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It's Time To Gut, Not Cut, The Federal Government

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[Washington](#)'s vaunted debt reduction supercommittee has failed. The dozen members were unable to agree on a package of deficit reduction measures which would only have slowed the fast rising tide of federal red ink. It will probably take the Second Coming before legislators voluntarily halt the wild taxpayer-paid party on the Potomac.

Committees and commissions aren't necessary to diagnose America's budget problem. Uncle Sam is spending far more than he takes in. Outlays always seem to increase—and always faster than the rate of inflation—no matter who is in power.

[Republicans as well as Democrats spend more money on most everything](#). The only time that isn't the case is when government is divided and different parties run different ends of Pennsylvania Avenue. One party control in Washington tends to open the fiscal spigots to the maximum.

Unfortunately, there's no simple answer.

Everyone is against “wasteful” spending. When Ronald Reagan ran for president, I helped write statements and speeches for him inveighing against “waste, fraud, and abuse.” And a lot of federal money is wasted or stolen.

But there is no line item in the budget for “waste, fraud, and abuse.” Part of the problem is management, which has never been Washington's strong suit. A lot of money is lost due to incompetence or theft. Putting in place the right people and procedures isn't easy.

More basic, however, is the fact that one man's waste is another man's priority. The basic purpose of the national government today is to allow everyone to live off of everyone else. The intent is to give away trillions of dollars. What matters most is giving it away, not giving it away efficiently.

Every week or so a new report is issued detailing how taxpayer money was spent with no effect, misspent to great loss, or can't be accounted for. Legislators express shock, shock, that such outrages could happen, before voting to spend more money on more programs which will generate similar reports in the months and years ahead. The one step which

no one imagines taking is spending less money. After all, the usual interest groups were enriched, as intended by Congress. “Waste,” however defined, is merely a cost of doing business in Washington.

The only way to get the federal budget under control is for the federal government to do less. A lot less.

Most politicians focus on domestic discretionary spending, everything from pork to the Washington Monument. Alas, these programs only account for about 15 percent of the budget. Abolishing the agencies that presidential candidate Rick Perry forgot, and most everything else including Congress—now there’s a thought!—would still leave Americans drowning in red ink.

The big spending boulders are Social Security, Medicare, Medicaid, the Pentagon, and interest. Cuts here would cause much political pain, which is why politicians prefer not to talk about such possibilities. The people must decide not to have the government do certain things.

Interest cannot be cut directly, except by repudiating the national debt. Doing so would solve the deficit problem, since it would be hard for Uncle Sam to start borrowing again. And a lot of the cost would fall on foreigners—that would teach them never to trust Washington again! However, the owners of U.S. Treasuries would be rather unhappy. And the larger economic impact would be, well, “interesting.”

Moreover, even this drastic step wouldn’t save America financially. The official national debt is “only” \$15 trillion. Economist Larry Kotlikoff figures Washington’s total liabilities to be 14 times as much, [about \\$211 trillion](#). Social Security and Medicare alone account for half of that. Unfortunately, even defaulting on the debt would still leave Washington awash in red ink.

Social Security is the biggest single program. It is a Ponzi scheme, contra Mitt Romney, who insists on pandering even with the facts against him. Current beneficiaries are paid by new contributions. There are no personal investment accounts; the government trust funds are accounting frauds. The current recession and reduced payroll taxes have pushed the program into the red years earlier than predicted and trillions in unfunded liabilities await.

As the population ages and the larger proportion of elderly lives longer, it becomes harder for fewer younger workers to support their elders. Past retirees got a good deal; future retirees will get a negative return. If they collect anything at all. When the program was created 80 years ago almost half of potential recipients thoughtfully died before collecting their first check. Today seniors are not so considerate of Uncle Sam’s precarious financial situation and are sticking around to demand “their” money. The result is a bankrupt system.

Medicare suffers similar demographic travails, which are exacerbated by the continuing rapid increase in medical expenses. And program “contributions” cover less than a third of the program’s cost. The result will be a veritable tsunami of spending eventually surpassing Social Security outlays.

[ObamaCare is no answer](#): the Centers for Medicare and Medicaid Services warned that the “reform” legislation actually bent the medical cost curve up. Moreover, the CMS has repeatedly pointed out that [the purported Medicare spending cuts are essentially fraudulent](#), unlikely to be implemented. Which means program outlays will continue upward without limit.

Medicaid is busting federal and state budgets. The only good news is that this health care program is not affected by demography, since it covers the poor, not the elderly. But like most health care programs, its costs continue to rise rapidly. And Congress periodically expands Medicaid eligibility, which pushes spending up even more.

Finally, [there’s military spending](#). The “common defense” is a core federal function, but that means *America’s* defense, not the defense of the rest of the world. In fact, most of what the Department of Defense has nothing to do with defending America. U.S. forces are busy protecting prosperous and populous allies—Europe, South Korea, Japan; meddling in other people’s civil and guerrilla wars—Afghanistan, Bosnia, Kosovo, Libya; ousting dictators who irritate but don’t threaten us—Iraq, Libya; and remaking failed states—Afghanistan, Haiti, Somalia.

Military spending is the price of our foreign policy. Attempting to do everything requires spending a lot. Real, inflation-adjusted outlays on the military have doubled over the last decade. They are more today than at any point during the Cold War, Korean War, or Vietnam War. They account for as much as the *rest of the world combined*, even though every major industrialized state, save China and Russia, is allied with America.

If any of the [crazed hawks](#) running for the GOP presidential nomination are elected military spending will probably have to be upped even more to pay for all the new wars Americans are likely end up fighting far from home for no good purpose. Better would be to stop trying to micro-manage the globe. Then military outlays could be cut sharply while making America *more* secure.

The budget problem is a spending problem. [The Bush tax cuts accounted for just 14 to 16 percent of the massive shift from surplus to deficit over the last decade](#). According to the Congressional Budget Office future deficits will be massive and rising even with federal revenues *above* the 40-year average of 18 percent of GDP.

We are spending too much, and not spending wisely. The answer is to cut outlays. Not to give politicians more money, which they also will spend, and not spend wisely.

The failure of the supercommittee should not surprise anyone. Legislators never like making tough decisions. After spending wildly for years, they aren’t prepared to cut back.

But reducing outlays is not just an accounting exercise. It requires Americans to rethink what they want the U.S. government to do at home and abroad. Only if they decide to have Washington do less can Washington spend less.

First, Social Security and Medicare should be narrowed to focus on the poor. No more middle class welfare. If you can afford to care for yourself, you collect no more federal checks. And the young should be allowed to opt out of the programs, putting money aside for their own retirement and health care. Over the long-term this will cut trillions of dollars in unfunded liabilities.

Second, Medicaid should be turned into a competitive voucher program that shares cost savings with frugal recipients. It will never be cheap to provide health care for the poor, but only by changing the program's underlying incentives can much money be saved. Reforming Medicaid is important for state governments as well as Washington.

Third, the U.S. government [should focus defense spending on defense](#). No more social engineering around the world. No more subsidies for rich states and nation-building in poor ones. No more interventions here, there, and everywhere for no good purpose. Then military outlays could be cut substantially.

Fourth, take these steps and the government would borrow less, reducing interest payments naturally. That would create a "virtuous cycle" of falling outlays, deficits, and debts.

Fifth, [toss in big reductions in domestic discretionary spending for good measure](#). Let people spend their own money for their families and communities. Then government would be left doing the few things that it really should do.

Solving Washington's budget crisis is simple, but not easy. Only if the American people demand that Uncle Sam do less will he spend less. Ultimately we, not the super committee or anyone else, are responsible for our fiscal future.