

Fulfilling Your Budget Reform Promise of a Net Spending Cut

A Memo to President-elect Obama

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I'm cutting more than I'm spending so that it will be a net spending cut.

—Barack Obama,
Second Presidential Debate,
October 7, 2008¹

We are going to go through our federal budget, as I promised during the campaign, page by page, line by line, eliminating those programs we don't need and insisting that those that we do need operate in a sensible, cost-effective way.

—Barack Obama,
announcement of OMB Director
nominee, November 25, 2008²

PRESIDENT-ELECT OBAMA, you campaigned on fiscal discipline and the need to make tough choices. Although your budget blueprint specifies large new spending hikes, you also promised a cumulative “net spending cut.”

While announcing the nomination of Peter Orszag to head the Office of Management and Budget, you expanded on your fiscal discipline pledge by stating that “budget reform is not an option. It’s a necessity,” and that federal budgeting would require “tough choices. There are just going to be some programs that simply don’t work and we’ve got to eliminate them.” You added that a strong reason for selecting Mr. Orszag is that he “doesn’t need a roadmap to know where the bodies are buried in the federal budget” and would be able to go through the federal budget “page by page, line by line.”³

Virtually all Presidents promise to rein in spending, but few succeed because every dollar of government spending—no matter how wasteful—will be strongly defended by its recipient as well as by the lawmakers who annually fund that spending. Thus, for you to restrain spending, you must not only identify lower-priority spending, but also spend political capital to enact your proposed reforms.

The following guidelines can help you fulfill your pledge for a net spending cut.

- **Take the pledge seriously.** Given the massive spending increases promised—including a stimulus bill rumored to cost as much as \$700 billion—it would be easy to disregard your promise of a net spending cut.⁴ Yet lawmakers are already using the recession as an excuse to dust off old spending wish lists and dubiously call them “stimulus” bills. With the 2009 projected budget deficit already approaching \$1 trillion, additional “stimulus” spending would be unaffordable, not to mention ineffective in rescuing the economy.⁵

In this rush to expand government, cooler heads must prevail. Priority-setting and trade-offs are more important than ever, and your promise of a net spending cut must stand in the way of an unaffordable spending hike.

- **Define “net spending cut.”** Campaign promises are often based on slippery rhetoric and accounting, so it is important to define “net spending cut” precisely and publicly. During the October 7, 2008, presidential debate, you stated that “I’m cutting more than I’m

spending so that it will be a net spending cut.” However, annual federal spending hikes can be either legislated (Congress and the President decide to expand a program) or automatic (entitlement program budgets grow on autopilot). Would you merely prevent legislated spending hikes while keeping the rest of the budget growing on autopilot, or would you truly prevent all net spending hikes?

Other questions arise. Should spending growth be measured in nominal dollars, in inflation-adjusted dollars, or as total spending as a percentage of the economy? Would you count discretionary spending, entitlement spending, or both? Do net interest payments on the national debt count in the spending totals? Which years are covered by this promise: next year only or across your first term?

You should simply define “net spending cut” as what it means in layman’s terms to the millions of Americans who heard your pledge: Washington spending fewer total nominal dollars next year than this year. Any redefinition would justifiably be seen by many voters as nothing more than another misleading campaign promise.

- **Cut farm subsidies.** The first place to look for spending offsets should be farm subsidies—America’s largest corporate welfare program.⁶ You have already criticized a farm policy that granted \$49 million to ineligible wealthy farmers in recent years,⁷ but the utter ridiculousness of U.S. farm policy does not end there. Taxpayers spend \$25 billion annually on farm subsidies, the majority of which are granted to commercial farmers, who also report an average income of \$200,000 and an average net worth of \$2 million. There is no excuse for taxing waiters and welders to fund corporate welfare payments to a booming industry.

In addition to costing Americans \$25 billion in taxes, farm subsidies raise food prices by \$12

1. CNN, “Transcript of Second McCain, Obama Debate,” October 7, 2008, at <http://www.cnn.com/2008/POLITICS/10/07/presidential.debate.transcript>.

2. “President-elect Obama Third Press Conference Transcript,” *Chicago Sun-Times*, November 25, 2008, at http://blogs.suntimes.com/sweet/2008/11/presidentelect_obama_third_pre.html#more.

3. *Ibid.*

4. It is worth noting that the pledge of a “net spending cut” was made on October 7, 2008—after the collapse of Fannie Mae and Freddie Mac, the subsequent financial collapse, and the enactment of a \$700 billion rescue package. Thus, the classic claim that “new circumstances” trump earlier campaign promises does not apply here.

5. Brian M. Riedl, “Why Government Spending Does Not Stimulate Economic Growth,” Heritage Foundation *Backgrounder* No. 2208, November 12, 2008, at <http://www.heritage.org/Research/Budget/bg2208.cfm>.

6. The farm policy information in this section comes from Brian M. Riedl, “How Farm Subsidies Harm Taxpayers, Consumers, and Farmers, Too,” Heritage Foundation *Backgrounder* No. 2043, June 20, 2007, at <http://www.heritage.org/Research/Agriculture/bg2043.cfm>.

7. “President-elect Obama Third Press Conference Transcript.”

billion annually. Environmental damage results from farmers overplanting crops to maximize subsidies. By undermining America's trade negotiations, subsidies raise consumer prices and restrict U.S. exports. Cotton subsidies undercut African farmers, keeping them in desperate poverty. And as *The Omnivore's Dilemma* author Michael Pollan has written, farm subsidies contribute to obesity, rising health care costs, and early death by subsidizing corn and soy, from which sugars and fats are derived, rather than more healthful fruits and vegetables.

Over 90 percent of all farm subsidies goes to growers of just five crops: wheat, cotton, corn, soybeans, and rice. Just as producers of fruits, vegetables, beef, and poultry currently thrive without subsidies, so can other farmers. You should eliminate most farm subsidies and replace them with crop insurance and farmers' savings accounts to smooth out yearly fluctuations in farm income.

- **Reform entitlement programs.** Entitlements consume 60 percent of the federal budget. They are growing nearly 7 percent annually on autopilot, and the recession costs of unemployment benefits, Medicaid, and food stamps may push that growth rate even higher.⁸ On top of these growing entitlement costs, you have pledged an expensive expansion of the Medicare drug entitlement as well as large spending increases to expand government health care coverage. Such expansions could push annual entitlement spending growth to 10 percent or even 15 percent. This is clearly unsustainable.

The simple fact is that if you are to deliver on your promise to reduce spending, you must tackle these programs. With the first of 77 million baby boomers entering retirement, you must reform Social Security, Medicare, and Medicaid before they overwhelm the federal budget. You could also apply work requirements to more antipoverty programs, which would both save money and help low-income families rise out of poverty.

8. Brian M. Riedl, "Federal Spending by the Numbers: 2008," Heritage Foundation *WebMemo* No. 1829, February 27, 2007, at <http://www.heritage.org/Research/Taxes/wm1829.cfm>.

- **Devolve more programs to state and local governments.** Under the federal highway program, states collect the gasoline tax and then send that money to Washington so that politicians can subtract a hefty administrative fee, add expensive mandates and pork projects, and then send those highway dollars right back to the states.⁹ You should eliminate the federal middleman and instead let states keep their gas tax revenues and decide how to spend them—without costly interference from bureaucrats and lawmakers in Washington.

Nor is there any reason for Washington politicians and bureaucrats to micromanage other essentially state and local activities such as housing, justice, education, and economic development.¹⁰ You should devolve these programs and empower state and local governments to tailor them to local needs and create laboratories to test new ideas and policies. Over time, the best techniques and strategies would be copied by other states, and the result would be more accountable and effective state government, as well as a more streamlined federal government.

- **Eliminate waste, pork, and corporate welfare.** While the potential savings are susceptible to exaggeration, few would disagree that the federal budget contains an enormous amount of wasteful spending.¹¹ Earmarks are a quick and easy place to start. The \$17 billion spent annually on pork projects includes the Charles Rangel School of Public Service, the Montana Sheep Institute, and the Andre Agassi College Preparatory Academy. You should eliminate these projects and reduce the program budgets accordingly. You should also make a firm promise to veto any legislation that contains earmarks.

9. See Ronald D. Utt, Ph.D., "Highway Trust Fund Inequities Will Get Worse in Future Years," Heritage Foundation *WebMemo* No. 2100, October 9, 2008, at <http://www.heritage.org/Research/SmartGrowth/wm2100.cfm>.

10. Brian M. Riedl, "How to Get Federal Spending Under Control," Heritage Foundation *Backgrounder* No. 1733, March 10, 2004, at www.heritage.org/Research/Budget/bg1733.cfm.

11. The examples of waste cited here, as well as many others, can be found in Riedl, "Federal Spending by the Numbers: 2008."

Nor is pork the only type of budget waste. Washington makes at least \$55 billion in annual program overpayments. The government's own auditors admit that 22 percent of all federal programs fail to show any positive effect on the populations they serve. Many programs are also redundant: The federal government runs 342 economic development programs, 130 programs serving the disabled, and 130 programs serving at-risk youth. Washington spends \$60 billion a year on corporate welfare—more than it spends on homeland security. Though corporate lobbyists will tell you how many jobs these subsidies create—even green jobs—you should not be swayed. The fact is that these programs provide little or no economic value, and there is no justification to tax teachers and truck drivers to subsidize *Fortune* 500 companies.¹² The government continues to run outdated relics like the Rural Utilities Service, whose mission of providing rural electricity was achieved decades ago. You could save taxpayers billions of dollars by eliminating these and other examples of waste.

- **Use PAYGO to prevent expensive new entitlements.** The 110th Congress reinstated Pay-As-You-Go (PAYGO) rules requiring that new entitlement expansions or tax cuts be deficit-neutral. PAYGO was supposed to promote fiscal responsibility but instead has become another tool for expanding government. Congress voted to waive PAYGO on numerous spending increases (such as stimulus and “emergency” bills) and then evaded PAYGO with gimmicks on other large spending increases (such as the farm bill, SCHIP, and student aid expansion).¹³ Members of the House Democrats’ Blue Dog Coalition have rarely let PAYGO interfere with expensive government expansions, yet they suddenly became deficit-focused PAYGO adherents whenever the

agenda shifted to tax relief—or even preserving current tax rates.

You pledged to make PAYGO a centerpiece of your budget agenda. For PAYGO truly to help government live within its means—and for you to fulfill your promise of a net spending cut—you must use it as a tool to offset expansions of entitlement programs with equal reductions in existing entitlements. This is more responsible than dismissing PAYGO whenever it becomes an inconvenient impediment to new spending. It is also more responsible than enforcing PAYGO with large tax increases to fund new entitlements, which lead only to bigger government and further recession-worsening tax increases. Using PAYGO as a tool to offset spending is the only way to deliver on your promise of a net spending reduction.

- **Resist gimmicks when calculating spending.** It has become increasingly common for lawmakers to meet budget targets by declaring all excess spending to be “emergencies” and then excluding them from the listed spending totals. In 2008, lawmakers declared at least \$333 billion—11 percent of all spending—to be “emergencies” even though only a small fraction of this total met the true definition of an emergency.¹⁴ This has rendered meaningless any distinction between regular and “emergency” spending. Declaring an “emergency” does not take taxpayers off the hook for funding an expenditure; you must therefore ensure that such spending is included when calculating a net spending cut.

Conclusion

The American people have repeatedly expressed exasperation at the pork, runaway spending, and budget deficits that have plagued Washington during this decade. You were elected President on the promise of fiscal responsibility and a “net spending cut.” Scaling back planned “stimulus” spending that would likely fail to help the economy would be a strong first step toward fulfilling your promise.

12. See Brian M. Riedl, “The Advanced Technology Program: Time to End This Corporate Welfare Handout,” Heritage Foundation *Backgrounder* No. 1665, July 15, 2003, at <http://www.heritage.org/Research/Budget/bg1665.cfm>.

13. Brian M. Riedl, “The Democratic Congress’s 2008 Budget: A Tax and Spending Spree,” Heritage Foundation *Backgrounder* No. 2081, October 30, 2007, at <http://www.heritage.org/Research/Budget/bg2081.cfm>.

14. Brian M. Riedl, “Emergency Spending: \$333 Billion Tab Busted the Budget in 2008,” Heritage Foundation *WebMemo* No. 2127, November 10, 2008, at <http://www.heritage.org/Research/Budget/wm2127.cfm>.

Reforming Social Security and Medicare before more of the 77 million baby boomers begin to collect benefits is also imperative.

It is not difficult to identify the programs most in need of reform, but fiscal responsibility can be achieved only

through a willingness to stand up to interest groups and their allies in Congress and by making the difficult but necessary decisions. The result will be a stronger economy, a smaller budget deficit, and a lower tax burden.

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