

The \$2.7-Trillion Burden

Government Now Absorbing 50 Per Cent of GNP

By M. STANTON EVANS

Pundits and politicians skirmishing at the edges of our economic doldrums need to zero in on the central issue: The staggering burden of non-productive outlays imposed by government on American businesses, workers and consumers.

This problem has been bad for years, and recently has been getting worse. It is scheduled to intensify still further in the months to come—not counting any added costs emerging from the current session of Congress. And while some proposals in the Bush Administration budget would be helpful at the margin, no one seems to be facing up to the real dilemma.

Though no official agency keeps the figures this way (for understandable reasons), the total cost of government activity to the economy as of 1990 was roughly 50 per cent of GNP, and probably a good deal more than that. As shown in the accompanying table, half of what was produced by the American economy was being absorbed by government—either directly in the form of spending and taxation, or indirectly through regulatory and other costs that have been saddled on the private sector.

With such enormous sums being diverted from private to public uses, it is hardly surprising that the economy is struggling. When \$2.7 trillion is spent by governments or in compliance with official mandates, that is \$2.7 trillion that doesn't go to productive invest-

The economic impacts of this colossal burden are predictable. If you have as many people in the wagon as you have pulling the wagon, it's not astonishing that the wagon has a hard time moving forward.

Yet still more spending, and still more mandated controls on the economy, have since been locked in place—thanks to the 1990 budget deal, the Clean Air Act, Americans with Disabilities Act, Civil Rights Act and other recent legislation.

One reason the total cost of government isn't better known is that the various components of it are usually discussed in isolation. Federal spending and taxation, for example, are generally debated without much reference to state and local outlays. Yet since the same taxpayers and consumers are anteing up for both, these figures need to be added together to assess the total impact of government on the economy.

Even more to the point, we have had few reliable estimates from official sources as to *other* costs imposed on businesses and consumers by governmental fiat. These include private-sector outlays to comply with environmental or workplace standards, mandated benefits, retooling factories and products to official specification, paperwork, legal and other compliance costs, and so on. While getting a handle on these is difficult, we are beginning to receive some pretty good estimates—and they are huge.

Costs from regulations and mandates are particularly insidious because they don't show up in official budgets, and don't have to be paid for by taxation. It is therefore tempting for politicians to pile on still more of them—thereby promising benefits to voters without their having to pay the bills directly. (Health care is the most obvious current example, but only *one* of many.) The bills, however, show up on the ledgers of affected businesses and individuals, and thereafter in the malaise of the economy.

In the adjoining table, the figures for federal, state and local spending in 1990 are provided by the Office of Management and Budget and the Tax Founda-

tion; all were at or near record peacetime levels as a share of national output, and all have continued growing since. Thus the figures are an understatement of the problem. The numbers provided for regulatory and compliance costs, likewise, are conservative estimates.

The number for regulatory costs is derived from a study by Thomas Hopkins, a former regulatory administrator at OMB, published by the National Chamber Foundation. Hopkins comes up with a total federal regulatory burden of \$392 billion in 1990. Since about \$80 billion of this is an estimate for tax compliance costs (considered separately here), the amount reflected in the table is reduced by this amount.

The estimate for tax compliance costs is provided by James L. Payne of Lytton Research and Analysis in the current *Policy Review*. Payne summarizes the calculations of Arthur D. Little, Coopers and Lybrand and other accounting experts concerning private costs of complying with the tax code—in terms of man-hours, paperwork, etc. He comes up with direct compliance costs of \$232 billion in 1990, plus \$64 billion in further costs incurred through enforcement, litigation, and the like—for a total of \$296 billion.

From these two studies, it is reasonable to conclude that the total federal regulatory and tax compliance cost to the economy in 1990 was *at least* \$600 billion. Again, this clearly understates the burden. Our numbers; for example, don't include some further estimates by Payne concerning productivity loss and other costs that would double the tax compliance figure; nor do they include the burden of state and local regulations; nor the massive further costs impending from the Clean Air Act, ADA, etc.

The bottom line is that, as of 1990, the private-sector was forking over half its output to government in one fashion or another, and was beginning to stumble. The official response to this was to increase taxes and impose more regulations—and then to wonder why the economy was in trouble. ■

The Costs of Government Fiscal 1990—In Billions

Federal Spending	\$1,252
State Spending	483
Local Spending	403
Regulatory Costs	312
Tax Compliance	296
TOTAL COSTS	\$2,746
1990 GNP	\$5,524

Sources: Office of Management and Budget, Tax Foundation, National Chamber Foundation, *Policy Review*.

ment, new technology or plant expansion in the real-world economy where goods and services are provided and jobs created.