

Background

No. 2483
October 28, 2010



Published by The Heritage Foundation

How to Cut \$343 Billion from the Federal Budget

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Abstract: *Federal spending is on an unsustainable path that risks disaster for America. Runaway spending has increased annual federal budget deficits to unprecedented levels, adding \$2.7 trillion to the national debt in the past two years alone. Each year's huge federal deficit increases the mountain of national debt borrowed from future generations of Americans. Congress needs to cut federal spending sharply and quickly. This paper sets forth \$343 billion in available spending cuts.*

Over the past two years, Congress has added \$2.7 trillion to the national debt, including a record \$1.4 trillion deficit for fiscal year (FY) 2009 and a \$1.3 trillion deficit for FY 2010.¹ If Congress does nothing and simply continues existing taxing and spending policies, federal deficits will grow, reaching a projected \$2 trillion deficit in just 10 years—and even that assumes a return to peace and prosperity.²

America cannot live with such deficits interminably. Deficits mortgage the livelihoods of future generations of Americans and ultimately put U.S. economic growth, stability, and reliability at risk.

Soaring spending drives these dangerous deficits. By 2020, federal spending is set to soar to 26 percent of the gross domestic product (GDP), after having averaged 20 percent after World War II. Revenues will likely return to their post-World War II average of 18 percent of GDP by 2020, even if the 2001 and 2003 tax cuts are made permanent.³ Thus, given current spending and taxing policies, spending is clearly the

Talking Points

- Federal spending is out of control, putting America on a path that invites economic disaster.
- Skyrocketing federal spending has contributed to budget deficits of \$1.4 trillion for FY 2009 and \$1.3 trillion for FY 2010. Projected spending is expected to push the annual deficit to nearly \$2 trillion by 2020.
- Soaring spending, not tax cuts or the lack of revenue, is driving these long-term deficits. Revenues are set to rebound to their historical average, yet spending is set to rise by 6 percent of GDP above its historical average by the end of the decade.
- Federal entitlement programs—Social Security, Medicare, and Medicaid—and interest on the national debt will drive future deficits. To control spending, Congress must promptly and carefully decide how best to reduce entitlement costs.
- Yet entitlement reforms will take time. To reduce the federal deficit, Congress must start with major cuts to spending now.

This paper, in its entirety, can be found at:
<http://report.heritage.org/bg2483>

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

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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variable that drives up the deficits.⁴ To reduce deficits, Congress must cut spending.

The costs of federal entitlement programs—Social Security, Medicare, and Medicaid—and interest on the national debt will drive future deficits, and Congress must promptly and carefully decide how best to reduce those costs. However, entitlement reforms will take time, and spending cuts cannot wait. Congress needs to start cutting spending now.

Table 1 sets forth \$343 billion in available spending cuts for the new Congress to consider when it takes up the federal budget for FY 2012. Many of the cuts fall into six areas:

- **Empowering state and local governments.** Congress should focus the federal government on performing a few duties well and allow the state and local governments, which are closer to the people, to creatively address local needs in areas such as transportation, justice, job training, and economic development.
- **Consolidating duplicative programs.** Past Congresses have repeatedly piled duplicative

programs on top of preexisting programs, increasing administrative costs and creating a bureaucratic maze that confuses people seeking assistance.

- **Privatization.** Many current government functions could be performed more efficiently by the private sector.
- **Targeting programs more precisely.** Corporate welfare programs benefit those who do not need assistance in the American free enterprise system. Other programs often fail to enforce their own eligibility requirements.
- **Eliminating outdated and ineffective programs.** Congress often allows the federal government to run the same programs for decades, despite many studies showing their ineffectiveness.
- **Eliminating waste, fraud, and abuse.** Taxpayers will never trust the federal government to reform major entitlements if they believe that the savings will go toward “bridges to nowhere,” vacant government buildings, and Grateful Dead archives.⁵

1. U.S. Department of the Treasury, “Final Monthly Treasury Statement of Receipts and Outlays of the United States Government: For Fiscal Year 2010 Through September 30, 2010, and Other Periods,” October 2010, at <http://www.fms.treas.gov/mts/mts0910.pdf> (October 27, 2010). Each year’s deficits are a record in nominal dollars and higher than any year since World War II as a share of the economy.
2. See Brian M. Riedl, “The Three Biggest Myths About Tax Cuts and the Budget Deficit,” Heritage Foundation *Background* No. 2423, June 21, 2010, at <http://www.heritage.org/Research/Reports/2010/06/The-Three-Biggest-Myths-About-Tax-Cuts-and-the-Budget-Deficit>. Absent a return to peace and prosperity, the projected deficit for FY 2020 would be higher. The deficits for FY 2009 and FY 2010 reflect the net result of increased federal spending, including war costs, and decreased federal revenues, including decreases due to reduced national economic activity.
3. See Riedl, “The Three Biggest Myths About Tax Cuts and the Budget Deficit.”
4. Cuts to spending will not harm economic recovery. Harvard economist Alberto Alesina recently showed that any effects of government spending would actually reduce economic growth. Alberto Alesina and Silvia Ardagna, “Large Changes in Fiscal Policy: Taxes Versus Spending,” revised October 2009, at http://www.economics.harvard.edu/faculty/alesina/files/Large%2Bchanges%2Bin%2Bfiscal%2Bpolicy_October_2009.pdf (October 27, 2010). See also Daniel J. Mitchell, “The Impact of Government Spending on Economic Growth,” Heritage Foundation *Background* No. 1831, March 15, 2005, at <http://www.heritage.org/research/budget/bg1831.cfm>, and Brian M. Riedl, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” Heritage Foundation *Background* No. 2354, January 5, 2010, at <http://www.heritage.org/Research/Economy/bg2354.cfm>.
5. Brian M. Riedl, “50 Examples of Government Waste,” Heritage Foundation *WebMemo* No. 2642, October 6, 2009, at <http://www.heritage.org/Research/Budget/wm2642.cfm>.

Table 1: Spending Cuts for FY 2012

(in millions of dollars)

Agriculture

- \$15,000 Replace farm subsidies with Farmer Savings Accounts and improved crop insurance.
- \$2,033 Eliminate the Foreign Agriculture Service.
- \$1,500 Merge all four agriculture outreach and research agencies and cut their budget in half.
- \$1,000 Fund the Food Safety and Inspection Service with user fees.

Commerce

- \$500 Eliminate business subsidies from the National Institute of Standards and Technology.

Community Development

- \$6,000 Eliminate the Community Development Block Grant program.
- \$598 Eliminate the Rural Utilities Service.
- \$523 Eliminate the Economic Development Administration.
- \$480 Eliminate NeighborWorks America (formerly the Neighborhood Reinvestment Corporation).
- \$200 Consolidate the Rural Housing and Development Programs and convert them into block grants.
- \$73 Eliminate the Appalachian Regional Commission.
- \$48 Eliminate the Denali Commission.
- \$31 Eliminate the Minority Development Business Agency.
- \$8 Eliminate the Delta Regional Authority.

Education

- \$8,000 Return Pell Grants to their 2009 funding level of \$24 billion, which is still double the 2007 level.
- \$2,000 Trim Head Start by \$2 billion and convert it into vouchers.
- \$2,000 Scale back the Education Department bureaucracy.
- \$1,500 Eliminate dozens of small and duplicative education grants.
- \$298 Eliminate state grants for Safe and Drug-Free Schools and Communities.

Energy and the Environment

- \$6,500 Reduce energy subsidies for commercialization and some research activities.
- \$600 Block grant and devolve Environmental Protection Agency grant programs.
- \$200 Restructure the Power Marketing Administrations to charge market-based rates.
- \$63 Eliminate the Science to Achieve Results Program.

Government Reform

- \$44,000 Halve federal program payment errors by 2012, especially by reducing Medicare errors and earned income tax credit errors. Tighten oversight by spending \$5 billion on new resources, such as updated computer systems, and then recover \$49 billion in payment errors.
- \$20,000 Rescind unobligated balances after 36 months.
- \$12,500 Halve the \$25 billion spent to maintain vacant federal properties.
- \$10,000 Cut the federal employee travel budget to \$4 billion (half of FY 2000 spending).
- \$3,000 Freeze federal pay until it can be reformed.
- \$1,000 Suspend acquisition of federal office space.
- \$600 Trim the federal vehicle fleet by 20 percent (a reduction of 100,000 vehicles).

- \$300 Cut the House and Senate budgets back to the 2008 level of \$2.2 billion.
- \$215 Eliminate the Presidential Election Campaign Fund.
- \$100 Tighten controls on federal employee credit cards and cut down on delinquencies.
- \$70 Require federal employees to fly coach on domestic flights.

Health Care

- \$6,200 Reform Medigap.
- \$5,000 Repeal Obamacare (larger savings in later years).
- \$3,700 Require Medicare home health co-payments.
- \$673 Eliminate the Maternal and Child Health Block Grant.
- \$414 Eliminate Health Professions grants.
- \$327 Eliminate Title X Family Planning.
- \$150 Eliminate the National Health Service Corps.
- \$98 Repeal Rural Health Outreach and Flexibility grants.

Homeland Security

- \$2,700 Eliminate most homeland security grants to states and allow states to finance their own programs.

Income Security

- \$500 Better enforce eligibility requirements for food stamps.

Interior

- \$1,500 Open the coastal plain of the Arctic National Wildlife Refuge to leasing. (The savings are leasing revenues, which are classified as negative spending in the federal budget.)
- \$200 Suspend federal land purchases.

International

- \$2,636 Eliminate the Development Assistance Program.
- \$625 Eliminate the State Department's education and cultural exchange programs.
- \$321 Eliminate the International Trade Administration's trade promotion activities or charge the beneficiaries.
- \$183 Eliminate the Democracy Fund.
- \$68 Eliminate the International Trade Commission and transfer oversight of intellectual property rights to the Treasury Department.
- \$56 Eliminate the Trade and Development Agency.
- \$29 Eliminate the Overseas Private Investment Corporation.
- \$19 Eliminate the East–West Center.
- \$17 Eliminate the United States Institute of Peace.
- \$2 Eliminate the Japan–United States Friendship Commission.

Justice

- \$7,334 Eliminate all Justice Department grants except those from the Bureau of Justice Statistics and the National Institute of Justice, thereby empowering states to finance their own justice programs.
- \$398 Eliminate the Legal Services Corporation.
- \$32 Eliminate the Justice Department's Community Relations Service.
- \$30 Eliminate the duplicative Office of National Drug Control Policy.
- \$26 Reduce funding for the Justice Department's Civil Rights Division by 20 percent because of its policy against race-neutral enforcement of the law.
- \$4 Eliminate the State Justice Institute.

Labor

- \$4,300 Eliminate failed federal job training programs.
- \$2,000 Eliminate the ineffective Job Corps.
- \$576 Eliminate the Senior Community Service Employment Program.

National Science Foundation

- \$1,700 Reduce National Science Foundation funding to 2008 levels.
- \$86 Eliminate National Science Foundation spending on elementary and secondary education.

Transportation

- \$45,000 Devolve the federal highway program and most transit spending to the states.
- \$1,900 Privatize Amtrak.
- \$1,009 Eliminate grants to large and medium-sized hub airports.
- \$554 Eliminate the Maritime Administration.
- \$125 Eliminate the Essential Air Service Program.

Treasury

- \$26,646 Eliminate the additional child refundable credit.
- \$103 Eliminate the Community Development Financial Institutions Fund.

Veterans

- \$2,500 Cap increases in Department of Veterans Affairs health care spending.
- \$1,930 Reduce Veterans' Disability Compensation to account for Social Security Disability Insurance payments.

Cross-Agency and Other

- \$60,000 Repeal unspent stimulus spending.
- \$8,000 Switch to using the "Superlative CPI" in funding calculations.
- \$6,000 Repeal the Davis-Bacon Act.
- \$2,250 Eliminate Federal Communications Commission funding for school Internet service.
- \$2,000 Ban project labor agreements on all federally funded construction projects.
- \$1,000 Eliminate the Small Business Administration, which unnecessarily intervenes in free markets.
- \$736 Eliminate the National Community Service programs, such as AmeriCorps.
- \$253 Eliminate the Institute of Museum Services and Library Services.
- \$140 Eliminate the National Endowment for the Humanities.
- \$133 Eliminate the National Endowment for the Arts.
- \$61 Eliminate Army Corps of Engineers funding for beach replenishment projects.
- \$10 Eliminate the Commission of Fine Arts.
- \$8 Eliminate the National Capital Planning Commission.
- \$5 Eliminate the Advisory Council on Historic Preservation.

Total

\$343,207 million

Implementing the \$343 billion in recommended cuts listed in Table 1 would reduce the deficit by somewhat less than \$343 billion because some recommendations would also reduce tax revenues. For example, devolving the federal highway program to states would also mean devolving the gas tax, and repealing the Patient Protection and Affordable Care Act (Obamacare)⁶ would repeal its tax increases.

Conclusion

Almost all of the proposed cuts in federal spending will provoke strong objections from constituencies that benefit from having Members of Congress give them taxpayer money taken from someone

else. Yet the difficulties caused by each of these cuts should be measured against the status quo option of doubling the national debt over the next decade, risking an economic crisis, and drowning future generations in taxes.

Governing involves difficult choices, and Congress simply cannot continue to court long-term disaster for all merely to avoid short-term difficulties for some.

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6. Public Law 111–148, as amended by Public Law 111–152.

APPENDIX**ADDITIONAL READING ON SPENDING RECOMMENDATIONS**

1. Congressional Budget Office, *Budget Options*, Vol. 1, *Health Care*, December 2008, at <http://www.cbo.gov/doc.cfm?index=9925> (October 19, 2010).
2. Congressional Budget Office, *Budget Options*, Vol. 2, August 2009, at <http://www.cbo.gov/doc.cfm?index=10294> (October 19, 2010).
3. Brian M. Riedl, “50 Examples of Government Waste,” Heritage Foundation *WebMemo* No. 2642, October 6, 2009, at <http://www.heritage.org/Research/Reports/2009/10/50-Examples-of-Government-Waste>.
4. Republican Study Committee, “A Balanced Budget for America,” May 2010, at http://rsc.tomprice.house.gov/UploadedFiles/RSC_FY11_BUDGET_BOOKLET—FINAL.pdf (October 19, 2010).
5. Paul Weinstein Jr. and Katie McMinn Campbell, “Return to Fiscal Responsibility II,” Progressive Policy Institute *Policy Report*, April 2007, at http://www.ppionline.org/documents/Fiscal_Responsibility_04302007.pdf (October 19, 2010).
6. Scott A. Hodge, ed., *Balancing America’s Budget* (Washington, D.C.: The Heritage Foundation, 1997).
7. Brian M. Riedl, “How to Get Federal Spending Under Control,” Heritage Foundation *Backgrounder* No. 1733, March 10, 2004, at <http://www.heritage.org/Research/Reports/2004/03/How-to-Get-Federal-Spending-Under-Control>.
8. David B. Muhlhausen, “Why Would COPS 2.0 Succeed When COPS 1.0 Failed?” Heritage Foundation *WebMemo* No. 1903, April 28, 2008, at <http://www.heritage.org/Research/Reports/2008/04/Why-Would-COPS-20-Succeed-When-COPS-10-Failed>.
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10. Robert E. Moffit, “The Prospects for Ending Obamacare: Learning from Health Policy History,” Heritage Foundation *Backgrounder* No. 2424, June 21, 2010, at <http://www.heritage.org/Research/Reports/2010/06/The-Prospects-for-Ending-Obamacare-Learning-from-Health-Policy-History>.
11. Matt A. Mayer, “An Analysis of Federal, State, and Local Homeland Security Budgets,” Heritage Foundation *Center for Data Analysis Report* No. CDA09–01, March 9, 2009, at <http://www.heritage.org/Research/Reports/2009/03/An-Analysis-of-Federal-State-and-Local-Homeland-Security-Budgets>.
12. Ronald Utt, “Will a Bigger Role for States Improve Transportation Policy Performance?” in Wendell Cox, Alan Pisarski, and Ronald D. Utt, eds., *21st Century Highways* (Washington, D.C.: The Heritage Foundation, 2005).