



# Backgroundnder

## Executive Summary

No. 1622

February 12, 2003

## TEN GUIDELINES FOR REDUCING WASTEFUL GOVERNMENT SPENDING

*BRIAN M. RIEDL*

Weary taxpayers are looking to President George W. Bush and Congress to reduce the tax burden and set a course toward a balanced budget. The President has already proposed a bold plan to reduce the high tax rates currently weighing down the economy, and an overhaul of the 44,000-page U.S. federal tax code may also be proposed. Lower tax rates will reduce barriers to working, saving, and investing, and therefore promote long-term economic growth.

Taxing Americans less also means that Washington must learn to spend less. Lawmakers courageously restrained spending in the mid-1990s but have since abandoned fiscal responsibility in favor of bloated budgets that assume there is no problem bigger government cannot solve. For example:

- Washington will spend \$782 billion more from 2000 to 2003 than it did between 1996 and 1999—an increase of \$5,000 per household.
- At more than \$73,000 per household, 2000–2003 will become the highest-spending four-year period in American history, with the exception of World War II.
- Contrary to popular opinion, new defense spending comprises just 21 percent of the \$782 billion spending increase. Massive spending

increases for farm subsidies, education, health research, unemployment benefits, and dozens of small, lower-priority programs are collectively adding more new spending than defense.

- For the first time since the earliest days of the Great Society in the 1960s, discretionary spending is growing even faster than entitlement programs.
- These record spending increases have taken place even though the government's net interest payments on the national debt in 2000–2003 will cost \$247 billion less than they did between 1996 and 1999.

All government spending—even that financed by borrowing—must eventually be paid for with taxes. The real cost of government therefore is how much it *spends*, not how much it taxes. The lesson is clear:

---

Produced by the  
Thomas A. Roe Institute for  
Economic Policy Studies

Published by  
The Heritage Foundation  
214 Massachusetts Ave., NE  
Washington, DC  
20002-4999  
(202) 546-4400  
<http://www.heritage.org>



This paper, in its entirety, can be  
found at: [www.heritage.org/  
research/budget/bg1622.cfm](http://www.heritage.org/research/budget/bg1622.cfm)

---

*Over the long run, low taxes are possible only with low spending.*

Tax reduction is not the only reason to take a fresh look at federal spending. Many government programs harm the economy because they centralize authority with politicians and bureaucrats in Washington at the expense of entrepreneurs and families. Non-deserving interests use government to secure benefits and perks that private individuals and businesses would not otherwise provide them.

**Time to Be Bold.** Congress's last serious attempt to reduce wasteful spending occurred in 1995 and 1996, when the 104th Congress terminated several programs whose irrelevance was proven by how quickly they were forgotten. But Congress then committed several strategic errors, such as overreaching and shutting down the federal government in 1995. After President Bill Clinton deftly exploited these mistakes, budget cutters overreacted to Clinton's tactics by completely abandoning the mission of smaller government. Federal spending subsequently skyrocketed as a paralyzed Congress decided that budget confrontations with the Clinton White House could never be won and should be avoided at all costs.

In 2003, reducing wasteful spending is more important than ever. Defense, homeland security, and expensive entitlements are stretching the federal government thin while a high tax burden is weighing down the economy. Yet, although President Clinton is no longer in office and budget-cutting strategies have improved, Congress and (albeit to a lesser extent) President Bush still maintain a reflexive fear of attacking wasteful spending.

It is time to step back and think about the role of government, the obligations of the private sector, and the delineation between federal and state responsibilities. For those interested in lean, effective government with low taxes, here are 10 guidelines for reducing wasteful spending:

1. **Build** a constituency for limited government and lower taxes.
2. **Turn** local programs back to the states.
3. **Privatize** activities that could be better performed by the private sector.
4. **Terminate** irrelevant programs and reform wasteful programs.
5. **Terminate** corporate welfare and other mistargeted programs.
6. **Consolidate** duplicative and contradictory programs.
7. **Convert** several remaining programs into vouchers.
8. **Terminate** programs rather than trimming or phasing them out.
9. **Utilize** the "ideas industry" for specific proposals.
10. **Remove** procedural barriers to saving taxpayer dollars.

**Conclusion.** Difficult times present opportunities for leaders to chart a new course. During World War II, President Franklin Roosevelt reduced non-defense spending by 36 percent to save resources. Policymakers funded the Korean War by immediately reducing non-defense spending by 25 percent. Now, in 2003, defense, homeland security, and expanding entitlements are placing enormous demands on taxpayers and on the economy. Congress and the President should seize this opportunity to refocus the federal government on the programs that matter most. In the end, a government that attempts to do everything will do nothing well.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

## TEN GUIDELINES FOR REDUCING WASTEFUL GOVERNMENT SPENDING

*BRIAN M. RIEDL*

Weary taxpayers are looking to President George W. Bush and Congress to reduce the tax burden and set a course toward a balanced budget. The President has already proposed a bold plan to reduce the high tax rates currently weighing down the economy, and an overhaul of the 44,000-page U.S. federal tax code may also be proposed. Lower tax rates will reduce barriers to working, saving, and investing, and therefore promote long-term economic growth.

Taxing Americans less also means that Washington must learn to spend less. Lawmakers courageously restrained spending in the mid-1990s but have since abandoned fiscal responsibility in favor of bloated budgets that assume there is no problem bigger government cannot solve. For example:<sup>1</sup>

- Washington will spend \$782 billion more from 2000 to 2003 than it did between 1996 and 1999—an increase of \$5,000 per household. (See Charts 1 and 2.)
- At more than \$73,000 per household, 2000–2003 will become the highest-spending four-year period in American history, with the exception of World War II. (See Table 1.)

- Contrary to popular opinion, new defense spending comprises just 21 percent of the \$782 billion spending increase. Massive spending increases for farm subsidies, education, health research, unemployment benefits, and dozens of small, lower-priority programs are collectively adding more new spending than defense.
- For the first time since the earliest days of the Great Society in the 1960s, discretionary spending is growing even faster than entitlement programs.
- These record spending increases have taken place even though the government's net interest payments on the national debt in 2000–2003

---

Produced by the  
Thomas A. Roe Institute for  
Economic Policy Studies

Published by  
The Heritage Foundation  
214 Massachusetts Ave., NE  
Washington, DC  
20002-4999  
(202) 546-4400  
<http://www.heritage.org>



---

This paper, in its entirety, can be  
found at: [www.heritage.org/  
research/budget/bg1622.cfm](http://www.heritage.org/research/budget/bg1622.cfm)

---

1. All figures are adjusted for inflation and set in 2001 dollars. See Brian M. Riedl, "How Washington Increased Spending by Nearly \$800 Billion in Just Four Years," Heritage Foundation *Backgrounder* No. 1581, September 4, 2002, at <http://www.heritage.org/Research/Budget/BG1581.cfm>.

will cost \$247 billion *less* than they did between 1996 and 1999.

All government spending—even that financed by borrowing—must eventually be paid for with taxes. The real cost of government therefore is how much it *spends*, not how much it taxes. The lesson is clear: *Over the long run, low taxes are possible only with low spending.*

Tax reduction is not the only reason to take a fresh look at federal spending. Many government programs harm the economy because they centralize authority with politicians and bureaucrats in Washington at the expense of entrepreneurs and families. Non-deserving interests use government to secure benefits and perks that private individuals and businesses would not otherwise provide them.

## TIME TO BE BOLD

Congress's last serious attempt to reduce wasteful spending occurred in 1995 and 1996, when the 104th Congress terminated several programs whose irrelevance was proven by how quickly they were forgotten. But Congress then committed several strategic errors, such as overreaching and shutting down the federal government in 1995. After President Bill Clinton deftly exploited these mistakes, budget cutters overreacted to Clinton's tactics by completely abandoning the mission of smaller government. Federal spending subsequently skyrocketed as a paralyzed Congress decided that budget confrontations with the Clinton White House could never be won and should be avoided at all costs.

In 2003, reducing wasteful spending is more important than ever. Defense, homeland security, and expensive entitlements are stretching the federal government thin while a high tax burden is weighing down the economy. Yet, although President Clinton is no longer in office and budget-cutting strategies have improved, Congress and (albeit to a lesser extent) President Bush still maintain a reflexive fear of attacking wasteful spending.

It is time to step back and think about the role of government, the obligations of the private sector,

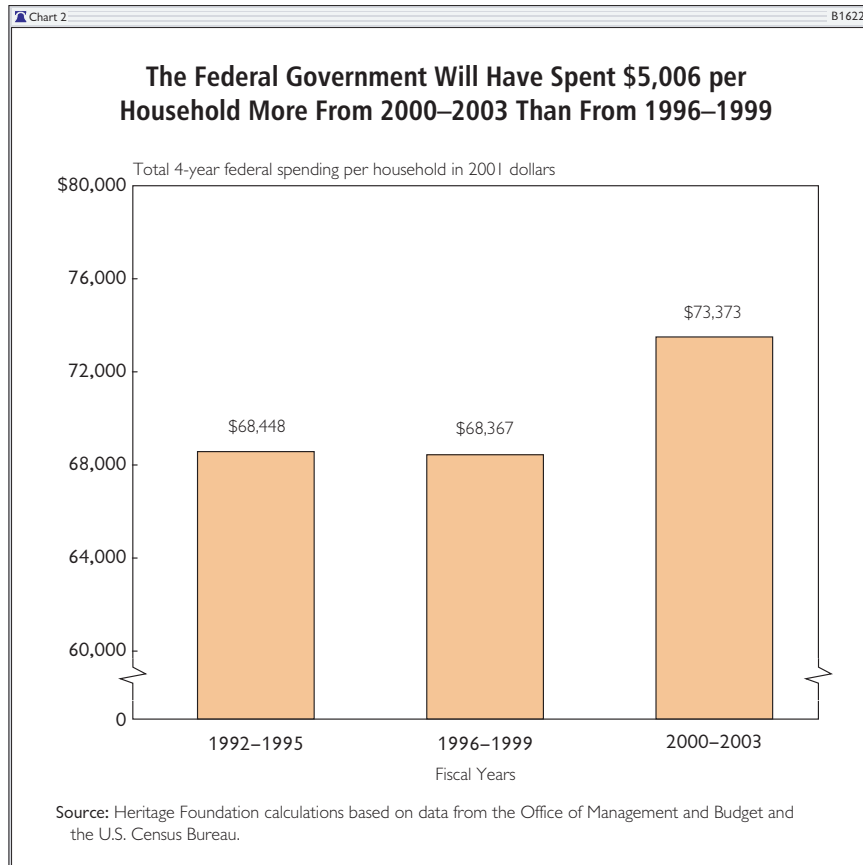
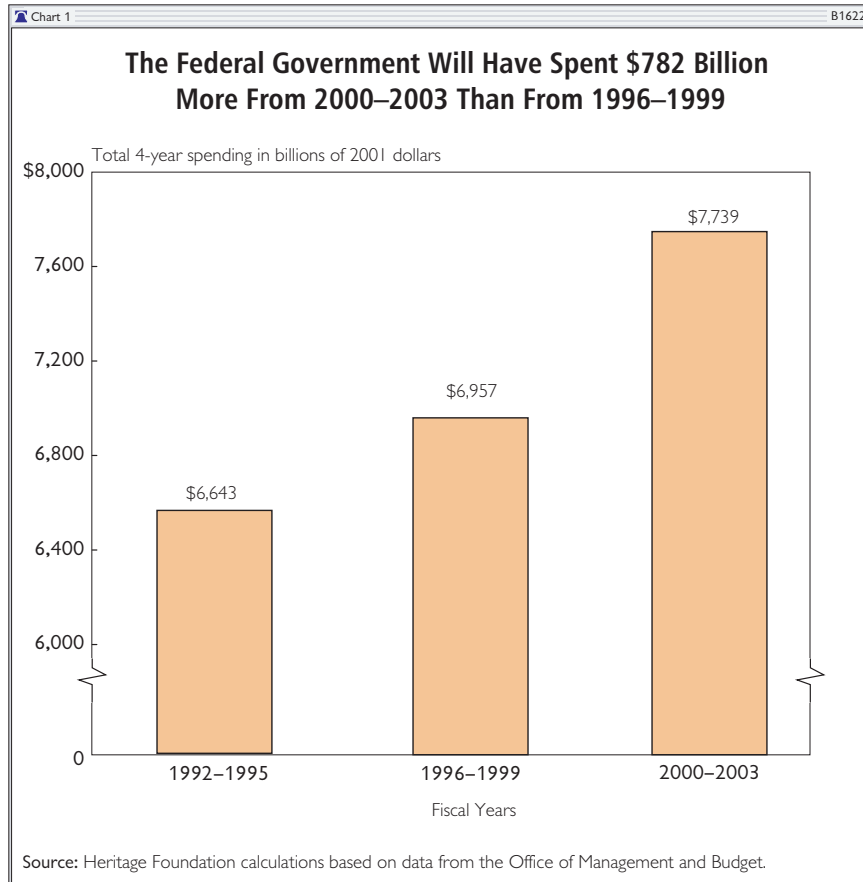
Rank	Period	Total Federal Spending per Household
1	1943–1946	\$85,130
2	1942–1945	83,337
<b>3</b>	<b>2000–2003</b>	<b>73,373</b>
4	1999–2002	71,218
5	1998–2001	69,425
6	1944–1947	69,242

and the delineation between federal and state responsibilities. For those interested in lean, effective government with low taxes, here are 10 guidelines to eliminate wasteful spending:

### 1. Build a constituency for limited government and lower taxes.

Interest groups are always ready to defend their special-interest subsidies. But taxpayers rarely fight this wasteful spending because they do not believe they will ever see the savings. Policymakers can organize taxpayers in opposition to wasteful spending by linking specific reforms and spending reductions to specific tax cuts, such as legislation to:

- **Terminate** corporate welfare and use the savings for capital gains and business tax cuts;
- **Reduce** outdated and duplicative programs and use the savings to reduce income taxes across the board;
- **Privatize** federal corporations by offering current public employees stock options at below-market prices;
- **Commercialize** air traffic control duties and privatize airports, targeting the savings to airline security; and
- **Devolve** programs to states while alleviating federal mandates and reducing federal taxes.



Congress should create an independent commission that would present Congress with a list of *all* duplicative, wasteful, outdated, and failed programs that should be eliminated—and earmark all savings to an immediate across-the-board income tax cut.<sup>2</sup> The legislation would not be amendable, so members could not preserve their own special-interest programs. This is how the federal government handled military base closings in the 1990s. When faced with the clear decision between funding outdated government programs and reducing the tax burden, most taxpayers will encourage their representatives to let them keep more of their own money.

## 2. Turn local programs back to the states.

Only the federal government can handle national defense, international relations, and the administration of federal laws. But why should politicians in Washington decide what roads are built in Appleton, Wisconsin? Or what community development projects are undertaken in St. Louis, Missouri? Or how education dollars are spent in Cheyenne, Wyoming?

The federal government taxes families, subtracts a hefty administrative cost, and then sends the remaining tax revenues back to the state and local governments—with specific rules dictating how they may and may not spend the money. In that sense, the federal government is merely an expensive middleman, contributing little more than meddling mandates that constrain the flexibility that state and local governments need to address their own issues creatively.

No distant bureaucrat in Washington, D.C., can know what policies are best for every state and locality. One-size-fits-all federal mandates rarely succeed as well as flexible programs designed by state and local officials who are closer to the people affected. Moreover, legislators have little incentive to design programs that work beyond their home constituencies.

State and local governments, which often consider federal grants “free money,” also lack sufficient incentives to spend this money well because they did not have to extract the taxes themselves (many seem to forget the high federal taxes that local residents paid for this “free money”). Consequently, local officials rarely object to federal grants for unnecessary projects.

Few local governments, for example, would consider taxing their own residents to fund the following pork-barrel projects found in the 2003 federal budget:<sup>3</sup>

- \$82,500 for Hawaiian Monk Seals;
- \$489,000 for swine waste management in North Carolina;
- \$661,000 for Alaskan Groundfish Surveys;
- \$225,000 for hoop barns in Iowa;
- \$750,000 for Walla Walla basin habitat; and
- \$400,000 to create an urban village at the Asian Pacific Community Center in St. Paul, Minnesota.

These projects merely build on the \$20 billion spent on more than 8,000 similar programs in fiscal year 2002, including:

- \$273,000 to help Blue Springs, Missouri, combat teenage “Goth culture”;
- \$1,500,000 for a statue of the Roman god Vulcan in Birmingham, Alabama;
- \$1,000,000 for an “Intelligent Transportation” grant for Moscow, Idaho—population 22,000;
- \$50,000 to fund a tattoo removal program in San Luis Obispo County, California;
- \$26,000 to study how thoroughly Americans rinse their dishes; and
- \$4,572 to Las Vegas Helicopters (LVH), which performs airborne weddings officiated by Elvis Presley impersonators, as part of the post–September 11 package of aid to airlines.

2. During the 107th Congress, Senator Sam Brownback (R–KS) and Representative Todd Tiahrt (R–KS) offered S. 2488 and H.R. 5090 to establish such a commission.

3. For more examples of pork-barrel spending, see the Heritage Foundation’s appropriations watch, at <http://www.heritage.org/Research/Features/Appropriations/index.cfm>. Also, see Ronald Utt and Christopher Summers, “Can Congress Be Embarrassed into Ending Wasteful Pork-Barrel Spending?” Heritage Foundation *Backgrounder* No. 1527, March 15, 2002, at <http://www.heritage.org/research/budget/bg1527.cfm>.

### How the \$20 Billion Spent Annually on Pork Could Otherwise Be Allocated

- **Provide** a \$1,000 refundable health care tax credit to 20 million uninsured Americans;
- **Reduce** income taxes by an average of \$200 per household;
- **Phase out** the alternative minimum tax over 10 years;
- **Fund** all current operations of the war on terrorism;
- **Fund** one-third of the cost of a war to disarm Saddam Hussein;
- **Purchase** three new aircraft carriers as well as 112 new F/A-18 Hornet fighters; or
- **Put** three air marshals on every American commercial flight, purchase 10,000 CTX-5000 explosion detection systems for airports, hire 4,000 new customs agents, and hire 4,000 new border patrol agents.

The federal government can promote accountability, flexibility, and local control by eliminating many of the mandates on how state and local governments address their own issues, and by letting them raise their own revenues and create their own programs without meddling from Washington, D.C. Specifically, Congress should:

- **Turn back** the federal gas tax, as well as all federal highway and mass transit spending, to the states;
- **Devolve** federal housing programs to state and local governments and cut federal strings on how the programs are operated;
- **Transfer** economic development programs, such as Community Development Block Grants, Appalachian Regional Commission, Denali Commission, and Tennessee Valley Authority, back to the regions that best know how to address their local economies;
- **Send** job training programs back to the states;
- **Devolve** Bureau of Reclamation and Army Corps of Engineers projects to state and regional authorities;
- **Allow** states flexibility and control over their own education programs;

- **Send** the Superfund program to the states and allow local flexibility in deciding how to clean contaminated sites;
- **Turn back** law enforcement grant programs to the states;
- **Devolve** the Natural Resources Conservation Service to the states;
- **Transfer** the Institute of Museum Services and Library Sciences to the states;
- **Send** the Neighborhood Reinvestment Corporation to the cities it affects; and
- **Eliminate** the practice of earmarking federal funds for local projects.

### 3. Privatize activities that could be performed better by the private sector.

Over the past two decades, nations across the globe have reaped the benefits of privatization, which empowers the private sector to carry out functions that had been performed by the government. In the 1980s, British Prime Minister Margaret Thatcher saved taxpayers billions of dollars and improved the British economy by privatizing utilities, telecommunications, and airports. More recently, the former Soviet Union and China have seen the promise of privatization. The United States, however, has been uncharacteristically timid in recent years.

There is little economic justification for the government's running businesses that the private sector can run itself. Even when there is a compelling reason for government to regulate or subsidize businesses, it can do so without seizing ownership of them. Government failures are often larger than market failures; and anyone who has dealt with the post office, lived in public housing, or visited the local Department of Motor Vehicles understands how wasteful, inefficient, and unresponsive government can be.

Furthermore, government ownership crowds out private companies and encourages protected entities to take unnecessary risks. After promising profits, government-owned businesses frequently lose billions of dollars—and leave the taxpayers to foot the bill.

Entrenched opposition to privatization, which comes mostly from interest groups representing government monopolies, has been overcome else-



where by (1) working with government unions and relevant interest groups to design privatization proposals; (2) offering low-cost stock options to current employees; and (3) assuring a transparent, open bidding process.

Candidates for privatization are numerous. Congress should:<sup>4</sup>

- **Sell** the remaining Power Marketing Administrations through a stock offering;
- **Privatize–commercialize** Air Traffic Control operations and fund with user fees;
- **Terminate** airport grants and privatize airports;
- **Shift** energy conservation research and development to the private sector;
- **Require** that the Corporation for Public Broadcasting fully fund itself as all other television networks do;
- **Privatize** the Saint Lawrence Seaway Development Corporation;
- **Allow** government agencies to accept bids on government printing jobs instead of having to use the Government Printing Office (GPO);
- **Privatize** the debt-ridden United States Postal Service through an employee stock option plan;
- **Shift** the National Agricultural Statistics Service to the private sector;
- **Sell** Amtrak through a stock offering;
- **Privatize** Aerospace Technology Research and Development;
- **Sell** many of the federal government's 1,200 civilian aircraft and 380,000 non-tactical, non-postal vehicles;
- **Shift** the Energy Information Agency's duties to the private sector; and
- **Privatize** the Architect of the Capitol.

Government-owned enterprises are not the only candidates for privatization. In 2001, taxpayers were on the hook for the federal government's \$242 billion in outstanding direct loans and \$1,084 bil-

lion in outstanding guaranteed loans. Government loans typically undercut the financial services industry, which has sufficient resources to provide loans to businesses and individuals.

Even worse, government often serves as a lender of last resort to organizations that private banks do not consider qualified for loans, and the low-cost nature of government loans encourages recipients to take unnecessary risks with their federal dollars. Consequently, a high percentage of federal loans are in default, and taxpayers were saddled with \$20 billion in direct loan write-offs and guaranteed loan terminations in 2001.<sup>5</sup> Therefore, Congress should:

- **Begin selling** government direct loan programs and create new loan guarantees for agencies such as those of the Rural Utilities Service, Small Business Administration, Export–Import Bank, and Rural Housing Service.

#### **4. Terminate irrelevant programs and reform wasteful programs.**

President Ronald Reagan once pointed out that “a government bureau is the closest thing to eternal life we'll ever see on earth.” A large portion of the current federal bureaucracy was created during the 1900s, 1930s, and 1960s in attempts to solve the unique problems of those eras.

Instead of replacing the outdated programs of the past, however, each period of government activism has layered new programs on top of them. Ford Motor Company would not waste money today by building outdated Model T's alongside their current Mustangs and Explorers. Yet in 2003, the federal government still refuses to close down old agencies such as the Rural Utilities Service (designed to bring phones to rural America) and the U.S. Geological Survey (created to explore and detail the nation's geography).

Government must be made light and flexible, adaptable to the new challenges the country will face in the 21st century. Weeding out the failed and outdated bureaucracies of the past will free resources to modernize the government.

4. Many of these policy proposals, as well as others throughout this paper, were inspired by Scott Hodge and John Barry, “How Washington Wasted Your Money in the 1995 Appropriations Bills,” Heritage Foundation *Backgrounder* No. 1008, October 28, 1994.

5. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2003: Analytical Perspectives*, pp. 209–210.



**Status Quo Bias.** Lawmakers often acknowledge that certain programs show no positive effects. Unfortunately, they also refuse to terminate even the most irrelevant programs. The most obvious reason for this timidity is a cautious aversion to fighting the special interests that refuse to let their pet programs end without a bloody fight.

A less obvious reason is that eliminating government programs seems reckless and bold to legislators who have never known of a federal government without them. Although thousands of programs have come and gone in the nation's 227-year history, virtually all current programs were created before most lawmakers came to Washington. For legislators budgeting and implementing the same familiar programs year after year, a sense of permanency sets in, and termination seems unfathomable.<sup>6</sup> No one even remembers when a non-government entity addressed the problems.

The Department of Energy has existed for just one-tenth of the nation's history, yet closing it down seems ridiculous to those who cannot remember the federal government before 1977 and for whom appropriating and overseeing the department has been an annual ritual for years. Lawmakers need a long-term perspective to assure them the sky does not fall when a program gets terminated. For example, the Bureau of Mines and the U.S. Travel and Tourism Administration, both closed in 1996, are barely remembered today.<sup>7</sup>

Instead of just assuming that whoever created the programs decades ago must have been filling some important need that probably exists today, lawmakers should focus on the future by asking themselves the following question: "If this program did not exist, would I vote to create it?" Because the answer for scores of programs would likely be "no," Congress should:

- **Close down failed and outdated agencies and programs.**
  - **Terminate** the U.S. Geological Survey;
  - **Close down** the Maritime Administration;
  - **Abolish** the International Trade Commission;
  - **Close down** the Economic Development Administration;
  - **End** the Low-Income Home Energy Assistance Program;
  - **Close down** the Rural Utilities Service; and
  - **Repeal** P.L. 480's non-emergency international food programs.
- **End low-priority programs that should never have been created in the first place.**
  - **Terminate** the Conservation Reserve Program;
  - **Disband** the Commission of Fine Arts;
  - **End** the Historic Whaling and Trading Partners Exchange Program;
  - **Eliminate** the Office of Navajo and Hopi Relocation;
  - **Shut down** AmeriCorps;
  - **Defund** the National Endowment for the Humanities;
  - **Disband** the Marine Mammal Commission;
  - **Close down** the East–West Center;
  - **Shut down** the Legal Services Corporation;
  - **End** the protectionist programs of the International Trade Administration;
  - **Defund** the State Justice Institute;
  - **Disband** the National Commission on Libraries and Information Science;

6. Daniel Kahneman, a winner of the 2002 Nobel Prize for Economics, refers to the tendency to value what we possess much more than what we do not possess as the "endowment effect." For example, people may be indifferent to what mug they purchase but, once owning it, will not be willing to sell that mug for any less than several times the price paid for it. The endowment effect explains why people will not part with personal items that they know they will never use. It also helps explain why people who are indifferent to creating a government program will nonetheless fight to preserve it later. The stress of giving something up (or terminating a program) is much greater than the joy of acquiring it (or creating a program). See Daniel Kahneman, Jack Knetsch, and Richard Thaler, "The Endowment Effect, Loss Aversion, and Status Quo Bias: Anomalies," *Journal of Economic Perspectives*, Vol. 5, No. 1 (1991), pp. 193–206.

7. For other terminated programs long since forgotten, see Ronald D. Utt, "A Progress Report on Closing Unneeded and Obsolete Independent Federal Agencies," Heritage Foundation *Backgrounder* No. 1072, March 13, 1996, at <http://www.heritage.org/research/governmentreform/bg1072.cfm>.

### Old Agencies and Programs Not Designed for the 21st Century

- U.S. Customs Service: created in 1789
- Army Corps of Engineers: 1802
- U.S. Department of the Interior: 1849
- Government Printing Office: 1860
- U.S. Department of Agriculture: 1862
- U.S. Geological Survey: 1879
- Cooperative State Research Service: 1888
- Bureau of Reclamation: 1902
- U.S. Department of Commerce: 1903
- Immigration and Naturalization Service: 1906
- Naval Petroleum Reserves: 1912
- U.S. Department of Labor: 1913
- Agricultural Extension Service: 1914
- U.S. Coast Guard: 1915
- National Park Service: 1916
- Davis–Bacon Act: 1931
- Tennessee Valley Authority: 1933
- Export–Import Bank: 1934
- Natural Resource Conservation Service: 1935 (as Soil Conservation Service)
- Rural Utilities Service: 1935 (as Rural Electrification Administration)
- Social Security: 1935
- Power Marketing Administrations: 1937

- **Eliminate** the U.S. Institute of Peace;
- **Defund** the National Endowment for the Arts; and

- **Eliminate** most of the 945 federal advisory committees and commissions spread across 52 agencies.<sup>8</sup>

Congress must also provide stronger financial management oversight for federal programs, which are losing billions of dollars every year from mismanagement. The following examples of inexcusable waste make a convincing case for reform:

- The federal government cannot account for \$17.3 billion spent in 2001.<sup>9</sup>
- The U.S. General Accounting Office (GAO) refuses to certify the federal government's own accounting books because the bookkeeping is so poor.
- Twenty-one of the 26 departments and major agencies received the lowest possible rating for their financial management, meaning that auditors cannot even express an opinion on their financial statements.<sup>10</sup>
- The Medicare program pays as much as eight times the cost that other federal agencies pay for the same drugs and medical supplies.<sup>11</sup>
- The federal government made \$20 billion in overpayments in 2001.
- Medicare overpayments totaled \$12.1 billion in 2001.
- The Department of Housing and Urban Development's \$3.3 billion in overpayments in 2001 accounted for over 10 percent of the department's total budget.<sup>12</sup>
- The food stamp program pays approximately \$1.3 billion per year in overpayments.
- The Department of Agriculture recently was unable to account for \$5 billion in receipts and expenditures.

8. For the frequently updated numbers of federal advisory committees and commissions, see <http://fido.gov/facadatabase/rptgovtstats.asp>.

9. The federal government calls this spending "unreconciled transactions." See the U.S. Department of the Treasury, *2001 Financial Report of the United States Government*, p. 110, at <http://www.fms.treas.gov/fr/>.

10. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2003*, pp. 48–50.

11. Testimony of Janet Rehnquist, Inspector General, U.S. Department Health and Human Services, before the Senate Appropriations Subcommittee on Labor, HHS, and Education, June 12, 2002, at <http://oig.hhs.gov/testimony/docs/2002/020611fin.pdf>.

12. "OMB Says U.S. Overpaid \$20 Billion to Health Providers, Others, in 2002," Bureau of National Affairs, *Daily Report for Executives*, June 3, 2002.

- The Internal Revenue Service does not even know how much it collects in payroll taxes.<sup>13</sup>
- Congressional investigators were able to receive \$55,000 in federal student loan funding for a fictional college they created to test the U.S. Department of Education.<sup>14</sup>
- The Army Corps of Engineers has been accused of illegally manipulating data to justify expensive but unnecessary public works projects.<sup>15</sup>
- Over one recent 18-month period, Air Force and Navy personnel used government-funded credit cards to charge at least \$102,400 for admission to entertainment events, \$48,250 for gambling, \$69,300 for cruises, and \$73,950 for exotic dance clubs and prostitutes.<sup>16</sup>

### 5. Terminate corporate welfare and other mistargeted programs.

There is no justification for taxing waitresses and welders to subsidize *Fortune* 500 CEOs. Mistargeted programs, such as \$85 billion in annual corporate welfare spending, come in many forms—direct payments, low-cost loans or insurance, subsidized services—but they all provide these services to special interests that are neither entitled to nor in need of such assistance.

These programs harm the economy. Operating subsidies and loans to private businesses overtax productive sectors of the economy and redistribute that money to less productive sectors, based on the fallacy that it will somehow create jobs. Programs subsidizing start-up companies represent a misguided attempt by government to pick the market's winners and losers.

In addition, research subsidies for profit-seeking businesses (which already have an incentive to fund their own profitable research) merely displace private research funding with taxpayer funds; and emergency grant and loan programs encourage businesses to take irrational risks with the assur-

ance that taxpayers will cover any losses. Congress therefore should:

- **Eliminate direct corporate welfare payments.**
  - **End** farm subsidies, three-quarters of which go to the wealthiest 10 percent of farms;
  - **Close down** the Minority Business Development Agency;
  - **Eliminate** the Small Business Administration;
  - **Terminate** the Overseas Private Investment Corporation;
  - **Shut down** the Trade and Development Agency;
  - **Eliminate** the Market Access Program;
  - **Close down** the Export–Import Bank;
  - **Repeal** the Davis–Bacon and Service Contract Acts; and
  - **Terminate** the Essential Air Service Program.
- **Stop funding research that directly benefits private industry.**
  - **Eliminate** the Advanced Technology Program;
  - **End** the Manufacturing Extension Partnerships;
  - **Shut down** the Cooperative State Research, Education and Extension Service;
  - **Close down** the Agricultural Research Service; and
  - **Terminate** Department of Energy research grants that displace private research funding.
- **Enact user fees that recover all the costs of programs with identifiable users.**
  - **Require** farmers to pay a larger portion of their crop insurance premiums;

13. “Government at the Brink: Urgent Federal Government Management Problems Facing the Bush Administration,” Senate Governmental Affairs Committee, June 2001, p. 26.

14. Associated Press, “GAO Sting Targets Lax Student Loan Oversight,” January 21, 2003.

15. Michael Grunwald, “How Corps Turned Doubt into a Lock,” *The Washington Post*, September 13, 2002.

16. U.S. General Accounting Office, *Travel Cards: Air Force Management Focus Has Reduced Delinquencies, but Improvements in Controls Are Needed*, GAO–03–298, December 20, 2002, p. 4, and *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse*, testimony before House Government Reform Committee, GAO–03–148T, October 8, 2002, p. 8.

- **Raise** flood insurance premiums on repeatedly flooded lands; and
- **Impose** user fees on commodity futures and options contract transactions and use the money to help finance the Commodity Futures Trading Commission.
- **Reform other programs unfairly targeted to the wrong recipients.**
  - **Restrict** federal housing assistance to those with the greatest need;
  - **Stop** providing substantially more federal aid to Howard University than other private universities;
  - **Limit** Congress's franking privilege to non-election years to prevent taxpayer funding of campaign mailings; and
  - **Verify** parent income of school lunch recipients, as 20 percent of current school lunch participants are ineligible due to high family incomes.

## 6. Consolidate duplicative and contradictory programs.

Government's layering of new programs on top of old ones inherently creates duplication. Having several agencies perform similar duties creates administrative waste and confuses program beneficiaries who must navigate each program's distinct rules and requirements.

A small degree of overlap is inevitable. Some agencies are defined by *whom* they serve (veterans, Native Americans, urbanites, rural families), while others are defined by *what* they provide (housing, education, health care, economic development). So when these agencies' constituencies overlap, as they do in veterans housing or rural economic development, each relevant agency will often have its own program. With 342 separate economic development programs, the federal government needs to make consolidation a priority.

Consolidating duplicative programs will save money and improve government service. Merging related block grants will give states better flexibility to target their funds. The new Department of

### 2003 Federal Spending: Exactly How Much Is \$2.1 Trillion?

- More than the annual gross domestic product of South America;
- More than the federal government spent in its first 178 years *combined*, from 1789 to 1966;
- Requires that most people work until March 21 each year just to pay their federal taxes;
- Washington spends more per second (\$67,000) than most households earn over an entire year;
- \$7,241 per American;
- \$20,056 per household;
- \$690,108,446 per county;
- \$41,176,470,588 per state; and
- In \$1 bills, it would stack halfway to the moon, weigh 10 times as much as the Sears Tower, and blanket the entire state of New Jersey.

Homeland Security provides one example of a successful consolidation of separate agencies and programs. A recently announced consolidation of the 22 different federal payroll systems into just two will save \$1.2 billion over the next decade. At the state level, governors such as Virginia's Mark Warner are proposing consolidations that will save hundreds of millions of dollars.

Except for those that should be eliminated altogether, Congress should consolidate the following sets of programs:<sup>17</sup>

- 342 economic development programs;
- 130 programs serving the disabled;
- 130 programs serving at-risk youth;
- 90 early childhood development programs;
- 75 programs funding international education, cultural, and training exchange activities;
- 72 federal programs dedicated to assuring safe water;
- 50 homeless assistance programs;

17. Examples compiled from "Government at the Brink: Urgent Federal Government Management Problems Facing the Bush Administration," Senate Governmental Affairs Committee, June 2001, and U.S. General Accounting Office, *Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap*, GAO/AIMD-97-146, August 1997.

- 45 federal agencies conducting federal criminal investigations;
- 40 separate employment and training programs;
- 28 rural development programs;
- 27 teen pregnancy programs;
- 26 small, extraneous K–12 school grant programs;
- 23 agencies providing aid to the former Soviet Union;
- 19 programs fighting substance abuse;
- 17 trade agencies monitoring 400 international trade agreements;
- 12 food safety agencies;
- 11 principal statistics agencies; and
- 4 overlapping land management agencies.

### **7. Convert several remaining programs into vouchers.**

Government programs should not be bloated bureaucracies shepherding recipients into one-size-fits-all programs. Voucher programs, which allow individuals to purchase goods and services on the open market rather than receiving them from the government, have two distinct advantages:

- **Choice.** Instead of having to take what a bureaucracy gives them, vouchers allow program recipients to shop around and find the goods and services that fit their needs.
- **Efficiency.** Providing health insurance or housing vouchers is much less costly to government than the construction and maintenance of government-owned housing or hospitals. Competition among private firms for vouchers will bring about lower prices than government monopolies.

Some policymakers believe that low-income individuals cannot be trusted to make intelligent economic decisions with their vouchers, implying condescendingly that government employees know best how to run the lives of poor families. Those worrying that private markets could not accommodate the influx of voucher-wielding families fail to

recognize that vouchers *create* markets by strengthening demand and thereby inducing new supply.

Food stamps provide the model for a successful voucher program.<sup>18</sup> Instead of building a bureaucracy to grow and distribute government food to low-income families, the program simply provides families with vouchers to purchase food themselves. Housing vouchers that subsidize private rent costs have proven better for low-income families than dilapidated, dangerous public housing. Most child-care programs subsidize the private facilities parents choose instead of forcing them into government-run facilities. Federal student loan programs exist as a type of education vouchers.

Vouchers can provide choice without bureaucracy in many other areas. Medicare and Medicaid could be made more like the Federal Employees Health Benefits Program (FEHBP), in which federal employees choose between competing private health plans with the federal government subsidizing the premium. Congress could provide school vouchers to families in Washington, D.C. More public housing programs can be replaced with rent vouchers.

### **8. Terminate programs rather than trimming them or phasing them out.**

Budget cutters often commit the tactical error of settling for small reductions or lengthy phase-outs of obsolete programs instead of immediately terminating them. They mistakenly believe that securing small program reductions now will allow them to come back and cut the program more next time.

But leaving obsolete programs in place simply creates an opportunity for future Congresses to restore funding. Furthermore, retaining the programs leaves the bureaucracy in place and allows it to enlist interest groups in a counteroffensive against spending reductions. The old line that “those attacking the throne had better kill the king on the first shot” applies to government programs as well.

In the 1980s, President Reagan successfully terminated only 12 of the 94 programs he proposed eliminating. Congress would often block the terminations by negotiating slight reductions and

18. Although food stamp overpayments are a problem, the program still provides more choice and efficiency than it would if it were providing government-grown food.

lengthy phase-outs, waiting a few years for the President's focus to shift elsewhere and then restoring the programs to their original funding.<sup>19</sup> Similarly, members of the 104th Congress who proposed ending federal subsidies to programs such as AmeriCorps and the Corporation for Public Broadcasting were persuaded to settle for slight spending reductions and a promise to cut more later—and the budgets of those programs have since rebounded to all-time highs.

One must never assume that spending reductions today will be followed up with additional reductions later. Retaining a program means retaining a bureaucracy dedicated to self-preservation, interest groups dedicated to aiding the bureaucracy, and a budget line item that Congress can easily attach a larger number to next year.

### **9. Utilize the “ideas industry” for specific proposals.**

Those seeking specific proposals to reduce wasteful spending have several options available:

- The Congressional Budget Office (CBO) periodically releases a “Budget Options” book containing more than 200 specific reforms that would reduce more than \$100 billion in wasteful spending, complete with justifications and savings estimates.
- The General Accounting Office conducts hundreds of studies each year on wasteful and under-performing federal programs. The GAO also often releases a “Budgetary Implications of Selected GAO Work” for the current fiscal year, which is a book similar to CBO’s “Budget Options,” detailing hundreds of specific, implementable ways to reduce waste.
- The Government Performance and Results Act (GPRA) requires that agencies lay out specific multi-year goals to improve performance and reduce waste, and to report regularly on their progress toward these goals. Together with Inspector General (IG) reports, GPRA reports show Congress which programs are failing in their missions.

- Think tanks such as The Heritage Foundation, the Cato Institute, and Citizens Against Government Waste release hundreds of studies each year showing how to save taxpayer dollars.

The President should try to eliminate wasteful programs in his budget. Legislators should also examine every line item in the President’s budget appendix and terminate programs lacking sufficient explanations or justifications.

### **10. Remove procedural barriers to saving taxpayer dollars.**

The federal budget process contains several procedural biases that make it difficult to restrain spending. Congress can create an environment conducive to fiscal responsibility if it will:<sup>20</sup>

- **Allow trade-offs between mandatory and discretionary spending.** PAYGO rules that cover mandatory spending and tax legislation forbid any trade-offs with discretionary spending. Thus, Congress is forbidden from financing tax cuts through discretionary spending reductions, or even transferring money across mandatory and discretionary programs. These restrictions unnecessarily tie the hands of Congress and make it more difficult to reduce wasteful spending. After PAYGO’s temporary Senate renewal expires in April, Congress should create a new system of budget caps that incorporates both discretionary and mandatory spending and allows all trade-offs.
- **Move mandatory spending into the appropriations process.** Only the one-third of spending that is classified as discretionary is subject to the appropriations process every year. The two-thirds classified as mandatory is left to grow uncontrollably from year to year without regular oversight. Thus, the budget process denies legislators an opportunity to set annual spending and tax priorities with all programs on the table.
- **Require congressional votes to block rescissions.** Presidential rescission requests, which would cancel previously appropriated budget

19. See Scott Hodge and John Barry, “The 10 Percent ‘Revolution:’ House Spending Bills Fall Short of Overhauling Government,” Heritage Foundation *Backgrounder* No. 1053, September 14, 1995.

20. For a more detailed look at budget process reform, see Brian M. Riedl, “A Comprehensive Proposal to Fix the Broken Federal Budget Process,” forthcoming from the Heritage Foundation.

authority, must be approved by both the House and Senate to take effect. Congress can block rescissions either by voting them down or by refusing to schedule a vote on them all. A positive reform would require Members of Congress actually to vote down the rescissions they oppose. Rescission proposals not voted down by at least one full body of Congress within 45 days would go forward. Supporters of questionable spending would no longer be able to avoid going on the public record with their position.

- **End baseline budgeting.** This accounting method adjusts for inflation, new enrollees, and increased benefits when projecting future program costs and then defines a “cut” as any spending increase that does not incorporate all of those expenses. If a program’s baseline calls for a 10 percent spending increase, lawmakers voting for increases as high as 9 percent are accused of *cutting* the program’s budget. Smaller increases may not satisfy the spending appetites of some, but they are *not* cuts. Lawmakers should not have the bar raised to a level where they must vote for massive increases to avoid the impression of cutting.
- **Avoid accounting tricks.** Shifting expenditures from the last day of one fiscal year to the first day of the next creates an illusion of fiscal disci-

pline, not any real relief. Moving programs off budget, enacting advanced appropriations, and labeling regular spending as “emergency” to circumvent budget rules all keep government bloated and taxes high. Long-term budget blueprints that delay most spending reductions until the final years should be viewed with suspicion.

## CONCLUSION

Difficult times present opportunities for leaders to chart a new course. During World War II, President Franklin Roosevelt reduced non-defense spending by 36 percent to save resources. Policymakers funded the Korean War by immediately reducing non-defense spending by 25 percent.

In 2003, defense, homeland security, and expanding entitlements are placing enormous demands on taxpayers and on the economy. Congress and the President should seize this opportunity to refocus the federal government on the programs that matter most. In the end, a government that attempts to do everything will do nothing well.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.