P.S. to the NEWS
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## THE CARTER BUDGET

The Carter budget provides abundant proof of the Milton Friedman thesis that what hurts the average American most is not so much federal deficit spending as the higher and higher levels of federal expenditures. The reduced federal deficit in the FY 1981 budget is not due to fiscal restraint or judicious pruning of wasteful expenditures, but to increased tax receipts swollen from inflation.

Under the Carter budget, the proportion of federal revenue to the Gross National Product will rise to 21.7 percent, the highest in our peacetime history. Federal expenditures in FY 1981 will rise to a mind-boggling $615.8 billion, and budget authority will expand to $696 billion.

When President Carter presented his 1981 budget, he boasted about the $15.8 billion deficit's being 60 percent lower than the Administration's estimate for the current fiscal year. However, he didn't reduce the deficit by slashing spending but by increasing taxes.

Total federal revenues will increase from $523.8 billion in 1980 to $600 billion in 1981, a 14.5 percent increase. Individual taxes will increase by $35.7 billion, nearly half of which is due to "tax bracket creep."

Social Security taxes will rise 15.5 percent from $162.2 billion in 1980 to $187.4 in 1981. Half of American taxpayers pay more Social Security taxes than income taxes. The "windfall profits tax" will net the federal government $13.9 billion in 1981.

Thus the Carter Administration opted for tax increases rather than tax cuts on the theory that a tax cut would be inflationary. What this means is that federal spending programs will be shielded from inflation while the taxpayers will have to assume the entire burden of the Administration's fiscal policy.

The Heritage Foundation, a private research organization, has calculated that government outlays will increase by nearly two percent in real terms over FY 1979-81.

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Real disposable income for most households, however, will decline. A family of four with one wage earner, for example, has suffered a real disposable income loss of $533 over 1977-81 in spite of tax cuts in 1977 and 1979.

It should never be forgotten that government is the one entity which profits from inflation. If there is such a thing in this world as real windfall profits, unearned, and unaccountable to anyone, it is the extra flow of revenues into the U.S. Treasury when inflation drives millions of American workers into a higher tax bracket.

Inflation thus conspires to shift private resources, spending and investment to public use. The way to redress this inequity is to cut taxes.

There is considerable evidence that a tax cut would promote economic efficiency as well as equity. We will not be able to increase our real income unless we increase our productivity and, unfortunately, it is going down instead of up, falling 1.6 percent during the last quarter of 1979.

A tax cut would increase productivity and thereby promote a higher standard of living, especially if it accelerates depreciation, lowers capital gains rates, and increases investment tax credit. Such tax cuts could do more than anything else to reduce the expected unemployment rates of 7.0 and 7.4 percent in 1980 and 1981.

We've heard a lot of rhetoric about the 5.4 percent increase in defense spending. That's not likely to scare the Russians, who have been spending 50 percent more than we have been spending.

The energy portion of the budget again reflects the Administration's policy to concentrate on conservation, technology that is far in the future such as solar energy, and big-spending programs such as mass transit (which would rise to $2.8 billion in the FY 1981 budget). It will take tax reductions to induce energy production, but that's apparently not the objective of the Carter Administration.

All in all, the Carter budget is a political document which spells more bad times and belt-tightening ahead, while federal spending programs go on and up.

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