

## **Resist the Pressure to Spend the Surplus**

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During the Presidential campaign, Governor George W. Bush and Vice-President Al Gore offered different visions on how to manage budgetary surpluses generated by a strong economy and rapidly rising tax revenues. Whoever wins will face strong political pressures to spend most of the surplus on the expansion of existing domestic and military programs as well as on the creation of new ones. The truth is that few politicians, conservative or liberal, are able to resist the pressure to spend applied by constituent groups.

Such groups usually are able to increase their governmental subsidies when tax revenues are abundant and the economy is expanding. My colleague Casey Mulligan and I studied public spending in many nations that have enjoyed unexpected tax-revenue windfalls, and we found that regardless of the political system, government spending usually rises, absorbing about two-thirds of any new surplus.

For example, when the price of oil was high in the 1970s and early 1980s, major oil-producing nations, including both dictatorships, such as Saudi Arabia, and democracies, such as Mexico, poured their surpluses into large spending increases on military hardware or social programs. This will happen again in these countries if oil remains above \$30 a barrel for an extended period.

Particularly relevant for understanding the pressures that will confront the U.S. President-elect is the growth in federal spending after 1995, the year that budget projections turned from budget deficits to large surpluses. This is an apt example, because the Republicans controlled Congress from 1994 to 2000, and the Contract with America announced by Republican congressional leaders in 1994 called for a scaled-down federal government.

The contract may have been effective at first, considering that both defense and nondefense spending fell in 1995 and 1996, even though the national budget was still in deficit at that time. But while outlays on defense remained flat for a while, spending in other areas began to take off in 1996, long before the campaign rhetoric heated up. Spending on domestic activities grew more rapidly each succeeding year, as did expenditures on the military after 1998.

In fact, even excluding outlays on the military and entitlement programs, such as Social Security and Medicare, spending levels approved for fiscal 2000, when combined with last year's increases, will amount to an annual two-year average growth of 5.2%, the fastest growth rate since 1974. The Republican desire to be the party of small government could not defeat powerful political interests.

Some argue that congressional Republicans slowed down the growth in spending, compared with what could have happened. That is probably true. Nevertheless,

Republicans as well as Democrats were eager to go on a spree once released from the shackles of budget deficits.

One telling piece of evidence is that the number of lawmakers of either party who voted to cut federal spending fell to under 400 in 1997, after, rising to over 500 in fiscal years 1995 and 1996. In 1998 and 1999, the number supporting cuts fell to negligible levels. To avoid offending important constituencies, the Republicans have been exceedingly receptive to the large increases in domestic spending proposed by President Clinton for fiscal year 2000. Indeed, the Republican-controlled Congress exceeded the President's budgets on numerous programs, including federal support to education, housing, agriculture, and transportation.

PUNISHMENT. Some conservative think tanks have accused the Republican leadership of throwing away a golden opportunity to stop the growth of the federal budget. Although these critics have a good point, the leaders' response to a growing surplus is "normal" politics, whatever one may think of that. Regardless of the political leaders, governments in all political systems usually cannot resist spending most of what is collected in tax revenues.

The only way for the electorate to control the growth of government spending is to punish politicians who increase spending instead of reducing taxes. Voters need to offset the appeal of powerful blocs by putting their own pressure on legislators and other government officials to cut income and other taxes, especially when budgets are running surpluses. A bipartisan Congress under the leadership of President Reagan did implement major tax reforms in the 1980s that were popular with voters, despite budget deficits.

However, I am pessimistic about the current prospects of holding the line on spending when so many special- and general-interest groups want ever bigger government subsidies and grants. So, while stable spending and a major tax reduction such as that promised by Governor Bush or a large debt reduction as advocated by Vice-President Gore are possible, it will take skilled and dedicated leadership to enact such reforms--as well as a lot of luck.