March 1995

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Annual Deficit Issue

The Dangerous Deficit & What Can Be Done About It

The Federal Deficit decreased in 1993-1994 but will spiral out of control in the foreseeable future. It can be contained by higher taxes or less government spending, but both are unlikely. The resulting desperation might drive Americans to the Only Solution.

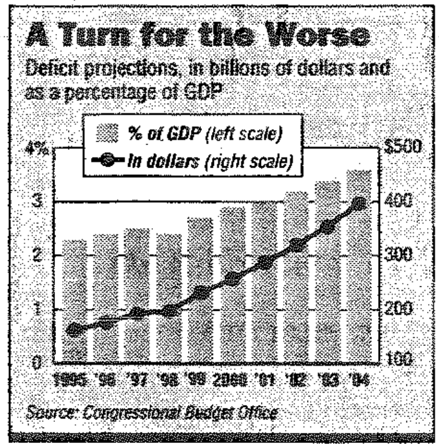
The Deficit Decreased in 1993-94

"The Congressional Budget Office estimates that the deficit will drop from $255 billion in fiscal 1993 to $162 billion in 1995" (U.S. News & WR, 11/21/94, p. 73). Nevertheless, this Deficit adds to the Federal Debt (which is a total of all the annual deficits); in January 1994, the Federal Debt amounted to an astounding $4,834 trillion (Elmer Greenlee's Bluebird Letter, citing John Dillon, staff writer, Christian Science Monitor, 1/11/94, pp. 1, 18). That comes to $74,544.08 per family-of-four annually (Ibid.) and does not include off-budget commitments. Interest on the Debt currently comes to 16% of federal government expenditures (USA Today, 2/6/95, 10A).

More in the Foreseeable Future

After FY 1995, the Deficit is scheduled to balloon. The Congressional Budget Office (CBO) projects a $385 billion deficit by 2000 and $400 billion by 2004 (Investor's Business Daily, 8/17/94, A2). Of course, if there's a recession between now and then....

The main cause of these deficits are ballooning entitlements (what recipients get automatically without annual Congressional authorization). They are politically difficult to cut back but are growing faster than the budget. Today



they account for at least 60% of federal outlays (U.S. News & WR, 1/16/95, p. 50) but three types of entitlement - Medicare, Medicaid, and Social Security - will consume the entire federal budget by about 2012 (Investor's Business Daily, 8/16/94, A2). That means we can cut other expenditures without affecting the annual Deficit at all. There won't be a nickel for defense, roads,

THE PROPOSAL

1. Private landownership and asssessments to remain untouched.
2. Levy a lower rate on building assessments, higher on land, instead of the same rate on both.
3. How to do it? Call us! We have experience (no obligation).

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medical research or the environment. Economist Laurence Kotlikoff of Boston University avers that future generations will be paying as much as 82% of their income in taxes (if taxes are increased to avoid deficits), which is 126% more than currently! (Wall Street Journal, 11/9/94, A 22).

Although the Deficit is important, it won't be easy to cut:

- Important - because the more the government spends on bond interest, the less it will have for other programs. And the more the government borrows, the less borrowing will be available for productive business. Also, if the government can't meet its bills, it will either

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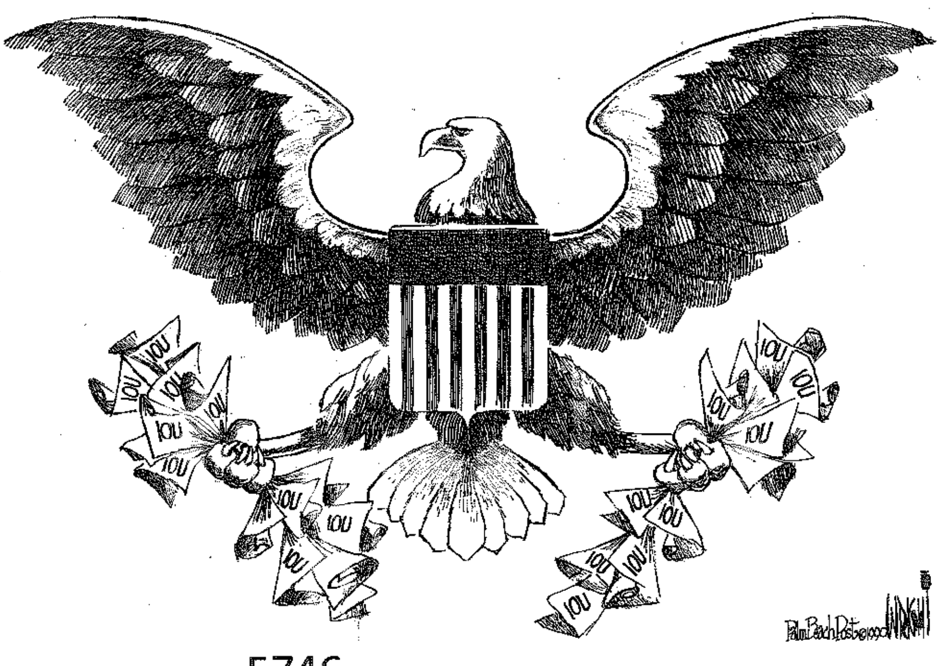

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Dangerous Deficit

go bankrupt or (more likely) we'll have galloping inflation as the government tries to print its way out of impending bankruptcy.

- Not easy to cut - The Penny-Kasich Amendment to cut the Deficit failed; so did the Gramm-Rudman-Hollings effort; the bipartisan Kerry-Danforth Deficit-Cutting Commission couldn't even submit a report. The Republicans are unlikely to cut the Deficit: they say they want a $500 tax credit regardless of income, more favorable depreciation rules for business, lower capital gains taxes, and breaks for Social Security recipients; if enacted, these goals will only worsen the Deficit since they're likely to cut revenues! Nor should you pin your hopes on the Balanced Budget Amendment: It won't take effect until 2002, it will be difficult to enforce and under-estimates the ability of politicians to circumvent spending restrictions (see Wall Street Journal, 5/6/94, A14). It's mere symbol only. Besides, the states are not likely to pass it. We wish the Republicans well in their deficit-cutting, but let's reserve judgment.

The voters want to balance the budget, but they also want their governmental "pork-quisites" (they want to go to heaven but they don't want to die). So don't blame the politicians; the voters restrict their options.

"We have met the special interests and they are us" - Jonathan Rauch

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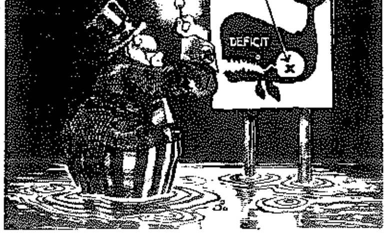
There are still other considerations. Consumer debt is spiraling out of control; so is corporate debt; that won't make it easier to cut the Deficit. State & local govt. spending has shown no propensity to decrease (it was 12% of national income in 1940, 14% in 1990 - Investor's Business Daily, 12/94, A2, "States...."). Both political parties say they won't cut the huge impending social security deficit even though social security is currently lending its funds to the federal government - what happens when the Feds will have to pay back the social security fund? That fund will go bankrupt in 2029 if there are no new taxes (Investor's Business Daily, 4/13/94, A1). If AIDS and Alzheimer's research costs balloon, so will the Deficit. And what about the huge off-budget expenses of the federal government? (see A.I.E.R. Research Reports, 11/2/92)

Some people are confused by the social security system, but it is really very simple. It takes money from young people, gives some to older people, and "invests" the rest in government IOU's.

Then there's the Medicare program, which if, there are no new taxes, will go bankrupt in 2001 (Investors's Business Daily, 12/ 94 editorial by Peter Ferrara, copy in our files). And don't forget the $1.7 trillion in unfunded government employee pension funds (Washington Monthly, 3/94, p. 54), to which should be added $51 billion in underfunded private pensions which a government agency has underwritten (Investor's Business Daily, 2/5/93, p. 38, citing CBO). And don't ask how much more money our crumbling infrastructure will cost our governments (see article entitled "Our Crumbling Infrastructure," Nation's Business, 8/89, pp. 16-24); "About $230 billion is the cost of bringing up to snuff all existing [public school] buildings," says David Honeyman, a University of Florida associate education professor - U.S. New & WR, 9/12/94, p. 79). And then there other hidden governmental costs facing us.

Fortunately, there's a way out.

In 1992, 1993 and 1994 we came out with Special Issues on the Federal Deficit. For $1, you can get any of these back issues while the supply lasts. Please specify.



Desperate Enough Yet? Here's the Way Out

The aforementioned Deficit facts are enough to drive thinking citizens to desperation, and soon desperation will reach all our citizens. Well, until we plumb the depths of the abyss, we may never reach the heights. We can reach those heights (without having to plumb the depths) if our governments were only to collect the annual rental income of land and use it to replace taxes on income, sales, buildings, imports and other products of labor. Why do such a thing?

- By down-taxing these desirable things, we'll have more of them.
- By collecting land-rent, the government gets the revenue it needs and landowners are encouraged to develop their land-sites more fully; this by itself will create more income, sales, buildings, etc.

Imagine a government revenue source creating jobs and economic production instead of destroying them! This is tax-free economic development (since only a revenue shift is envisaged).

There is much empirical data to support these assertions - see previous issues of Incentive Taxation. Get the Feds to do a little - if it works, they can do more.

Thus, GCLR (Government Collection of the Land Rent) can hope to amplify government revenues while reducing the need for government welfare expenditures. Taxes on labor or the products of labor can only do the opposite. Here we have the only way to really cut the Deficit.

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HGFA

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From the Editor

Vol. XXI, No. 1

- U.S. infrastructure is collapsing. Federal and state governments now classify 1/3 of the country's roads as deteriorated and 39% of our bridges as unsafe (Washington Monthly, 4/94, p. 21).

- U.S. foreign aid is less than 1% of the federal budget. Most people think it is 18% and should be 8%. The chairman of the Senate Foreign Relations Committee over-estimated post-1961 foreign aid spending by eight times (USA Today, 2/6/95, 10A, citing U/Md. poll).

- "In the 10 months from January to September [1994], the consumer debt load expanded by $325.4 billion, 14% above the 1985-89 pace." (Investor's Business Daily, 1/20/95, B1).

- Insanity: believing that by doing more of what is already being done or has been done before, a different outcome will result.

- Happiness is a journey, not a destination.

- "The debt has risen to $4.834 trillion - or $18,636.02 for every American...Interest payments have grown into the third largest item [of the federal budget] at $230 billion a year....By 1997, interest expense will equal defense outlays at $274 billion each, according to the White House Office of Management and Budget" - John Dillon, Christian Science Monitor, 1/11/94, pp. 1, 18.

- The federal government spent 4.7% more for every American in fiscal 1993 as compared to fiscal 1992 (Investor's Business Daily, 4/6/94, p. 1, citing AP report).

- Interest expense was 7% of the federal budget in FY/93 and is expected to be 14% in FY/2003 (USA Today, 6/13/94-5B, citing Congressional Budget Office).

- "I love the message coming from both parties: Can we buy your votes with your money?" (Ross Perot)

- Congress plans to take $60 billion from the Social Security Trust Fund in 1994 (last year, $46 billion), and now owes the Fund well over $378 billion (4/94 letter from Robert Mills, Council for Government Reform).

- $1,700 a year: that's what the average American household must pay in taxes for interest on the federal debt (Paul Hewitt, vp/research for the Natl. Taxpayers Union, in "Entitlements for the Elderly Drive Deficit," in Insight, 2/7/94, as quoted by the Libertarian Party News, 10/94, p.18).

- Nora Almany: "When you're two, you learn to talk. By the time you're thirty, you had better learn not to."

- "The average retiree on Social Security (has) a higher income than the rest of the population" (Murray Weidenbaum, ex-Council of Economic Advisors, in his book Rendevous With Reality, as quoted in Investor's Business Daily, 6/22/94, A2).

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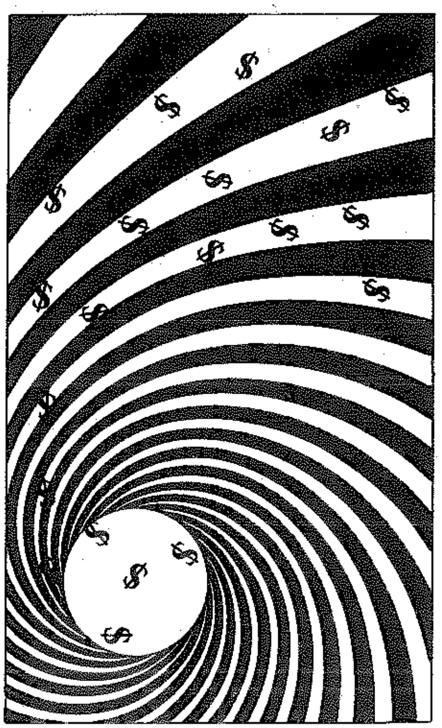
Desperate Enough Yet?

A ballooning Federal Deficit bodes ill for our government and our economy. When the breakdown comes, there'll be only One Way Out.

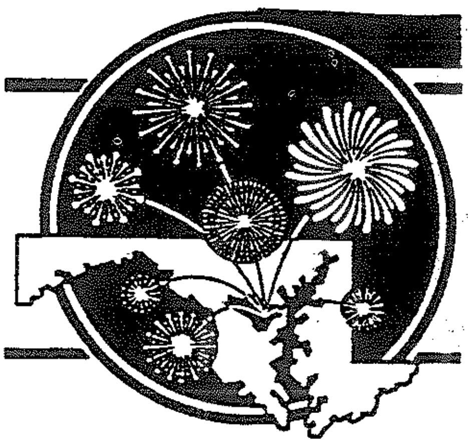
"Blessed are the young, for they shall inherit the National Debt."

You may be disappointed if you fail, but you are doomed if you don't try (Beverly Sills).



Maryland Can Do It!

Bingo! Pennsylvania, move over. We have just been informed by the Maryland Attorney-General's Office that legislative authority exists for Maryland's municipalities (Baltimore excepted) to go two-rate!



By pure chance we came across reference to a law passed many years ago that would allow Maryland's municipalities to classify land and buildings separately for purposes of taxation. After assiduous research (which we shared with the A-G's Office prior to the decision), we found the law - #656 of 1916. Now the real fun can begin.

Endorsements 405 - 406

Harry F. Themal (columnist, Wilmington Del. News Journal, 12/13/93, sent to us by IT reader **Frank Nelson**, citing Professor Gerald Vaughn of the University of Delaware): "Under all, the land,' quotes economist Richard Ely who understood that land use, land problems, and land policies are basic to economic policy."

House & Home (8/60, p. 117, as cited by Frank Peddle, Cities & Greed, p. 134): "When values derived by its use [the allocation method of assessing] are added to those obtained by the direct, land residual, and development methods, we acquire a body of land-sales data adequate to the requirements of a highly competent land-appraisal product capable of standing up under the sternest test for accuracy and uniformity, even in an urban area where there seemingly exists a paucity of direct evidence."

St. Petersburg, Russia?

IT reader Frank Nelson was recently in Russia and calls our attention to an article in the English-language St. Petersburg (Russia) Press (p. 1) headlined "Widespread Land Tax Reforms On Horizon." Quoting:

"St. Petersburg's Legislative Assembly has passed the city's 1995 taxation policy. It includes a host of new duties springing from the city's discovery of a new horn of plenty - real estate....The formula rate for determining land taxes and rental of land plots will be increased 3.25 times."

"The Federal government has yet to set a national standard minimum for land taxes, though there are several legislative drafts regarding land tax in the federal parliament now pending discussion that could conceivably force a change in the city's own policy."

What this all comes to, we don't know. We'll inquire. Don't pop the champagne yet. Frank was non-plussed by this; so are we. Stay tuned.

West Virginia 2-R L-O Bill

We have just been informed that Dr. Peterson of the W. Virginia House of Representatives has introduced a two-rate local-option bill. It is currently being actively considered by a House committee.

Four readers of Incentive Taxation testified for the bill at a public hearing on 2/8/95. They were Arthur & Walter Rybeck, Ted Gwartney (assessor) and Alanna Hartzok. They are optimistic about passage. Stay tuned.

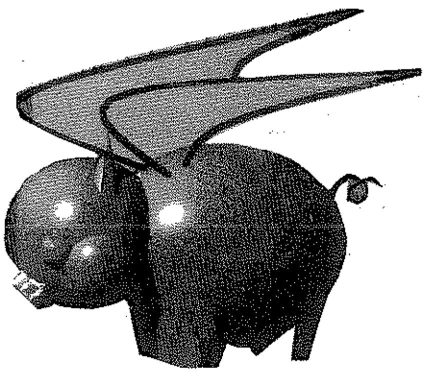
Where Your Tax Dollars Go

In 1993, the federal government spent $1,408 trillion. Here's where your federal tax dollars went in 1993:

Social Security, Medicare and Medicaid	36%
Total net interest payments on the debt	14%
Other mandatory-spending programs	11%
National Defense	21%
Discretionary programs	**18%**
	100%

Do you think it will be easy for Congress to reduce the Deficit without engendering a recession? Pigs will fly before that happens. Of course, instead the voters could petition Congress to cut off their entitlements (unlikely), or we could tax land values instead of production.

(The source for the figures in this article is *Research Reports*, 3/7/94, published by the American Institute for Economic Research, using figures from the Federal Budget.)



Job ad in the York, Pa. Daily Record: "Attention: Good hours, excellent pay, fun place to work, paid training, mean boss. Oh well, four out of five isn't bad." (RD, 1/95, p. 110)

DID YOU KNOW that Incentive Taxation was started way back in 1974 by a major grant from Floyd Morrow's L.E.A.F. organization which was repeated for a number of years?

As costs rise, INCENTIVE TAXATION needs more financial support. If you have been receiving it free, please consider sending the subscription cost of $15 a year to the publisher.

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