

# Federal

## A To-Do List for Restraining

# Spending

By Edwin J. Feulner

**W**hen looking at the federal spending landscape, it's easy to become pessimistic. After all, Washington's current spending and future commitments will bankrupt our country if we ignore them. But this is no time for pessimism. The federal government can—and must—get spending under control. The answers are within reach.

**Medicare:** The program's trustees project Medicare spending will increase from 2.7 percent of GDP today to 9.3 percent of GDP by 2050. But we can take simple steps now to restrain that explosive spending.

First, the 2003 Medicare Part D prescription drug benefit is projected to account for one quarter of the new spending after 2020. It's not too late to suspend the benefit before it takes effect.

Instead, we ought to extend the current drug card, which targets help to the needy—not seniors who already have drug coverage.

Lawmakers are certain to face a backlash next year when retirees realize Part D was designed with a gaping coverage hole—many seniors will find themselves responsible for thousands of dollars in drug costs. It would be better to suspend the program and fix it

now than wait for complaints and fix it under pressure.

Of course, to really control Medicare spending, lawmakers will have to change the program fundamentally. It's time to design a new system based on personal choice, market competition, and light regulation. Such a system should be a “defined contribution” system, not the “defined benefit” system we have now. That means the government would agree to contribute a certain amount to fund each beneficiary's coverage. This would create a market for private health plans that would compete for customers by offering attractive benefit packages. It also would let seniors keep their pre-retirement health care plan if they're happy with it or design new coverage options tailored to their needs.

Such a defined-contribution plan also would allow lawmakers to control costs. Defined-benefit programs don't work because they're like a blank check—each new medical advance creates a new government requirement. A defined-contribution plan would allow seniors to enjoy those advances without sticking Uncle Sam with the big bills.

**Social Security:** Over the next 75 years,





taxpayers have promised to pay some \$25 trillion more than it can afford to pay to retirees through Social Security, an amount nearly twice our current GDP. A long-term solution will involve two changes: reducing the amount the government promises to future retirees, and letting younger workers invest in their own futures through personal retirement accounts (PRAs), allowing them to do as well or better than the current system.

If lawmakers will allow workers to invest a portion of their Social Security taxes in PRAs, today's workers could create their own nest eggs, which they would own and could even

pass down to loved ones. This reform would involve some up-front costs, but it would ease federal responsibilities for decades to come, just as a homeowner who pays points up front saves on mortgage interest over the life of the loan.

**Federal spending:** It increased by eight percent in 2005 and is up 33 percent overall since 2001. Washington now spends some \$22,000 per household, the most it has shelled out since World War II.

There are plenty of places to make cuts right now. For example:

- The Congressional Budget Office has published a “Budget Options” book identifying \$140 billion in potential cuts.
- The federal government spends \$23 billion annually on silly special interest projects such as grants to the Rock and Roll Hall of Fame and efforts to combat teenage “goth” culture in Blue Springs, Mo.
- Washington spends \$60 billion annually on corporate welfare, versus \$43 billion on homeland security.

And that's just for starters. If lawmakers are willing to read spending bills carefully, they can cut spending by several hundred billion dollars each year.

As economist Herb Stein put it, “Things that can't go on, won't.” The country can't go on spending as it is, and it can't meet the promises it is making to retirees. So it won't. Eventually, overspending will reach a tipping point, and the choices lawmakers must then make will be very harsh.

But why wait? The time to act is now—before a rapidly deteriorating budget picture forces us to make even more unpopular decisions.

*Edwin J. Feulner is President of The Heritage Foundation and author of the book Getting America Right, which will be published in March. This column first appeared in Investor's Business Daily.*

