

THE DAILY CALLER

Cutting the \$4 trillion budget

By Chris Edwards

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Media attention on the federal budget usually focuses on contentious issues, such as the debt limit, food stamp cuts, and Republican cave-ins. But let's look at the big picture: What does the government spend almost \$4 trillion of our money on each year?

The federal budget includes a vast array of programs. But when boiled down, there are just five basic spending activities: compensating federal workers, purchasing goods and services, giving aid to state governments, transferring wealth through subsidy and benefit programs, and paying interest on the debt.

The Bureau of Economic Analysis publishes detailed tables on federal spending. They say that the government spent \$3.9 trillion in 2013, which is more than the understated \$3.5 trillion figure published by both the White House and the Congressional Budget Office.

Here's how the spending breaks down:

- Transfers were the largest activity at \$2 trillion, or 51 percent of total spending. Some of the largest transfer programs are Social Security, Medicare, food stamps, and unemployment insurance.
- Purchases were \$571 billion, or 15 percent of spending. The government buys everything from fighter jets to paper clips.
- Aid to the states was \$510 billion, or 13 percent of spending. It is delivered through more than 1,100 programs for health care, highways, education, and other things. Medicaid is the largest state aid program.
- Interest was \$414 billion, or 11 percent of spending.
- Compensation (wages and benefits) for 3.7 million defense and nondefense workers was \$407 billion, or 10 percent of spending.

Total federal spending increased from 18.8 percent of gross domestic product in 2000 to 23.1 percent by 2013. During that period, transfers grew at an annual average rate of 6.7 percent, which compared to purchases at 6.0 percent, compensation at 5.5 percent, and state aid at 5.0 percent. By contrast, inflation averaged just 2.4 percent during the period.

Many policymakers are in denial about the government's huge fiscal problems. But projections show ever-rising spending and debt in coming decades, which could seriously undermine economic growth and reduce our living standards. So we need to change course and make cuts in every spending activity.

Transfer Programs. These programs create a mirage that the government is generating a cost-free flow of income to the public. However, every dollar of spending comes from taxes on someone, either now or in the future. So transfers are a zero-sum game.

Actually, transfers are worse than zero sum for two reasons. First, they reduce the productive efforts of taxpayers, discouraging them from working, saving, investing, and starting businesses. Second, they reduce the productive efforts of recipients, discouraging them from earning income in the market economy. With fewer productive efforts, the economy shrinks and incomes fall.

Keynesian economists claim that spending on transfers is good for the economy, but the reverse is true. Government spending causes distortions. It makes people change their behavior in ways that undermine growth.

Aid to the States. Federal aid — such as for K-12 schools — is an inefficient way to fund state and local activities. It encourages overspending by the states, comes with complex federal regulations that stifle innovation, and generates bureaucracies at all levels of government.

Americans would have more frugal, transparent, and responsible government if aid programs were eliminated. There are no advantages of funding state activities with federal dollars, but there are many disadvantages to the economy and to sound governance.

Purchases. Federal procurement has long been subject to waste and scandal. Contracts for defense, energy, and technology projects often go overbudget, for example. Defense dominates federal procurement, and should be subject to more vigorous oversight.

A general downsizing of the government would cut purchasing [costs](#). Policymakers should cut low-priority weapon systems, end activities that should be done by the private sector such as passenger rail, and sell many of the 365,000 federal buildings that are scattered across the nation.

Compensation. In 2012 average wages and benefits for federal workers were \$114,976, or 74 percent more than the average for U.S. private-sector workers of \$65,917. Federal benefits are particularly out of line with the private sector. A good place to [save](#) taxpayer money would be to scale back federal pensions.

To conclude, the U.S. Constitution does not create an open-ended role for the federal government to transfer wealth or aid the states. Yet today those two activities **account** for about two-thirds of federal spending. So transfers and aid should be the focus of major cuts.

However, there is also much waste and unneeded spending within the government's purchasing and compensation activities. Given the huge size of the government's fiscal problems, policymakers should make cuts to all types of spending.

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