How to Really Cut the Federal Budget:

A Menu of Expenditure Reductions

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It is clearly possible to reduce substantially the unprecedented array of federal budget deficits that faces the United States. The place to begin is on the spending side of the budget. Cutting back low priority expenditures by the federal government will simultaneously curb the rapidly rising national debt that is generating serious concerns at home and overseas. This report provides an initial menu of potential budget cuts. It focuses on the manageable task of downsizing the budget for the coming year.

Introduction: The Basic Rationale

The long-term fiscal challenge is awesome. The overall numbers seem closer to exercises in astronomy than in economics. The baseline reported by the Congressional Budget Office (CBO) shows a cumulative deficit for 2011-2020 of $6 trillion. The analysis by the President's Office of Management and Budget (OMB) exceeds $8 trillion. When the CBO does an independent analysis of the data in the President's new budget, the grand total is close to $10 trillion.[1]

How do we start? The response to the recent establishment of a National Commission on Fiscal Responsibility is a cogent indicator of how difficult it is to come up with useful or even sensible solutions. Even before the new commission really got going, opposition developed to the recommendations anticipated by the critics, especially a possible new tax.

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This report tries to get ahead of the curve. Let us recognize at the outset a basic reason why public discussions on reducing budget deficits have invariably focused on tax policy: economists, lawyers, and others participating in that public debate know much more about the tax side of the budget than the expenditure side. Almost everyone filling out IRS Form 1040 has been exposed to the intricacies of the Internal Revenue Code. Moreover, the ramifications of tax increases and spending reductions are basically different. Effective budget cutting involves reducing benefits to members of specific interest groups, while major tax issues usually affect a much broader range of citizens — and voters — and do so more marginally.

Why Focus on Budget Cuts?

This report is an attempt to reverse the thrust of the current budget debate. The focus here is entirely on cutting federal spending. Revenue policy is deferred for a later occasion. Many reasons motivate the decision to work on the spending side of the budget. First of all, as an old budget hand, I know that many attractive opportunities exist for eliminating or at least substantially reducing the flow of spending by the federal government.

Going from generalities to specifics in this matter, as we will shortly do, is truly an eye opener. Just looking at the vast array of trivia and far-from-urgent items imbedded in the federal budget is mindboggling, as we will see. Moreover, concentrating on the expenditure side provides a special incentive. The more budget cuts are made, the less pressure there will be for raising taxes.

The basic approach that should be followed in identifying spending programs to be reduced is embodied in the words of an old Budget Bureau slogan, “Good budgeting is the uniform distribution of dissatisfaction.” The point is not to pick on just a few interest groups whose pet spending is to be reduced. If the budget cutting is to be effective, every ox must be gored. That is also a matter of fairness.

I learned that bit of budgetary wisdom when serving on the three-member budget working group established by Ronald Reagan early in his presidency to identify reductions in federal spending. If the budget cuts are comprehensive enough, it is awkward if not difficult for any interest group to seriously complain about being picked on: every group expects to feel the effects of fiscal restraint. Also, each group develops a stake in making sure that other interests are not exempted from the painful thrusts of the budget cutter's knife.

Of course, there are many special provisions (or "loopholes") in the Internal Revenue Code. However, the great bulk of the receipts comes from the general provisions on across-the-board income tax rates which apply to citizens generally. In comparison, the expenditure side is highly selective. Most of the spending is directed to individual segments of the electorate, be they rural or inner city citizens or engaged with a specific company or non-profit organization.

Recipients of federal expenditures are thus highly concentrated in specific segments of the population. This special relationship holds whether the category of analysis used is the type of expenditure (notably purchases of designated goods and services) or the location of the industries and groups which are benefitted. Virtually every dollar of government expenditure is a dollar of income — and usually of a specific benefit — to someone.

As a consequence, the typical situation for any government expenditure program is to generate a limited clientele whose members are benefited more directly — or at least so they think — from the particular government expenditure than they would be from the relatively modest general tax reduction which might be permitted by eliminating the program for which the expenditures are made.[2]

As a result, the beneficiaries of individual government expenditure programs are motivated to become special pleaders, often on an organized basis, for the continuance and expansion of these governmental activities. The impact of the aggressive and pinpointed support of government programs usually outweighs any diffused and often unspoken opposition that is harbored by the general taxpaying public. This general problem has long been recognized in the budgetary literature. Back in 1952, political scientist Joseph P. Harris wrote, "One of the basic problems of federal finance is the power exercised by organized interest and section groups."[3]

In effect, this report is an attempt to follow through on the similar concerns expressed by a very farsighted economist, the late Mancur Olson. In his seminal work written several decades ago, he warned against the danger of public policy becoming dominated by locked-in special interest groups. Olsen viewed these organizations as the antithesis of development and progress in society.

Olson concluded, "On balance, special-interest organizations and collusions reduce efficiency and aggregate income in the societies in which they operate and make political life more divisive."[4] It is not surprising, therefore, that these inbred organizations are currently serious obstacles to any comprehensive effort to curb the rise in government outlays. The concentration in this report on reducing federal expenditures that especially benefit specific interest groups thus transcends the current budget debate — and should simultaneously be considered in the context of improving the longer term policy environment facing the United States.

The durability and expansion of powerful special interest groups are precisely why the present undertaking is both difficult to accomplish and long overdue. It is also the primary justification for the concentration in the pages that follow on eliminating or at least substantially reducing federal outlays that have been mainly justified by the special benefits they provide to one or more powerful groups of the society.

How to Start the Budget Cutting Effort

The first step to budget cutting is to learn from the experience with previous efforts. Over the years, many recommendations have been made via a simpleminded "meat-axe" approach — notably to enact an across-the-board reduction of the budgets of all or a substantial segment of federal departments and agencies. A variation of that approach is to propose a temporary freeze on departmental budgets. The traditional approach to budget reform also includes designating a lump sum from future attempts to eliminate the vague litany of "waste, fraud, and abuse" — while providing no details on how to achieve that worthy objective.

All of these "meat-axe" efforts invariably turn out to be futile. Some agencies succeed in avoiding the reduction or freeze because of the "urgency" or "high priority" of their activities. And, of course, few if any government agencies can actually identify many examples of waste or fraud or abuse. Other agencies claim that it is unfair to hit just as hard those activities that operate efficiently as those that waste the taxpayers' money. In any event, across-the-board cuts and temporary freezes are hardly long-term strategies — and the budget challenge facing the United States needs more than a temporary quick fix.

In contrast, some previous proposals for reducing federal expenditures provide more useful approaches by identifying specific categories of spending that are ripe for substantial reduction or even elimination.[5] Many of these recommendations — from various parts of the political spectrum — focus on specific types of subsidies. Others suggest reducing activities that are not essential in a period of serious fiscal restraint.

That approach provides an alternative to the usual position taken by people advocating fiscal restraint. That typical stance is to focus almost exclusively on the trio of taxes, entitlements, and defense spending — bemoaning or at least assuming that the rest of the federal budget is too small to bother with or composed of the essential day-to-day activities of government.[6]

Those assumptions do not hold up to serious scrutiny of the budgetary details. That “all other category” contains a wide variety of marginal and/or special interest activities that are ripe candidates for the chopping block.

The data and program descriptions contained in the sections that follow are taken from the latest federal budget, covering the fiscal year ending September 30, 2011.

Subsidies

An old wisecrack in Washington, DC, relates to subsidies: “If a particular program benefits my group, it’s not a subsidy, but rather an important contribution to economic development, national security, or some other worthy objective. But, of course, if a different program benefits your group then it’s just a plain old special interest subsidy.”

From the point of view of reducing the federal deficit, there is no need to make such fine distinctions. After all, in some ways, even the narrowest special interest expenditure can be linked to some broader, worthier objective. Also, some of the programs justified for the general interest do convey special benefits to some citizens.

Not all subsidies are necessarily special benefits to business or other private for-profit groups. Many are. Federal payments to airlines for flying into airports of “underserved” communities illustrate the complications of reality. These specific outlays benefit the specific community served as well as the air carriers and their employees. The basis for analysis used in this report is whether the program is of national importance or mainly benefits a special segment of the society.

Thus, the National Institutes of Health are excluded, although the pharmaceutical industry uses some of the research performed by this large agency. The promotion of a healthier nation is considered to be the overriding objective. But the farm price supports provided by the Department of Agriculture are included. They benefit farm areas and impose burdens (notably higher prices for food) on the larger society.

For starters, we focus on the subsidies contained in the federal budget that have some of the largest price tags (see Table 1). Whether or not officially labeled “subsidies,” the items listed meet our desire to identify government programs that are primarily justified by the benefits they convey to specific interest groups.

Farm Subsidies. Year in-year out, the crop and farm supports provided by the U.S. Department of Agriculture (USDA) are the largest subsidies in the federal budget. Administered by the USDA’s Commodity Credit Corporation, these $21 billion of expenditures estimated for the fiscal year 2011 benefit a group of the American population (farmers) whose income typically is significantly higher than the national average — by 5 to 17 percent every year since 1996. Moreover, the USDA subsidies go primarily to the largest farms and agribusinesses. Despite all the political talk about protecting the family farm, only a minority of farmers receive any cash benefits from the USDA. More than half of the subsidies go to large commercial farms.[7] Moreover, off-farm income (such as taking a job elsewhere or any type of investment income) of farm households generally has exceeded average U.S. household income since 1998.[8]

As shown in Table 1, several other USDA programs costing each $1 billion a year or more are designed to benefit special groups living in farm and other rural areas: the Rural

Table 1
U.S. Outlays for Selected Subsidy Programs in 2011
(Fiscal Year, in Millions)

Department or Agency	*Program*	*Amount*
Agriculture	Commodity Credit Corporation:	
	Price supports	$12,664
	Agricultural loans	8,346
	Rural Utilities Service-loans	10,836
	Crop Insurance	7,555
	Rural Housing Service	4,116
	Agricultural Marketing Service	1,270
	Promoting agricultural exports	54
	Total, Agriculture	$44,839
Commerce	International Trade Administration	$534
	Economic Development Administration	286
	Industrial Technology Services	210
	Bureau of Industry and Security	113
	Minority Business Development Agency	32
	Promotion of fisheries industry	23
	Total, Commerce	$1,198
Defense	Army Corps of Engineers, civil functions:	
	Operations and maintenance	$2,361
	Construction	1,690
	Mississippi River and tributaries	240
	Investigations	104
	Total, Defense	$4,395
Energy	Advanced Technology Vehicle-loans	$18,114
	Environmental Management	6,000
	Energy Resources	5,065
	Total, Energy	$29,179
Interior	Bureau of Reclamation	$1,108

Table 1 (cont.)

Department or Agency	*Program*	*Amount*
Transportation	National Infrastructure Innovation and Finance Fund	$4,000
	Grants for small airports for "essential air service"	139
	Federal Railroad Administration (subsidies to Amtrak)	N/A
	Federal Maritime Administration (subsidies to Merchant Marine)	174
	Total, Transportation	$4,313
Homeland Security	Grants to producers of worsted wool	$5
Environmental Protection Agency	State and Tribal Assistance Grants	1,276
Small Business Administration	Business loan subsidies	169
	Administering business loan subsidies	157
	Total, Small Business Administration	326
	Grand Total	$86,639

N/A = Data not available.

Source: U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2011* (Washington, DC: U.S. Government Printing Office, 2010), various pages.

Utilities Service, the Rural Housing Service, the Agricultural Marketing Service, and Crop Insurance. The crop insurance subsidy covers most of the premiums on private policies designed to protect covered farmers against adverse weather, pests, and low market prices. Contrary to widespread belief, not all farms or crops receive benefits from USDA price supports and similar programs. Growers of wheat, corn, sorghum, barley, oats, cotton, rice, soybeans, and peanuts receive the most generous benefits. Farms producing fruits and vegetables receive significantly smaller handouts. Total agricultural subsidies in fiscal 2011 are estimated to exceed $44 billion.

Ironically, the Department of Health and Human Services has been encouraging Americans to improve their health by reducing their intake of meat (produced by animals typically fed with price-supported grains) and eating more fruits and vegetables.

An even more basic example of an inefficient government subsidy is generated by the desire to offset the adverse effects of another special support program: the subsidy provided to encourage foreign purchases of U.S.-produced agricultural commodities. The need to subsidize American farm products so that they can compete in international markets arises because the USDA price support subsidies keep domestic prices of farm goods higher than would result from the unimpeded marketplace.

Perhaps the saddest example of the cross-purposes of subsidies is the sugar program. Via a variety of government controls and other subsidies, the domestic price of sugar is kept very substantially higher than the world price. (In late august 2010, the domestic price of sugar was 34 cents a pound, compared to the world price of 20 cents.) As a result, U.S. agricultural enterprises often are encouraged to raise sugar in locations close to such environmentally vulnerable areas as the Florida Everglades. Invariably, very ambitious and expensive government plans are now being developed to “save” the Everglades from the damage generated by subsidized sugar production.[9] Economic efficiency and environmental improvement would both be served by eliminating the special benefits to domestic sugar producers.

More generally, substantial programs of foreign aid have been developed — many of them funded by the U.S. Treasury — to help poor developing countries offset the negative effects of high tariffs on imports into the United States. These subsidies to specific groups of large-scale domestic agricultural operations also include low quotas on imports of farm products. Invariably, the burden of such special-interest actions falls on American consumers and taxpayers, as well as the producers of farm products in relatively poor developing countries.

Energy Subsidies. The second largest array of federal subsidies is administered by the Department of Energy ($29 billion in 2011). The Department hosts a wide assortment of uncoordinated subsidy programs, most of which are dedicated to promoting a specific energy source. These range from subsidies to coal and other fossil fuels to outlays for competing efforts to develop new energy sources, primarily alternatives to fossil fuels. Each of these specific subsidies is a response to pressures from an individual interest group rather than the result of careful choices among alternatives. Specific promotional funds go to hydrogen research, solar and wind power, as well as special subsidies to the automobile industry to develop "greener" cars requiring less conventional fuel and/or unconventional energy sources. A large literature supports a pessimistic evaluation of the effectiveness of these expensive efforts.[10]

One of the most recent evaluations was offered by Robert Fri, former president and now visiting scholar at Resources for the Future:

> . . . government energy programs have invested heavily in technologies that were not competitive at the time but seen as needed in the future to meet public policy goals. Unfortunately, such programs usually don't work out very well.[11]

From the limited results to date, it is clear that these government-supported programs have not performed better than — or even as well as — the competitive marketplace would have done on its own. Thus, energy subsidies comprise another attractive area for restraint and economy in federal government spending.

Prior experience with shifting energy sources demonstrates the effectiveness of marketplace competition rather than reliance on arbitrary distributions of governmental (taxpayer-financed) benefits and incentives. In the nineteenth century, household lighting shifted successfully from wood to whale oil to kerosene to coal on the basis of changes in the relative prices of alternative energy sources.[12] There was no program to conserve forests or any movement to "Save the Whales." A federal subsidy program back then likely would have ignored the work of Thomas Edison in favor of supporting a candle maker developing an improved wick. Since that time, we have been learning an expensive lesson: government subsidies short-circuit the discovery process of the competitive marketplace.

Other Subsidy Programs. Smaller but substantial subsidy programs are operated by other federal departments and agencies. As shown in Table 1, these include the Department of Commerce (approximately $1.2 billion in 2011), the Department of Defense (Army Corps of Engineers) civilian public works programs ($4.4 billion), the Department of the Interior public works programs ($1.1 billion), and the Department of Transportation ($4.3 billion).

In the aggregate, all of the subsidies described here are projected to receive over $86 billion of expenditures in 2011 (see Table 1).

Items That Are "Nice to Have"

A second category of federal government expenditures that are candidates for budget cutting is somewhat harder to attack. Many federal activities are, on the surface, somewhat attractive. They all are, or at least sound as if they are, "nice to have." For example, wouldn't it be nice to have a federal program to help community organizations to draw on the talents of senior citizens? And wouldn't it be nice to encourage the development of neighborhoods that are more attractive and environmentally friendly? Yes, there are federal activities that are designed to serve such vague but desirable sounding purposes.

Reading through the presidential budget proposed for the fiscal year ending September 30, 2011, yields a wide variety of such "nice to have" budget items — and they total over $50 billion for the year (see Table 2). Let us review the major components of that tabulation.

By far, the largest examples are in the Department of Housing and Urban Development. They range from over $28 billion for assistance to renters to $25 million for "choice neighborhoods." In between are $4.4 billion for community development and another $1.1 billion for community planning and development. Such costly special-interest programs are attractive candidates for being phased out over a reasonable period of time, say five years. As in many other cases, the beneficiaries have gotten so used to the federal subsidies that it likely would not be practical to eliminate them overnight.

Other federal agencies in this category of marginal programs are the Department of Education ($1.0 billion) and the Department of Health and Human Services ($1.8 billion). At a time of rising concern over unprecedented budget deficits, there is a great temptation to label as non-essential and surely as non-urgent activities such as "Administration on Aging," "Effective Teaching and Learning for a Complete Education," "Senior Corps," and "Social Innovation Fund."

Veterans of the federal budget process learn the importance of concentrating attention on proposed new programs with deceptively small first-year outlay estimates. Examples in Table 2

Table 2
U.S. Outlays for Selected Items "Nice to Have" in 2011
(Fiscal Year, In Millions)

Department or Agency	*Program*	*Amount*
Agriculture	Healthy Food Financing Initiative (new)	$23
Commerce	Broadband Technology Opportunities Program Administration	$24
Education	Effective Teaching and Learning for a Complete Education	$1,015
Health and Human Services	Administration on Aging	$1,625
	Fatherhood, Marriage, and Family Innovation Fund (new)	220*
	Total, Health and Human Services	$1,845
Housing and Urban Development	Tenant-based Rental Assistance	$19,551
	Project-based Rental Assistance	9,376
	Public Housing Operating Fund	4,829
	Community Development Fund	4,380
	Federal Housing Administration	2,227
	Public Housing Capital Fund	2,044
	Home Investment Partnerships Program	1,650
	Community Planning and Development	1,128
	Native American Housing	580
	Transforming Rental Assistance	350
	Choice Neighborhoods/Hope VI	250
	Total, Housing and Urban Development	$46,365
Labor	Community Service Employment for Older Americans	$600
	State Paid Leave Fund (new)	50
	Total, Labor	$650
Corporation for National and Community Service (CNCS)	Senior Corps	221
	Social Innovation Fund	60
	Total, CNCS	$281
Treasury	Community Development Financial Institutions Fund	$100
	Grand Total	$50,303

*Data for 2010.
Source: U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2011* (Washington, DC: U.S. Government Printing Office, 2010), various pages.

include $23 million for the Department of Agriculture's new Healthy Food Financing Initiative, $50 million to establish a State Paid Leave Fund in the Labor Department, and $220 million for a Fatherhood, Marriage, and Family Innovation Fund in HHS.

Wet blankets such as economists are destined to raise inherently nasty questions. Who is going to pay for all of these "nice" programs? Could the money be used to finance some other activity — or a tax cut? Or, in today's fiscally strapped environment, could the money be used to reduce the budget deficit and thus slow down the rapidly rising national debt? More fundamentally, why should the federal government embark on efforts such as encouraging individual states to establish programs of paid leave? At a time when states are facing great difficulty financing existing commitments to their employees, this proposed federal outlay, at the least, seems to be counterproductive.

Everybody's Doing It — So Why Not Us?

A third category of federal outlays is easier to attack but harder to quantify: many agencies anxious to preserve — or expand — their shares of the federal budget try to show that they should be allowed to participate in responding to every hot issue of the day.

Thus, in its statement on the 2011 budget, the Environmental Protection Agency declares with a straight face that it is a vital contributor to homeland security. Similarly, the Department of Justice, in its 2011 budget statement, thinks of itself as a key contributor to stimulating a sluggish national economy. The Department of the Interior believes that it is a major force in dealing with the issue of global warming. And, my favorite, the Department of Housing and Urban Development (HUD), after turning a blind eye to the saddling of low-income people with mortgage debt they could not handle, volunteers to lead the crackdown on the culprits in the mortgage finance fiasco. In fact, HUD continues to deliberately encourage the problem of mortgage defaults by guaranteeing mortgages with little down payment or regard to the financial capability of the homeowners.[13] As in other instances, the initial outlays may be deceptively small — à la the camel's nose under the tent — but the potential for expansion can be very considerable.

In fiscal 2011, the Federal Housing Administration (FHA), an important part of HUD, is scheduled to guarantee mortgage loan commitments of $265.7 billion. Many readers will quickly recognize that this is precisely the type of activity that brought the major government-sponsored enterprises — Fannie Mae and Freddie Mac — to their knees. That required the federal government to convert these ostensibly private but governmentally-sponsored enterprises to become direct wards of the federal government. In the case of FHA, this wholly-owned federal agency already has the authority to borrow directly from the U.S. Treasury, an event that is becoming more likely every day.

However, bureaucratic imperialism is not limited to a few departments and agencies. Experienced government officials learn how to jump on the bandwagon and inflate their budgets. The Department of the Interior says that it "plays a key role in supporting the President's plan to create a clean energy future." The Department's loyalty to the boss has led it to add $14 million to its budget for 2011 — on top of $50 million in increases in 2010 — "to build agency capacity for review and permit renewable energy projects on federal lands."[14] The Interior Department is also establishing climate science centers (no mention of the information and analysis in climate science already being conducted or financed by the Department of Energy and the Environmental Protection Agency).

The Departments of Transportation and Housing and Urban Development are both spending large sums of government money to help local communities. They surely cannot be faulted for lack of ambition. The departments state that they are engaged in an interdepartmental effort (which also includes EPA) "to lower the cost of living while improving the quality of life in local communities." Apparently they will do so by "providing more coordinated housing and transportation options, improving environmental quality, and better leveraging federal investments."[15]

The opportunities to try to do good seem to be endless for agencies that have ready access to the U.S. Treasury. The justification cited above, perhaps unintentionally, lends support to the widespread belief that federal programs and expenditures in this area are now poorly managed and uncoordinated. In this period of budget stringency, this sounds like another reason to curtail these marginal expenditures.

As for the Treasury Department, it too is not exempt from trying to provide aid to individual communities. Apparently, the Department has forgotten the expensive lesson it supposedly learned in the last several years in bailing out financial institutions that were too generous in their housing-related investments. The Department now wants to expand its Community Development Financial Institutions Fund to enhance "the availability of affordable financing in low-income communities by providing targeted support" of approximately $100 million a year.[16] You would think that the Treasury Department will have its hands full trying to carry out the mandates of the recently-enacted financial regulatory reforms.

Miscellaneous Proposals

Inevitably, this report winds up with an "All Other" category. A miscellaneous — but important — array of proposals does not comfortably fit in any of the specific categories presented earlier. Thus, even though I have sidestepped the issue of national security strategy, there are useful changes in the conduct of defense expenditure programs which would help to achieve fundamental national security objectives by curtailing the bureaucratic activities which raise costs and also impede progress on enhancing the national defense.

Likewise, no effort is made in this report to tackle the important challenge of reforming the major entitlement programs. Nevertheless, I raise the difficult but more limited issue of disability insurance which, unintentionally, appears to make it less likely that people with disabilities will achieve productive employment.

Defense Spending. This report avoids issues concerning the choice of weapon systems and military strategies. However, important questions of economics and finance do arise from any comprehensive examination of the defense spending process. For example, a variety of studies report opportunities for greater economy and efficiency in contracting for the production of the various types of equipment required by the military establishment.[17]

Any serious effort to responsibly curb federal spending should acknowledge the many extraneous socioeconomic provisions that Congress mandates for the military procurement process to provide benefits to specific interest groups. It often is much easier to add an obscure and irrelevant provision to a new authorization for military spending than to get the same item enacted as an independent piece of civilian legislation. Along those lines, Public Law 90-600 restricts the use of appropriated funds to buy foreign manufactured buses. Public Law 95-457 gives preference to U.S. clothing, fibers, and specialty metals. These and other special-interest provisions ignore the existence of a global marketplace where American firms also sell to foreign customers many items in both civilian and military categories.

Also, the Pentagon has imposed higher administrative costs on defense contractors by virtue of more stringent recordkeeping requirements than prevail in the private sector for similar procurements. Likewise, the Congress has imposed very specific operating requirements on

Defense Department officials as well as defense contractors. These provisions include setting rules for allocating overhead to spare parts, directing the use of work measurement standards, setting rank and grades for "competitive advocates," and establishing tours of duty for program managers.

Many of these costly impositions on the procurement system reflect the lack of trust on the part of the Congress in the administrative performance of military acquisition officials. No recent public reports are available on the additional costs that result. However, earlier estimates by analysts who have served in the Department of Defense range from 20 percent to 30 percent of total outlays for research and development (RDT&E) and procurement of new weapon systems.[18]

Unfortunately, the long-awaited military procurement reform (the Weapons System Acquisition Reform Act of 2009) was a great disappointment. It did nothing to reduce the bureaucratic nature of the military acquisition process. Rather, it added new levels of red tape, requiring a host of additional reports and similar paperwork. With the procurement and RDT&E outlays of the Department of Defense projected at $189 billion in fiscal 2011, a 25 percent reduction reflecting savings in costly overhead expenditures would seem to be desirable. Such a change could also help to reduce the perennial delays reported in completing work on major new weapon systems.[19]

Disability Programs. Over the years, the effectiveness of the Americans With Disabilities Act (ADA) has been questioned, especially because the portion of the disabled population gainfully employed has not risen since the enactment of the legislation. Indeed, detailed surveys by the U.S. Bureau of the Census report that the ratio of people with disabilities who are employed has been declining. In 1997, 50.3 percent of people with disabilities were reported to be working. In 2005, that ratio fell to 45.6 percent.[20]

Most of the relevant analysis has focused on negative effects on the incentive of employers to hire people who are covered by the regulations of the ADA. Other critics are concerned with lingering discriminatory attitudes on the part of employers. These points surely have some validity.

Yet all this misses what may be the major negative impact on the effort to promote hiring of workers with disabilities. That missing factor is the simultaneous expansion of the rolls of those qualifying for the disability portion of the Social Security program (the "D" part of what is technically the Old Age, Survivors, and Disability Program or OASDI). This is entirely an income transfer activity for those who qualify under the OASDI rules. There is no provision for training or other limited, short-term assistance in obtaining a job.

In recent years, the number of people receiving these disability benefits has increased far more rapidly than the relevant population. The outlays for this program have almost doubled during the past eight years (see Table 3). Once a person goes on the disability rolls, the odds are that he or she remains in this status until qualifying for the prime, age-based social security program. Also, benefits cover spouses and children of the disabled beneficiary (2 million in 2009). Moreover, after a two-year wait, people on the disability rolls also qualify for Medicare. Also, existing rules place no limit on the non-wage income or assets of beneficiaries of the disability benefit program.[21]

It may seem heartless to propose cutting back this special program, but apparently it reduces the incentive of people with disabilities to attain productive employment. This issue transcends the budgetary implications (which are important). I have witnessed the enhancement

Table 3

Expenditures for Disability Portion of Social Security
(Fiscal Years, in Millions)

Year	*Amount*
2002	$66,432
2003	71,982
2004	78,550
2005	86,468
2006	93,572
2007	99,850
2008	107,240
2009	118,114
2010 (est.)	127,117

Source: U.S. Office of Management and Budget, *Budget of the U.S. Government, Appendix* (various years).

of the self-respect and self-esteem of people with serious disabilities who voluntarily become productive members of the society.[22]

An added reason for attention to the disability program is that the Congressional Budget Office forecasts that the disability insurance trust fund (which finances the benefits) will be exhausted in 2018.[23] The generosity of the disability insurance program needs to be reviewed as part of a comprehensive budget restraint effort.

Conclusion

A weak economy may not seem to be the appropriate time to sharply reduce the fiscal stimulation of budget deficits. However, a substantial period of time is required to get moving on any major new departure in fiscal policy, even the relatively limited proposals presented in this report. That is precisely why this report has focused on weak spots in this year's federal budget.

Thus, these suggestions, although they may be seen as extreme by some of the beneficiaries of the status quo, are more properly viewed as a relatively limited first installment of an extended serious budget cutting effort. Their main focus is on two themes: (1) reducing benefits limited to special groups of the society, and (2) cutting back on low-priority programs which are merely "nice to have."

Table 4, which pulls together the details of the earlier sections of this report, can be viewed as a menu of possible revisions in the current budget of the United States government. The grand total of $136.8 billion might strike some observers as too modest in view of the huge budget totals projected for the year. However, the need to get started is compelling. Then again, a sum in excess of $100 billion still strikes many people as a huge amount! The success of such

Table 4

Major Candidates for Budget Cuts
(Fiscal Year 2011, in Billions)

Large Spending Programs	
Special housing programs*	$46.4
Agricultural subsidies (including price supports)†	44.8
Energy subsidies†	29.2
Defense Department civilian construction†	4.4
Transportation subsidies†	4.2
Smaller Spending Programs	
Department of Health and Human Services (special programs for seniors, fathers, and family innovation)*	1.8
Business subsidies (Commerce and SBA)†	1.5
Special environment assistance to states and tribes†	1.3
Reclamation projects (Interior Department)†	1.1
Education Department ("for a complete education")*	1.0
Special programs for older Americans*	.9
Treasury Department (Community Financial Institutions)*	.1
Total	$136.8

Note: Details may not add to total due to rounding.

*For details, see Table 2.
† For details, see Table 1.

an initial attempt at slowing down the flow of federal spending should open the way to follow-on efforts to reign in the public sector.[24]

Key examples of a future second-round of budget cutting relates to the Social Security and Medicare programs. Each year, the official actuarial report estimates the substantial future deficits of the Social Security and Medicare trust funds, indicating when they are expected to run out of the cumulative balances built up over past years. These two programs are both large and difficult to deal with. They deserve special, unhurried attention.[25] As someone who served on a public/private commission dealing with social security reform, I learned firsthand of the great practical difficulties in quickly generating workable policy changes in this important area of public policy.[26]

Turning to the present, those reluctant to stand up to the powerful special interest groups that inevitably oppose with great emotion any attempt to curtail the benefits they receive need to be reminded of the alternative: the substantial effort to reduce those awesome budget deficits by increasing existing taxes or enacting a large new revenue source.

President Harry Truman was right. As a longtime member of the Senate Appropriations Committee, he was fond of saying that he never saw a budget that could not be cut. If anything comes out of the details of this report, it is that taxpayers are financing a large array of low priority and special interest spending programs. It is my hope that this “bottom up” report, focusing on the details of the federal budget, demonstrates that opportunities for serious and careful budget pruning abound in every department and agency, military and civilian, social and economic.

Notes

[1] See Committee for a Responsible Federal Budget *CBO's Analysis of the President's FY2011 Budget* (Washington, DC: March 25, 2010), p. 2.

[2] For an early version of this analysis, see Murray Weidenbaum, *Federal Budgeting: The Choice of Government Programs* (Washington, DC: American Enterprise Institute, 1964), pp. 4-17.

[3] See Joseph P. Harris, "Needed Reforms in the Federal Budget System," *Public Administration Review*, Autumn 1952, p. 243.

[4] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).

[5] See, for example, Stephen Slivinski, "The Corporate Welfare State," *Cato Institute Policy Analysis*, May 14, 2007; Robert J. Shapiro, "DLC Says Cut and Invest," *Wall Street Journal*, January 17, 1994, p. A8; H. Sterling Burnett, *Protecting the Environment Through the Ownership Society* (Dallas, TX: National Center for Policy Analysis, 2006); Murray Weidenbaum *et al*, "How to Achieve a Healthier Environment and a Stronger Economy," *Business Horizons*, January-February 1997; Congressional Budget Office, *Federal Financial Support of Business* (Washington, DC: U.S. Government Printing Office, 1995).

[6] For a current example, see *2010 Fiscal Summit, America's Challenge and a Way Forward, Summary and Key Findings* (Washington, DC: Peter G. Peterson Foundation, 2010). I cite this report despite (or because) it constitutes such a serious and balanced effort to deal with the fiscal problems facing the United States.

[7] Carol Jones *et al*, *Economic Well-Being of Farm Households* (Washington, DC: U.S. Department of Agriculture, Economic Research Service, 2006; "Farm Subsidies," *The Economist*, September 9, 2006, p. 35.

[8] U.S. Department of Agriculture, Economic Research Service, *Farm Household Economics and Well-Being: Farm Household Income*, 2010.

[9] Michael Pollan, "Weed It and Reap," *The New York Times*, November 2007, p. 15; Bruce Gardner, *Plowing Farm Subsidies Under* (Washington, DC: American Enterprise Institute, 2007); U.S. Government Accountability Office, *Department of Agriculture Commodity Credit Corporation: Sugar Program*, B-318411, letter to Committees on Agriculture, U.S. Senate and House of Representatives, July 21, 2009; Carolyn Cui and Bill Tomson, "Global Sugar Surges as U.S. Helps Imports," *The Wall Street Journal*, August 21, 2010, p. B-1.

[10] C. Ford Runge and Benjamin Senauer, "How Biofuels Could Starve the Poor," *Foreign Affairs*, May/June 2007, pp. 41-53; Peter Z. Grossman, "U.S. Energy Policy and the Presumption of Market Failure," *Cato Journal*, Spring/Summer 2009, pp. 295-317; Edwin J. Feulner, *The Conservative Guide to Energy* (Washington, DC: Heritage Foundation, 2008); George Leef, "Energy Interdependence," *Regulation*, Summer 2008, pp. 49-51; Kenneth P. Green, "Ethanol and the Environment," *Environmental Policy Outlook* (Washington, DC: American Enterprise

Institute, 2008); H. Sterling Burnett, *Red Not Green* (Dallas, TX: National Center for Policy Analysis, 2004; Keith Johnson, "Ill Winds Blow for Clean Energy," *The Wall Street Journal*, June 9, 2009, p. B8; Penny Rodriguez, "Environmentalists Oppose Solar, Wind Power," *Environment & Climate News*, September 2009, p. 6; Geoffrey Carr, "The Power and the Glory," *The Economist*, Special Report, June 19, 2008, pp. 1-26; "Uncle Sam, Venture Capitalist," *The Wall Street Journal*, August 17, 2010, p. A18.

[11] Cited in "RFF President Phil Sharp and Scholar Robert Fri on the Energy Policy Challenges that Lie Ahead," *Resources*, Summer 2010, p. 5.

[12] Harold F. Williamson and Arnold R. Daum, *The American Petroleum Industry: The Age of Illumination, 1859-1899* (Chicago: Northwestern University Press, 1959), p. 13.

[13] Tad DeHaven, *Three Decades of Politics and Failed Policies at HUD*, Policy Analysis No. 655 (Washington, DC: Cato Institute, 2009); Peter J. Wallison, "Barney Frank, Predatory Lender," *The Wall Street Journal*, October 6, 2009, p. A19; "The Next Fannie Mae," *The Wall Street Journal*, July 11, 1009, p. A16; "Subprime Uncle Sam," *The Wall Street Journal*, September 29, 2009, p. A24.

[14] U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2011* (Washington, DC: U.S. Government Printing Office, 2010), pp. 91-92.

[15] *Ibid*., p. 87.

[16] *Ibid*., p. 114.

[17] Murray Weidenbaum, "Acquisition Policy for a New Era," in Ethan Kapstein, ed., *Downsizing Defense* (Washington, DC: Congressional Quarterly, 1993), pp. 187-213; *Defense Procurement: Fresh Fruit Buying Practices* (Washington, DC: U.S. General Accounting Office, 1990); U.S. Congress, Joint Economic Committee, *Socioeconomic Regulations and the Federal Procurement Market* (Washington, DC: U.S. Government Printing Office, 1985); Murray Weidenbaum, *Small Wars, Big Defense* (New York: Oxford University Press, 1992); pp 151-176; Synopsis and Impact of Weapon Systems Acquisition Reform Act of 2009 (Washington, DC: SM&A, 2009).

[18] James Blackwell, *Deterrence in Decay: The Future of the U.S. Defense Industrial Base* (Washington, DC: Center for Strategic and International Studies, 1989); Richard Stubbing and Richard Mendel, "How to Save $50 Billion a Year," *Atlantic Monthly*, June 1989, p. 53.

[19] *Fundamental Changes are Needed to Improve Weapon Program Outcomes*, GAO-08-1159T (Washington, DC: Government Accountability Office, 2008).

[20] U.S. Census Bureau, *Americans With Disabilities, 1997* (www.census.gov/prod/2001pubs/p70-73.pdf); U.S. Census Bureau, *Americans With Disabilities, 2005* (www.census.gov/prod/2008pubs/p70-117.pdf).

[21] U.S. Congressional Budget Office, *Social Security Disability Insurance Participation Trends and Their Fiscal Implications*, July 22, 2010.

[22] I am a member of the Board of Visitors of the Independence Center, a non-profit organization in St. Louis, which helps people with severe mental problems to become productive members of society. See also Government Accountability Office, *Highlights of a Forum: Actions that Could Increase Work Participation for Adults With Disabilities*, GAO-10-768, July 28, 2010.

[23] Congressional Budget Office, *Social Security Disability Insurance: Participation Trends and Their Fiscal Implications*, July 22, 2010.

[24] For an analysis of the longer-run opportunities for constraining future federal expenditures, see U.S. Congressional Budget Office, *Budget Options*, Volumes 1 and 2, August 2009.

[25] *Status of the Social Security and Medicare Programs: A Summary of the 2009 Annual Reports* (Washington, DC: Social Security Administration, 2009).

[26] See National Commission on Retirement Policy, *The 21st Century Retirement Security Plan* (Washington, DC: Center for Strategic and International Studies, 1999).