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Government: More Incompetent than Ever

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Most intellectuals support big government, and millions of people depend on it. So why, with thousands of laws, millions of employees working to carry out those laws, and trillions of dollars spent, is it in trouble?

The most popular big-government programs—like Social Security, Medicare, and Medicaid—are going broke. These entitlements account for more than half of annual federal spending. In 2009, *spending on all federal entitlements exceeded all federal tax revenue*. As Cato Institute economist Richard W. Rahn explained, this means “virtually all of the other government spending programs, including defense and interest payments on the debt, will be funded by more borrowing.”

The escalation of spending for the entitlements is politically unstoppable because they're defended by powerful interest groups that benefit from them. These and other federal programs—guarantees for home mortgages, commercial bank deposits, credit union deposits, veterans benefits, import/export deals, student loans, and private and government-employee pension benefits—involve financial commitments that currently exceed \$70 trillion. In addition, more than \$12 trillion in U.S. Treasury debt is outstanding, much of which is held by Chinese and other foreign investors. Incredibly, President Barack Obama's administration risked a trade war with China by blocking Chinese imports, a political payoff for labor unions that had supported Obama during the 2008 presidential campaign, even though such action could complicate U.S. efforts to continue selling its debt.

For years, the government has spent more money than it has had. It's constantly going deeper into debt.

In spending all this money, members of Congress commonly don't read the bills they vote on. They keep passing more laws even though they have limited understanding of the effects of previous laws. Many laws are so complicated—over a thousand pages—that government officials themselves are among the most notorious violators. Government is bigger than anything else in our society and far more complicated than the derivatives and other toxic bank assets nobody knew how to value after the financial meltdown of 2008. Managing the federal government well is beyond the capability of any human being. It's beyond the capability of the 535 members of Congress. It's too big to succeed.

You Need a Form for That Form

One thing the federal government does as it gets bigger is require people to fill out more bureaucratic forms. In 1978 Congress passed the Government Paperwork Elimination Act, when it was estimated that people spent almost a billion hours a year filling out federal forms. Not surprisingly, a new federal bureaucracy—the General Services Administration's Forms Policy and Management Team—was established just to deal with federal forms. Creating, changing, or eliminating a form requires that somebody fill out a two-page SF152 form with 27 questions. For those who might have difficulty filling out the form, the government produced a 23-page booklet explaining how. Unfortunately, things don't seem to have been going well with the Forms Policy and Management Team. Now it's estimated that people spend about ten billion hours a year filling out some 8,000 different federal forms. Both political parties are responsible for the colossal waste of time that could have been used to create more growth and jobs. Republicans reportedly have excelled at multiplying the number of defense-related forms. Democrats have excelled at forms related to social spending. Obama's so-called stimulus bill authorized bureaucrats to churn out still more forms in an effort to determine where all the money went.

Taxing Forms

Perhaps the most aggravating forms have to do with taxes. The tax code has become hideously complex, a consequence of trying to extract trillions of dollars for social and

military spending and trying to do good through thousands of different tax breaks. Lindy L. Paull, who served as chief of staff for the Joint Committee on Taxation, told the Senate Finance Committee: "The Internal Revenue Code consists of nearly 1.4 million words and includes 693 separate sections that impact individual taxpayers. The Treasury Department has issued some 20,000 pages of regulations containing over 8 million words. Individual taxpayers who file an annual Form 1040 must deal with its 79 lines, 144 pages of instructions and 11 schedules totaling 443 lines plus instructions to go with them. There are 19 separate worksheets embedded in the Form 1040 instructions, and the possibility of filing numerous other forms, depending on the circumstances."

The U.S. Treasury has estimated that individuals, employers, and nonprofits spend more than six billion hours a year dealing with their taxes. This is the equivalent of full-time work by 2.8 million people—more people than are employed in the auto-manufacturing, petroleum-refining, electric-power generation, computer-hardware, computer-software, pharmaceutical, medical-devices, steel, and chemical industries combined. In addition to the cost of this time is the money spent for tax-planning and tax-accounting services, not counting the taxes themselves. All this is a stupendous waste of resources that would be better spent adding value to the economy.

Bloated Mass of Contradictions

Big government is a bloated mass of contradictions that often have unexpected, harmful consequences. Politicians scold citizens for consuming too much sugar, but the government provides subsidies for producing high-fructose corn syrup that's widely used in sodas, cookies, and other sweets. Government subsidizes farmers for growing crops and no crops at all. Government subsidizes homeownership and restricts the number of homes that can be built. Officials criticize business executives who take on too much debt, but government encourages debt by providing tax deductions for interest (but not for equity capital), and of course the government itself is deeper in debt than anybody else. Officials complain that companies invest so much money overseas, but the government imposes a 35 percent tax on earnings brought back to the United States. Officials bemoan our dependence on foreign oil, while restricting U.S. oil drilling. Businesses can be prosecuted for "predatory price cutting" if they charge too little, "price gouging" if they charge too much, and "price fixing" if they charge the same as their competitors. By providing billions of dollars of federal aid for attending college, the government subsidizes demand, which has had the effect of making college more expensive and more difficult to pay for than it otherwise would be. Officials promote the virtues of small, high-mileage cars, and they enforce laws that make it almost impossible to produce such cars profitably in the United States. There are laws that make it more difficult for employers to hire people and laws that provide income for the unemployed. Officials encourage more couples to get married, but there are higher taxes on married people than on single people, providing incentives not to get married. Officials say they want more doctors while enforcing laws that limit the number of students who can enter medical schools. Government probably does more than anyone else to cause health care inflation by channeling about a trillion dollars a year into that sector, enabling people to bid up prices—and then the government tries to limit health care price increases with rationing, such as excluding more treatments from Medicare.

Mismanaging the Economy

Politicians expanded the power of the federal government to watch over the economy, but this has backfired badly. President Woodrow Wilson and Congress established the Federal Reserve System to prevent economic catastrophes. After inflating, misguided Fed officials tried to limit what they viewed as excesses of the Roaring Twenties stock market boom, but they overplayed their hand and triggered the 1929 crash. Not realizing what they had done, they presided over a severe monetary contraction, a major cause of the Great Depression. President Franklin D. Roosevelt signed the 1935 Banking Act to centralize power at the Fed, and officials there soon stumbled again, doing much to bring on the depression within a depression of 1938. In 2002 Ben S. Bernanke, a governor of the Federal Reserve Board before becoming chairman, acknowledged the Fed's role in the Great Depression: "We did it. We're very sorry. We won't do it again."

Unfortunately, in the early years of this decade, Fed officials stumbled yet again. They promoted an easy money policy that had the effect of subsidizing borrowing. The apparent intention was to make sure the economy fully recovered from the dot-com

crash of 2000, but in the process they encouraged individuals and businesses to load up on debt, contributing to the bubble that burst in 2008.

Nobody has a crystal ball, certainly not Fed officials. They're always trying to make sense of conflicting and incomplete data. Naturally they focus on avoiding the mistakes made the last time around. They can't be sure what the effects of their policies will be in the future because it takes many months for them to play out through a large and complex economy. By the time Fed officials realize they have accelerated monetary expansion for too long, they're tempted to hit the brakes too hard, jolting the economy with a more severe recession. Fed officials are human and bound to make errors. Their vast power means that when errors occur they will harm not just a city or state or region. They will harm the entire country and beyond. Disastrous errors are an unavoidable risk of big government, which turns out to be a principal source of instability in our economy.

Government: Bad Business

We have been told that only government has enough resources to make our economy work, but it's too big to succeed. There's long experience with government-run businesses that don't work. They cannot control costs. When President Richard Nixon launched the government-run Amtrak passenger railroad system in 1970, he promised it would be profitable. Since then, however, it has hit taxpayers with 40 consecutive years (and counting) of losses amid soaring costs. Perhaps the most notorious government-run enterprise is the U.S. Postal Service, with its bloated workforce of some 800,000 unionized employees, declining mail volume, slower service, rising postal rates, annual losses in the billions, and some \$15 billion of debt.

Defense Department weapons development programs often run more than 70 percent over budget. The Government Accountability Office reported that the Defense Department "is not receiving expected returns on its investment in weapon systems. Our analysis does not show any improvements in acquisition outcomes as programs continue to experience increased costs and delays."

New York City's government-run betting parlors gross nearly \$1 billion a year but lose money and are more than \$40 million in debt. Former Mayor Rudolph Giuliani called it "the world's only bookie that loses money." Burdened by costly contracts with the United Food and Commercial Workers Union, the Washington State Liquor Control Board has struggled to avoid losses by enforcing a state-run liquor store monopoly that extorts above-market prices for booze—"price-gouging," as the practice is known. The Pennsylvania Liquor Control Board, which also enforces a state monopoly, has found it necessary to pay a consulting firm \$173,000 to give its sullen employees smiling lessons.

Letting the Poachers Run the Zoo

One has to wonder about Obama as he struggles for more power over the economy, since the government has had trouble running a zoo. Donald K. Nichols, a pathologist at the National Zoological Park in Washington, reported that "because of incompetence in management and veterinary medicine, the operations of the National Zoo have been in such a state of disarray that it has led to poor animal care, animal suffering, and even animal deaths."

Again and again hopes for big government turn out to be illusions. Reuters reported, "Within weeks of taking office, Obama rode to the rescue of homeowners resigned to financial ruin. Eight months later, the plan is plagued by delays and red tape. Just 17 percent of eligible borrowers have had their loans modified and monthly payments cut." Obama promoted the Cash for Clunkers program that promised to repay auto dealers who gave consumers \$4,500 for their trade-ins, but the federal government proved to be a notoriously slow payer, making it harder for cash-squeezed dealers to survive. Car sales dropped after the program ended. And of course Obama promoted government-run health insurance for all, even though government-run medical facilities have been rocked by scandals. Veterans have had to wait as long as 200 days for an appointment with a Veterans Administration doctor. The Cleveland Plain Dealer reported that mortality for heart surgery patients was significantly higher at VA hospitals than at private hospitals. In 2009 the VA notified more than 11,000 veterans in Florida, Georgia, and Tennessee that they might have been exposed to HIV or hepatitis because of unsterilized equipment used for colonoscopies. Apparently VA employees sterilized equipment once a day rather than after each procedure! The

result, of course, has been a flurry of lawsuits from veterans who claim they were infected by dirty equipment. In another scandal the VA agreed to a \$20 million settlement because its sloppy security procedures jeopardized the confidentiality of medical records for more than 26 million veterans.

The more money government spends, the more it wastes. Politicians spend other people's money, and it's no secret that no one is as careful with other people's money as he is with his own. Medicaid was started in 1965 to provide medical care for poor people, and spending skyrocketed. It reached \$1 billion within a year, \$6 billion in five years, and exceeds \$300 billion annually now, but often the money doesn't seem to buy very much. New York State has the most costly Medicaid program, yet a quarter of the most needy patients with chronic illnesses must wait a year to see a doctor, and two-thirds of these people end up in an emergency room. Overall, tens of billions of dollars of Medicaid funds are believed to be lost each year because of fraud that government employees seem unable or unwilling to stop. Some Medicaid doctors submit bills suggesting that they work as much as 24 hours a day. Medicaid has paid the cost of prescribing drugs for dead people. When fraud is discovered, government employees can't be counted on to recover much. An Ohio Medicaid enforcement agency accepted \$409 to settle a \$500,000 overbilling case that involved an ambulance service. The same agency accepted a \$155,000 settlement from speech therapy centers that had improperly billed Medicaid for \$3.4 million. A Florida Medicaid enforcement agency didn't know what happened to \$133,000 in fines it claimed to have collected from various violators.

In an effort to enhance their prospects for reelection, members of Congress spend other people's money on all kinds of crazy things that might appeal to key constituents. For instance: \$1.7 million for research to find out why pigs smell; \$800,000 for oyster rehabilitation in Mobile, Alabama; \$7 million for Hawaiian sea turtles; \$400,000 for the American Treasures Program, to save the Iowa home of cosmetics pioneer Carl Weeks; \$238,000 for the Polynesian Voyaging Society; \$1.9 million for the Pleasure Beach water taxi service; \$4.8 million for various research projects about wood, including one on "the technology for laminated veneer lumber"; \$1.35 million for the Obesity in the Military Research Program; \$500,000 for the Sparta Teapot Museum; \$1 million for the Waterfree Urinal Conservation Initiative; and \$13.5 million for the International Fund for Ireland, which financed the World Toilet Summit. There are about 10,000 such wasteful projects in each federal budget. None of them serve the general interest.

Political power tends to corrupt. As long as trillions of dollars flow through the federal government every year, corruption will flow like the mighty Amazon. There are some 35,000 registered lobbyists in Washington, and the *Washington Post* reports that "half the former members of Congress are lobbyists." Entertainment industry lobbyist Hilary Rosen spoke candidly about influence peddling: "When I gave \$1,000 or \$2,000 to a lawmaker, I wanted him to listen to my business proposition. And when I helped organize an event that raised \$50,000 or \$100,000, you bet I expected their vote. Why else do it? Members of Congress are *consumed* with raising money for their re-elections (or if they have a safe seat, they raise money to give to colleagues to increase their internal power). Anyone, including lobbyists, who lessens that anxiety, is considered a better friend than those who don't. No lobbying reforms will change that fact."

Duke Cunningham, a Republican congressman from California and a member of the Defense Appropriations Subcommittee, was among those who cashed in until he was caught. He accepted \$2.3 million in bribes to help win more than \$230 million of defense contracts for his pals.

Someday, perhaps sooner than we think, people will contemplate the wreckage of big government and wonder what ever gave anybody the idea that it could possibly be our salvation.

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