

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 When faced with the clear decision between funding outdated government programs and reducing the tax burden, most taxpayers will encourage their representatives to let them keep more of their own money.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.

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.

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 no 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 elsewhere 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.

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 billion in outstanding guaranteed loans. Government loans typically undercut the financial services industry, which has sufficient

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resources to provide loans to businesses and individuals. Therefore, Congress should begin selling government direct loan programs to the private sector.

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.

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. No one even remembers when a

non-government entity addressed the problems.

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?” The answer for scores of programs would likely be “no.”

Congress must also provide stronger financial management oversight for federal programs, which are losing billions of dollars every year from mismanagement.

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 assurance that taxpayers will cover any losses.

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.

And overlap is inevitable. Some agencies are defined by whom they serve (veterans, Native

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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 (if not elimination) 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. A recently announced consolidation of the 22 different federal payroll systems into just two will save \$1.2 billion over the next decade.

7. Convert 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 housing vouchers is much less costly to government than the construction and maintenance of government-owned housing. 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.

Instead of building a bureaucracy to grow and distribute government food to low-income families, the food stamp 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.

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:

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—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:

—Allow trade-offs between mandatory and discretionary spending

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. Con-

gress 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 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. 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 discipline, 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.

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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.

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PUBLICATIONS

BUDGET & TAXATION

The Balanced Budget Veto: A New Mechanism to Limit Federal Spending

by Anthony Hawks

Policy Analysis No. 487, *The Cato Institute*
cato.org/pubs/pas/pa-487es.html

This study discusses lessons learned from those past reform efforts and proposes a new “balanced budget veto” mechanism. Under this mechanism, the president would be empowered with an item reduction veto only during sessions of Congress following fiscal years with budget deficits. The item reduction veto would provide the president with a tool to cut spending when Congress has failed to do so. Such a veto power, however, would not enshrine balanced budgets as constitutional doctrine. Instead, it would provide Congress an incentive to curb deficits and regain budgetary power that has been temporarily bestowed on the president.

How Congress Can Achieve Savings of 1 Percent by Targeting Waste, Fraud, and Abuse

by Brian M. Riedl

Backgrounder No. 1681,
The Heritage Foundation
www.heritage.org/Research/Budget/BG1681.cfm

The 2004 Congressional Budget Resolution required each committee to find enough waste, fraud, and abuse to reduce its mandatory program budgets by 1 percent. The recommendations outlined in this study alone could save taxpayers as much as \$300 billion. Congress should seize this opportunity to save taxpayers hundreds of billions of dollars while also making government more effective and efficient.

Closing the Spending Gap Between Contending Transportation Reauthorization Proposals

by Ronald Utt

Backgrounder No. 1688,
The Heritage Foundation
www.heritage.org/Research/SmartGrowth/BG1688.cfm

Recent proposals by the Bush Administration and some Members of Congress to use tolls and other user fees to supplement revenues from the existing federal fuel tax could raise billions of additional dollars to construct new road capacity throughout the United States, targeting