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Budget Bucks

They Stack Up as the One Sure Cure for the Deficit

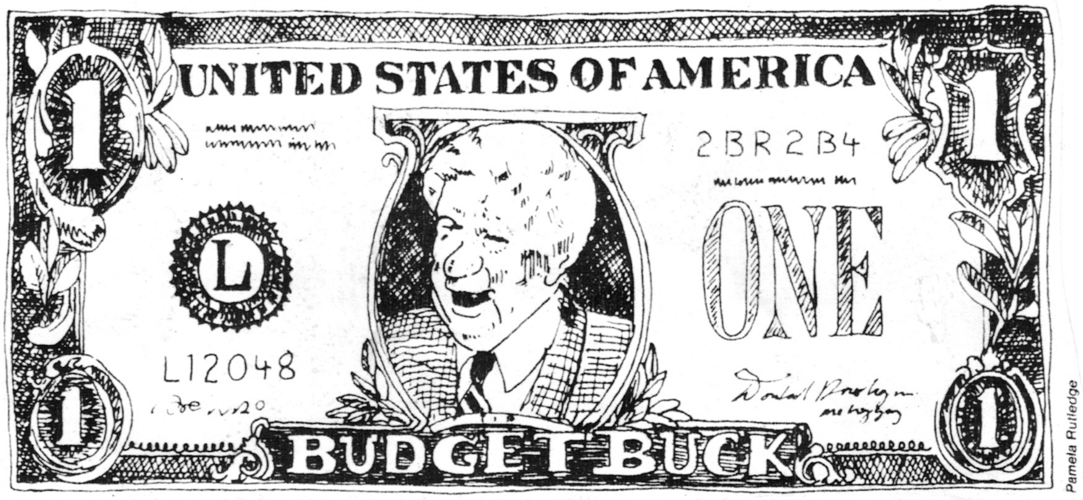
By JOHN RUTLEDGE

THESE days everyone seems to have his own remedy for the ballooning federal budget deficit. The cures range from Balanced Budget Amendments, spending freezes and program cuts, to 50 ways to raise your taxes. All are attempts to impose some sort of discipline on the actions of a group of entirely undisciplined hooligans (a.k.a. members of Congress).

Since Congress has not managed to come up with a way to provide internal discipline—roughly equivalent to slipping into a straitjacket—the capital markets have responded with external discipline. The gaping spread between the yields on bonds and Treasury bills can be interpreted, at least in part, as the country's investment managers giving the government failing marks in fiscal discipline.

The trouble with most existing proposals for fiscal discipline are that they are either directed at the budget *process*, like the Balanced Budget Amendment, and imply all sorts of administrative problems, or they are directed at rewriting existing *programs*, which gets into all sorts of political problems. Nobody has yet come up with an easy-to-use procedure that is only concerned with the budget totals, not with specific programs. What we need is a proposal that operates in an even way on the outlay side of the budget, while not goring anyone's particular ox and not creating 19 new committees and two tons of new red tape a week.

I have such a modest proposal. My proposal is stolen from the ultimate practitioners of fiscal discipline, the international currency markets. In the currency markets, when one



country does a particularly bad job of handling its internal finances, the currency traders turn on the currency in question like piranha and savage its money. This is a way of containing the disease before it can spread to other countries and their monies.

This system also has the Calvinistic advantage of making those who were responsible for the problem pay for it by seeing their money shrink in buying power while still in their pockets. Eventually, this—like the two-by-four and the mule—encourages them to behave in a more responsible manner. In fact, it was just such a humiliating shellacking of the dollar in the fall of 1979 that gave Paul Volcker the religion to bring our inflation rate down to today's near-zero level.

I think we should apply the same logic to federal spending. We need a simple way to devalue the government's budget whenever Congress's appetite for programs gets beyond its ability to pay for them. For guidelines, it should be simple and quick, and it should make those who are responsible for excessive government spending, i.e., the special interest lobby groups, bear the brunt of any costs.

The answer is Budget Bucks (BBs)! I propose that we leave the tax side of the budget alone and continue collecting taxes more or less as we do now, with taxpayers sending real money to the Treasury Department which holds the money to pay its bills.

The difference is on the outlay side of the budget. I propose that anyone who gets paid from the government, whether for wages, for making tanks, or for doing nothing (welfare), will receive not real money, but budget bucks. Budget bucks are a special new kind of money used by the government to pay its bills, but which are *not*—repeat, *not*—legal tender in grocery stores, lumber yards, and liquor stores across the land. My design for budget bucks is shown in the accompanying illustration. They should be small. They should be red in color. And they should be engraved with Tip O'Neill's face.

If BBs are not legal tender, then how can anyone use them to pay their bills? Simple. Make the budget bucks convertible into real money at the local post office. By now, of course, you are saying to yourself, "Of course, the budget savings are obvious. Simply distribute all government outlays through the post office in the form of BBs. That way, the post office will surely lose at least 20% of the checks, and at least another 20% will be seriously delayed, resulting in a minimum savings of 40% of the federal budget in the first year." That is not, however, the savings I am writing about.

Then how does it help the budget deficit? Simply set the rate of exchange of BBs and real money at a level which varies day to day to accomplish the level of spending, when measured in real money, which exactly equals government revenues. That way, regardless of the number of grand government programs which are invented and installed by Congress, the federal budget, in real money, will always be in balance.

For example, if the government overpromises—known as overbooking in the airline industry—and spends two dollars

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for each one dollar it takes in as taxes (a situation which, in light of recent history, is not too far-fetched), then each BB brought to the post office will be worth only 50 cents. The Treasury buys back the BBs from the post office at the discount price and presto, the budget, in real money, is balanced. No budgeting problems, no constitutional conventions, no political maneuvering—just smaller budget bucks.

The flexibudget idea simply works like a reducing Xerox machine to deflate the outlay side of the budget by just enough to fit inside the available revenues of the government. This is nothing more than a way to make operative the "cut the coat to fit the cloth" rhetoric that we heard so much from President Reagan in 1981.

The budgeting benefits of the plan are apparent—the government would never borrow money again. In fact, by setting the balanced budget value of BBs at a slight discount, the Treasury could use the BB scheme to generate the revenues to pay off or amortize, the current amount of the national debt over whatever future period they wished. I know that paying off the national debt is a radical idea, last practiced by Treasury Secretary Andrew Mellon in the 1920s, but what the hell, as long as we're proposing solutions, let's not be timid.

The real payoff to my proposal is what it would do to political incentives. It would turn everyone living at the public trough into a fiscal conservative. In the current system all a special interest lobby cares about is whether they get the money they're after—they couldn't care less about the size and number of **other** government programs. After all, there is plenty of room for all at the public trough.

Under my proposal, every time a new program is laid on, the trough gets a little smaller for all the current dole-ites (those living on the dole). People receiving money from the government would have an active interest in using their influence to get Congress to spend less money on all programs *other* than their own. That's the only way they can be sure that the BBs they have lobbied so long and hard for will have any real money value when they cash them in.

For example, Social Security recipients will begin leaning on their congressmen to spend less on defense, defense contractors will begin leaning on their congressmen to spend less on welfare, and both will lean on their congressmen to reduce congressional pension payments. This turn in the political tables can only make the budget smaller—even when measured in BBs. Who knows, maybe the born-again anti-spending lobbies would be so effective that there would be a surplus in the BB budget. This would lead to a shortage of BBs, and the BB could be redeemed at a premium, an appropriate reward for the newfound fiscal virtue. In short, if some part of our current troubles stem from the remarkable effectiveness of the professional leaning community, then we can only be helped by rewriting the rules so that they spend at least some of their time working on our behalf.

The main opponents to my plan, of course, will be the members of Congress who, with a few notable exceptions, don't really give a damn about the budget problems. This is because my proposal would undermine the current system used to reward local constituents for their political support. (When H.L. Mencken said elections are the advance auction of stolen goods, he wasn't whistling Dixie.) The current system spreads the costs of excessive spending around to all the citizens in the form of higher prices on the things we buy and higher payments on our mortgages, which in a way makes it difficult to trace the blame back to the actions of specific members of Congress. In contrast, my proposal concentrates those costs and imposes them on those standing in line for government money.

A side benefit would be to make companies re-evaluate the desirability of doing business with the government, rather than with private citizens, due to the risks of being paid in budget bucks. And the same goes for those who are looking for jobs—jobs in private firms would look all that more attractive compared with government jobs. All in all, I can't see this as a drawback; those who found the BB exchange risk too much to bear could simply leave their government jobs and look for honest work. And I'm sure that before long someone would introduce a BB futures contract at the Board of Trade and the BB risk could be hedged in any case.

The idea, of course, is much too simple and effective ever to make it through Congress. But before you dismiss it out of hand, ask yourself what would happen to interest rates, commodity prices, and the dollar if my plan were adopted and there could never again be one dollar borrowed by the federal government. How would you like to live in a country with 4% mortgage rates again? I'd want to make sure I had the lumber and nail concession the day the proposal is adopted. ■