

## A Game for Suckers

By John T. Correll, EDITOR IN CHIEF

**J.** PETER Grace is back. In 1983, Mr. Grace headed a private sector task force that published a report touting huge savings to be achieved by the elimination of waste in the federal government. His analysis was regarded as simplistic, though, and his advice was generally ignored. Now, Mr. Grace is running a direct-mail campaign promoting the same ideas that he was unable to sell six years ago.

He assures us that we can "cut over \$424 billion in wasteful spending over three years" and "almost eliminate the entire federal deficit." This, he says, is possible "without raising your income taxes" or making "painful cuts in social or defense programs." Mr. Grace does not list the waste-cutting actions that lead to such a happy circumstance, but in 1983, he proposed to get sixty-seven percent of his savings from defense.

No one with a real grasp of the situation believes that the deficit can be wiped out so easily or that it can be done in any case without some penalty, either in taxes or in federal programs.

Public opinion, however, is drifting in favor of economic policies that would be amazingly consistent with Mr. Grace's philosophy. Polls show that only about ten percent of the voters want their taxes raised to resolve the deficit. A declining number of them support reductions to social programs. About sixty percent believe the best approach would be to cut defense.

Those who want sensible solutions—and who prefer to think rather than drift—should pay attention to facts that describe our circumstances more accurately than do Mr. Grace's exhortations. *The Economic and Budget Outlook: Fiscal Years 1990–1994*, published in January by the Congressional Budget Office, is instructive.

CBO estimates that federal revenues in 1989 will be 19.2 percent of GNP while outlays will consume 22.2 percent. The ratio should narrow a bit in the years ahead, but not enough to close the gap. A surge in GNP would increase revenues, but with unemployment at a fourteen-year low and productive capacity almost fully committed after a six-year boom, a surge is not likely to occur.

In 1988, according to CBO's figures, the federal government spent \$1.1 trillion in gross outlays, distributed as follows: defense, 25.9 percent; entitlements and other mandatory spending, 44.8 percent; nondefense discretionary spending, 15.7 percent; and net interest on debt, 13.5 percent.

The government has no choice about paying the interest it owes, and artificially erected legal fences protect entitlement programs. That leaves defense and other discretionary federal programs as the targets for any reduction.

Over the past twenty-five years, CBO's data show, nondefense discretionary spending has declined, and defense spending has declined sharply. Meanwhile, entitlement programs have skyrocketed.

Between 1986 and 1989, defense spending declined by 11.4 percent after inflation. Just over a year ago, the "budget summit" between the White House and Congress took \$230 billion out of the five-year defense plan. As readers of this magazine know, that was accomplished with harsh reductions in military force structure, manpower, modernization, and readiness.

The fiscal turbulence has been nearly as harmful as the cuts themselves. The Pentagon barely has time to begin on one new course when it is forced to shift to another one because of different financial assumptions.

Following the guidelines of the budget summit, former Secretary of Defense Frank C. Carlucci put together an FY '90 budget based on two percent real growth. Even if that budget had been approved as submitted, it would have amounted to only 5.4 percent of GNP. It now appears, however, that defense will be held to zero percent real growth, an inflation-adjusted freeze. If so, the Pentagon must pull another \$96.3 billion from its five-year plan.

To put that number in perspective, consider the loss of ninety-six defense elements like these, each of which accounts for spending of about \$1 billion: a year's operating and support costs for five tactical fighter wings; twenty-four F-15E dual-role fighters; fifty F-16 fighters; eleven Peacekeeper missiles; or 1,600 advanced medium-range air-to-air missiles.

The deficit is not a consequence of spending ourselves poor on national defense. We allocate significantly less of our GNP and a smaller share of our federal spending to defense than we did in the 1950s and 1960s. The deficit, which CBO projects at \$141 billion this year, cannot be eliminated by defense cuts unless we strip the armed forces bare.

It is a fantasy to believe that there is an easy, painless solution to the deficit. Those who persuade themselves otherwise are expecting to get something for nothing, and that is a game for suckers. ■