

The Cost of the Federal Government in a Freer America

BY RICHARD M. EBELING



In February, President George W. Bush submitted his proposed federal budget for the fiscal year that begins in October. It called for total government spending of over \$2.9 trillion. The administration and the Republicans in Congress insisted that this budget reflected fiscal responsibility and the promise of a return to a balanced budget a few years down the road. The Democrats, on the other hand, declared the budget “dead on arrival” because it set the wrong priorities and was too harsh to the “neediest” in society.

What the two major political parties and the administration are debating is how much should be spent and on what. What none of them ask, or even seem to consider, is whether the federal government *should be* spending taxpayers’ money on the vast majority of these programs and activities.

The late Senator Everett Dirksen is purported to have once quipped in the 1960s, “A billion here, a billion there, pretty soon you’re talking about real money.” In President Bush’s budget it is the hundreds of billions to be spent here and there that add up to the real money. If we break down the President’s budget we find the following planned expenditures: \$919.1 billion on Medicare and Medicaid; \$607.7 on Social Security; \$510.8 on other nondefense spending; \$602.9 on defense expenditures; and \$261.3 on net interest owed on the national debt.

“Entitlement” spending (Medicare, Medicaid, and Social Security) would absorb 52.6 percent of the budget; other nondefense spending would consume 17.6 percent; defense spending would take 20.8 percent; and interest payments on the federal debt would be 9 percent.

Among cabinet-level departments there would be the following increases in spending: Veterans Affairs, 13.3 percent; State, 12.9 percent; Health and Human Services, 8.7 percent; Labor, 7.9 percent; Housing and Urban Development, 7.1 percent; Treasury, 6.9 percent;

Energy, 5.4 percent; Defense, 4.1 percent; Agriculture, 3.6 percent; and Transportation, 2.7 percent. These increases are all above the current rate of increase in the Consumer Price Index.

The administration estimates that total federal revenues from all taxing sources would be \$2.662 trillion. The deficit for the fiscal year, therefore, would come to \$239 billion, or about 8.2 percent of expenditures.

It is estimated that \$1.247 trillion dollars would be collected in individual income taxes; \$927.2 billion would come from Social Security, Medicare, and related receipts; \$314.5 billion would be obtained from corporate income taxes, \$68.1 billion from excise taxes, \$25.7 billion from estate and gift taxes, \$29.2 billion from customs duties and fees, and \$50.6 billion from “miscellaneous” sources of tax revenue.

With a U.S. population of about 301,150,000, a federal budget of \$2.901 trillion means a per capita federal burden on every man, woman, and child of about \$9,634. With an estimated 112,250,000 American households, this means each household would bear a burden, on average, of \$25,845. (This does not count the burden of state and local taxes.)

Some of the more “strict constructionist” conservatives in Congress occasionally say the federal government is “out of control” and far beyond the “original intent” of the Constitution. But virtually none challenges what the federal government does, nor do they propose abolishing those departments, bureaus, agencies, and activities that clearly are not “strictly” enumerated in the Constitution.

And most certainly no one in the halls of power asks the fundamental question: What should be the functions of government if its only purpose is understood to be securing each individual’s right to life, liberty, and property?

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According to the 1868 *World Almanac* (the first year it was published), the responsibilities of the federal government were far fewer than today, even in the aftermath of the Civil War. There were only seven executive departments: Treasury, State, War, Navy, Interior, Attorney General, and Postmaster General.

Let's suppose the federal government's responsibilities today were only as extensive as they were in 1868. And just for the sake of argument, let's suppose each of these departments and branches of government only cost half of what President Bush proposes, since the federal arm of government would be far less intrusive in people's lives. What would be the cost of government and the tax burden on the American citizenry?

Making the roughest of estimates from the President's budget, the federal government would cost only about \$622 billion. (This includes the \$262.3 billion in net interest payments on the federal debt. If this debt did not exist, the hypothetical budget would be around \$360 billion.)

Again roughly speaking, the imagined budget would mean a tax burden of only \$2,065 per capita. And the average tax imposed on households would be about \$5,540. In other words, the burden would be almost 80 percent less than what President Bush wants. Also, this would assure a balanced budget in the *coming* fiscal year, not in some politically manipulated and uncertain future.

What makes the real difference between this imagined budget and the one actually submitted? Of course, the welfare state! All the departments, bureaus, and agencies that have been added to the federal government since those far more laissez-faire days of the mid-nineteenth century have been the product of the interventionist and redistributive state.

In 1887 J. Laurence Laughlin, who founded the economics department at the University of Chicago, warned:

Socialism, or the reliance on the state for help, stands in antagonism to self-help, or the activity of the individual. That body of people is certainly the strongest and the happiest in which each person is thinking for himself, is independent, self-respecting, self-confi-

dent, self-controlled, and self-mastered. When a man does a thing for himself he values it infinitely more than if it is done for him, and he is a better man for having done it. . . . If, on the other hand, men constantly hear it said that they are oppressed and downtrodden, deprived of their own, ground down by the rich, and that the state will set all things right for them in time, what other effect can that teaching have on the character and energy of the ignorant than the complete destruction of all self-help? They think that they can have commodities which they have not helped to produce. They begin to believe that two and two make five. . . . The danger of enervating results flowing from dependence on the state for help should cause us to *restrict the interference of legislation as far as is possible*, and should be permitted only when there is an absolute necessity, and even then it should be undertaken with hesitation.

Laughlin added, "The right policy is a matter of supreme importance, and we should not like to see in our country the system of interference as exhibited in the paternal theory of government existing in France and Germany."

Unfortunately, America did import the theory and policy of political paternalism from the collectivist trends then growing stronger in Europe. They became the basis and rationale for a far bigger government in the United States beginning in the Progressive Era in the early decades of the twentieth century and accelerating in the New Deal days of the Roosevelt administration in the 1930s. They have continued ever since under both Democrats and Republicans.

But the ideological wind is out of the sails of the interventionist welfare state. It continues to exist in America and indeed around the world not because most people really believe that government can solve all their ills and make a paradise on earth, but out of pure political inertia. Our task, however daunting it may seem at times, is to offer a new vision of a free society that can once again capture the excitement and confidence of our fellow citizens. When that is accomplished the size and cost of government, over time, will be reduced accordingly.

