, hooked colleges and universities on federal dollars, corrupted the academic accreditation process, and driven the cost of education to unconscionable heights. Once our young people and our institutions of higher learning have been weaned from this program, colleges and universities will be free of federal meddling; college costs will be lowered to conform with demand; and college graduates, whose lifetime incomes are triple those of noncollege graduates, will be paying for their educations themselves.

As Milton Friedman said in 1980, "Everyone who has the capacity and desire to have a higher education should be able to do so provided they are willing to undertake the obligation to pay the costs of their schooling either currently or in later years out of the higher income that their education will make possible. . . . We must have a system under which those who are not able or do not go to college are not forced to pay (through their taxes) for those who do." The federal government should stop financing higher education and turn the function over to the private sector, which is fully capable of making loans for something with as high a return as a college education.

### Abolish Title I

This program, originally Chapter 1, which will cost $7.2 billion in FY95, is not successful even according to the Education Department's own evaluation report. Title I money goes to every congressional district in the country to fund remedial help for millions of low-achieving children. But there is no evidence that the money is being spent effectively. The District of Columbia Public Schools receive $30 million in Title I money every year. The D.C. city council estimates—because the records are too poor to allow accurate calculations—that the schools spend 48.5 percent of that money on administration, including a five-day "summer institute" for Board of Education members in the Solomon Islands. A separate study reports that Title I funds were spent on full-time salaries for part-time people, ghost employees who never performed their alleged duties, and two separate administrative agencies to monitor how the money was being spent. If the District of Columbia wants to spend its money like that, it should not get federal subsidies. If the federal government wants to continue Title I, surely more children would benefit by turning it into a direct voucher program for poor children. We can no longer afford to support expensive initiatives that do not work simply because they have high-sounding aims like "helping disadvantaged children." No one who works





with disadvantaged children could honestly say that the Title I program is the best way to spend billions to help those children. We should admit failure and try something else at the state or local level.

If instituted, most of these reforms will be greeted with anguished cries from the education establishment. For 30 years that establishment has feasted at an ever-more-lavish banquet provided by the American taxpayer, and no one is about to leave the table graciously. They will accuse Congress of being heartless trolls, indifferent to suffering and contemptuous of education.

But students will not suffer if these suggestions are followed—they will prosper. Congress should recognize that the status quo in education is not working, and things have only gotten worse since the federal Education Department was created. The U.S. Department of Education is doing little that states, local districts, private schools, and parents could not do better, and some of the federal initiatives are demonstrably hostile to the well-being of children. When the federal government releases its tightening grip, our schools will be freer, more creative, and ultimately more productive.

Of course, to institute these reforms, Congress will have to abolish programs and policies initiated by well-meaning people in both parties. The idea of creating national education standards for all schools and measuring achievement at the national level, for instance, originated with the Bush administration. But it is now apparent just how misguided that effort was. The education establishment is using the standard to perpetuate current mediocrity and promote political correctness—an entirely predictable result of centralizing educational policy in Washington.

All over the country, parents are organizing to oppose national standards and testing programs and the teaching of political correctness in our schools. Other parents, skeptical that the government schools will ever improve, are tightening their belts to send their children to independent schools or teaching their children at home. Congress should put an end to the growing federal control of education and let states, communities, and the private sector go to work on providing decent education for America's children.

#### Suggested Readings

Boaz, David, ed. *Liberating Schools: Education in the Inner City.* Washington: Cato Institute, 1991.

Harmer, David. *School Choice: Why You Need It, How You Get It.* Washington: Cato Institute, 1994.

Lieberman, Myron. *Public Education: An Autopsy.* Cambridge, Mass.: Harvard University Press, 1993.

Richman, Sheldon. *Separating School and State: How to Liberate America's Families.* Fairfax, Va.: Future of Freedom Foundation, 1994.
Sykes, Charles J. "Uncle Sam, Rock 'n' Roll, and Higher Education." Cato Institute Policy Analysis no. 136, July 25, 1990.
Uzzell, Lawrence A. "Contradictions of Centralized Education." Cato Institute Policy Analysis no. 53, May 30, 1985.

*—Prepared by Michelle Easton*

taxes listed would include federal income taxes and Social Security taxes (both employer and employee shares) and estimates of state income, sales, and gas taxes. That would allow Americans to see how much they pay each year for government.

Congress should also require that employers list on employees' paychecks how much FICA tax the employer paid on the worker's behalf during that pay period.

### Require a Supermajority Vote to Raise Taxes

Several states, including Arizona, California, and Nevada, have adopted measures requiring that any tax increase must pass by a two-thirds vote in both houses of the legislature. Such a measure is needed on the federal level. Currently, Congress operates under the perverse rules that it takes a three-fifths vote to cut taxes but a simple majority to raise them. In other words, it's less difficult for Congress to take people's money from them than to give it back. A three-fifths majority to raise income tax rates should become the law of the land, as suggested by the House Republican Contract with America. That law should apply to *all* tax increases.

### Enact a Flat Tax

Dick Armey has proposed a 17 percent flat tax plan that would abolish virtually all deductions and loopholes, terminate tax withholding, end the double taxation of savings and investment, shorten the income tax form to the size of a post card, eliminate the capital gains and estate taxes, and reduce the overall tax burden by $50 billion a year. The Armey plan is simpler, fairer, and more pro-growth than our current tax code. The plan has broad populist appeal. That sensible reform should be the centerpiece of a 100-day agenda for improving America's tax system.

### Replace the Income Tax with a National Sales Tax

Armey's flat tax would be a significant improvement over our current tax code, but it is not a final solution to problems with America's tax system. Armey's flat tax suffers from one critical defect: it is still an income tax. As such, it does not eliminate the IRS from our lives (though it should reduce its role). It would still be the business of the government to know how much money Americans make each year—to pry into the most private aspects of American's financial affairs. Although simpler, the Armey plan would still require workers and businesses to fill out tax forms each year—albeit, much simpler ones.





The best replacement for the income tax would be a national retail sales tax—exempting only real estate and securities. A retail sales tax is far preferable to the value-added tax (VAT) that many business groups in Washington support and that is the centerpiece of a bipartisan tax reform proposal by Sens. Pete Domenici and Sam Nunn. European-style VATs, in their various incarnations, have been a bust in virtually every nation that has enacted them. They have not increased savings rates. Their rates have been continually raised. And most important, their fatal flaw has been that they have served as engines of growth of government. That is because the VAT is hidden from consumers—imbedded in the costs of goods and services they purchase.

The retail sales tax has the virtue of being much more visible. It is paid at the cash register by the citizen-voters. The mechanism for collecting a sales tax is largely already in place, since all but a small handful of states impose a sales tax.

Boston University economist Laurence Kotlikoff has estimated the impact of a revenue-neutral replacement of the income tax with a retail sales tax. To protect the poor from the tax and to make it nonregressive, the first $4,000 of each person's purchases would be exempted from the tax. The rate would have to be set at around 16 to 18 percent. Kotlikoff calculates that after just five years the economic impact would be as follows:

1. The national savings rate would rise by 2.5 times its current anemic levels.
2. Capital stock would grow by 8 percent above the level attained under the current tax system.
3. Output would be 5 percent higher than otherwise for almost a $500 billion per year increase in output and incomes.
4. The interest rate would fall by 0.3 percentage points.
5. The impact on output and wages rises over time; after 20 years the national output rises nearly 25 percent higher than under the current income tax structure.

Critics complain that a 16 to 18 percent sales tax would be too high and unenforceable. However, if the dynamic economic growth impact of the plan is considered, the sales tax rate could fall to about 12 to 14 percent. Moreover, if spending were curtailed, as it should be, the rate could be lowered to as little as 12 percent. One of the virtues of moving toward a single retail sales tax would be that it would increase public pressure on government to reduce federal spending as a means of bringing down the sales tax rate.

The national sales tax is everything that Americans want in their tax system. It is simple. It is fair. And it is mightily pro-growth. The United States would attract capital, investment, and jobs from the rest of the world if it adopted the most pro-enterprise tax system in the world. Most important, unlike most of the counterfeit tax reform measures before Congress today, the retail sales tax would require a major retreat of government from the daily lives of American workers and their families.

### Suggested Readings

Adams, Charles. *For Good and Evil: The Impact of Taxes on the Course of Civilization.* Lanham, Md.: Madison Books, 1993.

Kotlikoff, Laurence J. "The Economic Impact of Replacing Federal Income Taxes with a Sales Tax." Cato Institute Policy Analysis no. 193, April 15, 1993.

Moore, Stephen. "The Tax Treatment of Capital Gains." National Chamber Foundation, 1990.

*—Prepared by Stephen Moore*



DOMESTIC POLICY