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Cut The Federal Budget By Killing Republican Sacred Cows

Doug Bandow | June 4, 2012

This year's election is about the economy. The next president's chief challenge will be to cut federal spending and reduce government debt.

Republicans are posturing as the party of fiscal responsibility, but they continue to protect their sacred cows. Unless the GOP is willing to slash corporate welfare and cut unnecessary military outlays, Republicans don't deserve to be taken seriously when they talk about fiscal responsibility.

The two major parties are debating austerity versus growth. The president argues that one more government "stimulus" package might make a difference. Yet from 2009 to 2011 Washington ran up a combined deficit of $4 trillion. The deficit this year is expected to run about $1.2 trillion. If that isn't stimulus, what is?
Today the national debt is $15.7 trillion—almost a 50 percent increase since January 20, 2009, when President Barack Obama took office. Despite the president's claim to be a repentant fiscal sinner, his budget shows that he's the economic equivalent of the temperance activist who hits the bottle every night.

The Congressional Budget Office warns that if Washington stays with its current policies—no new big spending programs, expiration of the Bush tax cuts in January—Uncle Sam will run another $3 trillion in red ink over the coming decade. But if Congress passes the president's latest budget proposal, the combined deficit increase will be $6.4 trillion over the next ten years.

Even this estimate is too optimistic, however. Since when is there good news in Washington? The CBO offers an "alternative fiscal scenario" which assumes that Congress acts like, well, Congress. Then the added red ink over the next ten years will total $11 trillion.

Today the national debt is 100 percent of America's GDP. This compares to about 84 percent for Europe as a whole.

The CBO doesn't count the money technically borrowed by the Treasury Department from the Social Security administration, even though the money will have to come from somewhere to pay promised benefits. So according to the CBO, the debt to GDP number is "only" 73.2 percent. It averaged 37 percent over the last 40 years.

The "baseline" projection drops that to 61 percent in 2022. The president's budget takes it to 76 percent. The more realistic fiscal alternative raises it to 93 percent. But the future is worse under all scenarios. The worst projections see it doubling to about 180 percent by 2035.

Greece peaked at around 143 percent.

Yet even these scary estimates are too optimistic. The federal government continues to rack up future liabilities that have yet to be counted. The Federal Housing Administration could join Fannie Mae and Freddie Mac as a fiscal black hole. Taxpayers face billions in unfunded liabilities for the Pension Benefit Guaranty Corporation, which covers retirement plans at failed companies.

Washington has trillions of dollars in unfunded pensions and health care obligations to its employees. States have trillions of dollars more in debts and similarly unfunded pension and health care liabilities. If ObamaCare survives in the Supreme Court, the legislation's perverse incentives will drive up federal health care outlays. One estimate figures this "reform" will end up costing an incredible $17 trillion.

The wars in Afghanistan and Iraq, which so far have spent $531 billion and $804 billion, respectively, also operate as unfunded liabilities.

Thousands of veterans will require expensive care for the rest of their lives, long after the conflicts are officially over. The costs of the Iraq war alone could hit $3 trillion or more. The longer American troops remain in combat in Afghanistan, the higher that war's ultimate expense.

Social Security and Medicare have a total unfunded liability of around $117 trillion. Medicaid has promised trillions of dollars in additional benefits. The Obama administration uses lower official numbers, but it double counts ObamaCare "cuts" in Medicare which are supposed to be used to pay for expanding access to health insurance, and, warn program actuaries, aren't even likely to occur.

At current growth rates, these three programs alone will consume 18.4 percent of America's GDP in 2050. That's above the average for the entire federal government in recent decades. My Cato Institute colleague Michael Tanner warned that "if there is no change to current policies, by 2050 federal government spending will exceed 42 percent of GDP. Adding in state and local spending, government at all levels will consume nearly 60 percent of everything produced in this country."

The best measure of current indebtedness may come from economist Laurence Kotlikoff. Add in all the prospective liabilities and he figures America's real public debt at about $211 trillion. That's 14 times America's official national debt—and GDP!

When politicians want to expand their power and stampede the public, they proclaim a faux "crisis." Rising indebtedness is a genuine "crisis." We can't afford all of the government that we have, let alone all of the government that we are projected to get. Yet no one in Washington is truly serious about fiscal restraint.

Few Democrats want to control spending. The president would more than double the amount of red ink over the coming decade—and that's his "responsible" budget offered while facing an election with the public demanding action to limit spending. If he's reelected, he likely will revert to his deficit default, which is ever more red ink.

Most congressional Democrats also believe that Uncle Sam is spending too little, not too much. To the extent that they worry about the deficit, their solution is to hike taxes. Yet most of the dramatic increase in the national debt since 2001 is due to spending hikes, not tax cuts. And even if the Bush tax cuts are preserved, within a decade Americans will be devoting a greater percentage of the GDP to taxes than the last 40-year average. The growing debt foreseen by the CBO primarily results from rapidly increasing outlays.

Presumptive Republican Party nominee Mitt Romney talks tough on spending while proposing few specific reductions—he doesn't want to anger anyone by targeting their favorite programs. He also promises to greatly increase military outlays, adding more than $2 trillion over the next decade.

At least the House Budget Committee under Republican Chairman Paul Ryan passed a budget package including across-the-board cuts meant to save $310 billion over the next decade. Democrats wanted to cut far less and preferred to squeeze more money out of Americans through higher taxes. The GOP plan still is too little, but at least it is a start. However, it is designed to protect Republican sacred cows.

The Republican legislation actually would increase military outlays. Rep. Ryan expressed his concern that automatic sequestration would risk "disproportionately decimating our military." House Speaker John Boehner, who has proposed additional spending reductions elsewhere, similarly insisted on stopping "these automatic cuts from hollowing out our defenses."

At the same time the Republican House joined the Democratic Senate in reauthorizing one of the great engines of corporate welfare, the Export-Import Bank. And some House Republicans have begun campaigning to overturn earmarks, perhaps the most abused form of pork, which has come to symbolize political corruption.

The political problem caused by such inconsistency should be obvious enough. A Bloomberg News article began: "A U.S. House panel voted to cut spending on food stamps, health insurance and other aid for the poor to avoid planned cuts in defense spending." The kind of cuts required to put America back on a responsible fiscal path are massive. The only way to make sizeable reductions in programs—100 percent cuts in many cases!—is to create a sense of shared sacrifice, the belief that no one's favorite program is exempt from scrutiny.

The point is not that programs nominally aimed at the poor should not be scrutinized. As Charles Murray demonstrated a quarter century ago, government welfare has failed to lift people out of poverty; in fact, all too often it has trapped them, turning them into permanent government dependents.

Welfare works little better today despite its high cost. Michael Tanner reported that Washington alone spends about $670 billion annually on 126 different anti-poverty programs. Toss in state and local outlays and the total comes to around $1 trillion, or nearly $62,000 per poor family of three. Since President Obama took office welfare expenditures have jumped 41 percent, nearly $200 billion a year. Tanner observed, "Throwing money at the problem has neither reduced poverty nor made the poor self-sufficient."

However, it is not enough to go after programs for the poor. Doing so isn't fair. Nor is doing so going to solve the debt crisis.

The best reason to make true across-the-board cuts is substantive, not political. Military spending is far too high.

Pentagon outlays have increased dramatically since 9/11. My colleagues Chris Preble and Ben Friedman reported that from 1999 to 2010, when post-World War II military outlays peaked, real military spending jumped 77 percent. The "base budget," not counting war funding, rose 42 percent in real terms. The 2013 budget proposal is the first year the administration actually has proposed reducing base military outlays. Noted a recent Commonwealth Institute study: "despite the fiscal challenges facing America, there has not been a significant decline in the

Pentagon's base budget. And this has added to the difficulty of achieving debt and deficit reduction."

The U.S. spends far more than it needs on the military. America accounts for roughly half of the globe's military outlays. In real terms, the U.S. spends more today than during the Cold War, Korean War, or Vietnam War. Toss in America's allies and friends, and the total is 70 to 80 percent of world military expenditures.

Moreover, the countries that Washington has been defending for decades are capable of defending themselves. Europe has a larger GDP and population than America; it enjoys a ten-to-one economic advantage and three-to-one population advantage over Russia. The continent should be responsible for its own security.

South Korea has roughly a 40-to-one economic edge over North Korea. Japan until recently had the second largest economy on earth. The U.S. should stop acting as the perpetual guardian of prosperous, populous countries which prefer to spend their money on the good life.

Nation-building, too, has proved to be a fool's errand. In Iraq the Bush administration invaded another country based on false intelligence, sparked a civil conflict which killed a couple hundred thousand people, and left a wrecked society sliding toward intolerant authoritarianism. A decade of combat in Afghanistan has not created Western-style liberal democracy in Central Asia. Washington has no good reason to commit the lives and wealth to additional efforts at social engineering abroad.

Finally, a bigger military has virtually nothing to do with battling terrorism, America's chief security threat. The invasion of Iraq and decade-long nation-building mission in Afghanistan fueled rather than defeated terrorism. What worked against terrorism were intelligence work, Special Forces operations, international cooperation, and attacks on terrorist funding.

The U.S. needs to adopt what candidate George W. Bush originally advocated: a "humble" foreign policy. America should focus on defense of Americans, expect allies to take responsibility for themselves, and act as an off-shore balancer, watching for potential hegemonic threats which threaten to overwhelm Asia or Europe. Washington should shrink its force structure to match, concentrating on air and sea power, which keep potential adversaries away. For instance, Friedman and Preble suggested cutting Army and Marine Corps manpower by about one-third, with smaller reductions in the other services.

About the same time that House Republicans were voting to cut money for the poor, they were voting to extend the charter of the Export-Import Bank. Created in 1934 to promote commerce with the Soviet Union, Ex-Im is the very definition of corporate welfare. It offers loans, loan guarantees, and credit insurance to support U.S. exporters. Over the years it has subsidized so many Boeing deals that it is known as Boeing's Bank. Today that one company accounts for almost half of the business subsidized by Ex-Im.

Other major beneficiaries are KBR Inc., General Electric, Pemex, and Caterpillar Inc. The foreign recipients of Ex-Im's largesse are similarly anything but needy. Noted my Cato Institute colleague Sallie James: "the Bank typically has made its loans, guarantees, and insurance to countries such as South Korea, China, Mexico, and Brazil—countries that have had little difficulty in attracting private investment on their own."

With ExIm's charter expiring at the end of May (and close to hitting its statutory lending limit of $100 billion), the GOP had an opportunity to act on its rhetoric. Although Bank supporters claimed that the institution made money, that result required fixing the numbers.

Jason Delisle and Christopher Papagianis of Economic Policies for the 21st Century explained: "the Ex-Im Bank's long-term loan guarantee program actually provides guarantees at a loss for taxpayers, not a profit. Moreover, this analysis reveals that the Ex-Im Bank's loan guarantees are made at sufficiently generous terms that borrowers receive subsidies of about one percent of the amount borrowed," which comes to more than $200 million on the $21 billion in loans to be extended this year. Worse, while the Bank's formal cost is small compared to other business subsidies, the organization diverts credit from the general marketplace—where it could go to small businesses, students, competing exporters, domestic producers, or others—and channels it to a lucky few traders, who account for about two percent of U.S. exports.

This is supposed to create jobs? Observed the Wall Street Journal: "That's job creation, French-style. The Ex-Im Bank extends taxpayer-backed loans, loan guarantees and insurance to the clients of some of America's largest corporations, all of which have access to private financing." More important, Ex-Im can only redistribute jobs, shifting credit away from less economically efficient uses to more politically favored ones. The fact that other governments mulct their taxpayers in similar ways to subsidize their exporters is no reason for America to do so. Observed Sallie James: "By diverting resources from the private sector, the bank's activities produce a less-efficient economy and lower general standard of living than would occur in a free market for export finance."

Instead of telling Big Business to do its own borrowing, the GOP House leadership agreed to a "compromise"—reauthorizing the Bank and gradually expanding its total exposure cap to $140 billion. It wasn't just the GOP leadership which caved; 147 Republican House members also voted to subsidize corporate America. Most Republican Senators, such as Lindsey Graham of South Carolina, also backed Ex-Im.

One area where Republicans have been shamed into better behavior was pork, most notably earmarks. Despite GOP claims of fiscal responsibility, Republican legislators long used taxpayer money to get reelected. In fact, earmarks peaked at about $35 billion under the Republican Congress during the Bush era.

Although representing just one percent of the budget, earmarks reflect a deeper corruption, the shameless use of federal outlays to win reelection. Earmark defenders argued that earmarks merely shift power to award money from bureaucrats to legislators. However, in theory, at least, bureaucrats must follow some non-political criteria in distributing federal largesse. Lawmakers make no pretense of doing so. Two criteria typically loom large: contracts for campaign supporters and projects in a member's district/state.

To its credit, last year the new Republican House banned earmarks. However, Rep. Mike Rogers of Alabama recently told the GOP leadership that the majority of members wanted to lift the prohibition. He was distressed that "right now we are prohibited from advocating for anything for our states," meaning stealing taxpayer money to buy votes.

More recently, Rep. John Culberson of Texas—who chairs the military construction appropriations subcommittee—endorsed earmarks. He believed a particular military facility is more important than did the Pentagon. "I can't move it," he admitted: "it's just nuts." Rep. Rob Bishop of Utah complained that legislators couldn't do things like transfer land to a city. He suggested giving earmarks a new name: "In Utah we call them 'line-item' spending or directed spending'."

Well, that certainly would take care of the problem.

So far the House leadership appears to be standing behind the ban. But Sen. Thad Cochran (R-Miss.) said he views the earmark ban as temporary. If the GOP holds its House majority in the November vote, it's hard to predict what will happen next year.

Government spends too much. Far too much. The president and Congress seem intent on turning America into Greece.

To avoid that fate, federal outlays must be slashed. Republicans have promised to do so, but it's not enough to cut money for welfare and social services. Military expenditures—essentially foreign aid for allied governments—also need to be reduced. Corporate welfare like the Export-Import Bank should be eliminated. Pork, too, should be ended. If the GOP isn't willing to cut wasteful federal outlays across the board, it won't solve America's budget crisis and won't deserve the vote of the American people.