Rx For America: Cost-Benefit Budgeting

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Rudy Giuliani says he's a turnaround expert, a take-charge guy who came into a bad situation (New York City) and fixed it. Mitt Romney makes the same claim (the Olympics), and he is really smart with money.

If these guys are as good as their records suggest, then what America needs is a good strong dose of Rudy-Mitt in fixing the situation in Washington, where costs are exceeding benefits by a wide margin.

Step one for the next president should be to tell the American people the truth about the federal government. It is not the source of their well-being. Most of the jobs it creates are for lawyers, lobbyists and bureaucrats. Mostly, it spends other people's money.

Congress No Help

When government spending goes up, taxes go up, the private-sector economy suffers and most people who depend on it for a living are worse off. The collateral and direct damage from a dollar of tax increase often exceeds by a factor of two the benefit from a dollar of government spending. Much government spending is simply a waste, and everybody in America knows it.

Step two is to fix the problem — a task that will require an extraordinary effort by an extraordinary president. The Congress will not be of much help. In its present state, it's an institution addicted to spending and dedicated to concealing its cost.

The new president can succeed by directly involving the American people in a new kind of federal budget process that weighs the high cost of taxes against the generally low value of government spending. We call it the Cost-Benefit Budget.

The government's own Office of Management and Budget already has a performance rating technique called PART.

Under the new budgeting procedure, PART would be refined, expanded and used to reveal — for each federal spending program — both the amount spent and the benefit achieved. An independent top-level analytical unit would be

established in the Treasury Department to determine the real economic cost of taxes and to inform the public.

Knowing The Score

Armed with this information, the president would identify federal programs to be curtailed or eliminated because their benefit ratings under PART are less than the damage done by taxes necessary to pay for them. At the end of the year, the president would first declare a tax cut "dividend" for the American people — to be paid for by specifically identified spending reductions.

After an appropriate public comment period, he would ask the Congress to cut both taxes and spending accordingly. All this would be conducted out in the open. The voters would know what is going on — what is being given up, what is being gained — and allowed to participate.

All newly enacted spending programs would by law be accompanied by a "cost-benefit impact statement" that states in detail (1) the benefits to be achieved, how and by when and (2) the nominal and real costs in terms of tax cuts foregone or tax increases imposed.

Everyone would know the cost-benefit score. There would be no more earmarks. No more secret deals. Two years after enactment, each new spending program that passed the initial test would be subject to the regular Cost-Benefit Budget curtailment or elimination process based on benefits achieved in relation to cost.

Telling the voters the truth always has large consequences. Obviously, enactment and successful application of a Cost-Benefit Budget at the federal level would cause an enormous change in public finance all across the board.

Finally, Truth

There could also be a historic realignment of the relationships between government and the governed. Government "spending" no longer would automatically mean "benefits."

Instead, spending increases would become a synonym for higher taxes. Higher taxes would correctly be understood by an informed public to mean a smaller economy and lower incomes. Conversely, in the new lexicon of truth-telling, spending cuts would mean a tax cut, a larger economy and higher incomes.

When it comes to providing the most benefit to the most people for the longest period of time, it is only the best and the most efficient government spending programs that can compete with higher incomes and lower taxes.

A simple exposition of that powerful truth by the next president could change politics in America forever.

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