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## Cutting Expenditure Is A Good Thing

By [Jeffrey Miron](#)

The crucial question facing the United States is whether the current path of federal expenditure is vital to our economic well-being. If so, then the U.S. faces a grim economic future. This path implies an exploding national debt, and the taxation necessary to tame the debt would cripple economic growth. The U.S. would thus appear to have no good policy choices.

The right view of all the expenditure is different, however; the U.S. can slash it with minimal adverse effects. Many cuts, in fact, improve economic performance and thus make sense independent of the fiscal outlook. Here are some key examples.

Agricultural subsidies encourage farmers to grow fewer crops, hiking food costs for everyone. Cancelling this expenditure saves \$15-\$20 billion per year.

Federal transportation spending is rife with misguided projects like the Big Dig in Boston or high-speed rail in Florida. These handouts to construction companies and unions cost far more than plausible estimate of their benefit, so elimination improves the budget and frees resources for more productive uses. Cut \$30 billion from federal transportation spending, at least.

The foreign aid budget is also ripe for cuts. The humanitarian component has noble goals but rarely benefits the intended recipients, ending up in the coffers of corrupt middlemen or government officials. The military component is mainly welfare for third-world dictators, like former Egyptian president Hosni Mubarak. Cutting \$20-\$30 billion is a no-brainer.

Drug prohibition is terrible deal for taxpayers: it does little to reduce drug addiction while fostering crime, corruption, and insurrection abroad. Legalization would save the federal government some \$15-20 billion annually, plus allow taxation of legalized drugs.

Countless other programs - individually small, but significant in the aggregate - are irrelevant to our economic well-being. Funding for the National Endowments for the Arts and Humanities, and the Corporation for Public Broadcasting, is tiny compared to private support. So the arts, humanities, and "Sesame Street" would all thrive without government money. Pork barrel projects and earmarks - e.g., the Sparta, NC Teapot Museum - lack even a remotely sensible justification. Cancelling pork could save tens of billions.

Thus cost-benefit skepticism suggests cutting expenditure substantially - easily \$200 billion per year- no matter what the state of the budget. And entitlement spending provides an even greater opportunity for productivity-enhancing cuts.

Social Security attempts to keep rescue elderly households from poverty, a goal shared by most Americans.

But Social Security goes well beyond this compassion by subsidizing middle-class retirement for a large fraction of recipients. Thus millions who are still productive choose retirement because of a taxpayer subsidy.

Policymakers can reduce this distortion by phasing in a higher retirement age, consistent with the increase in life expectancy from 63, when Congress created Social Security, to more than 78 now. Those elderly unable to work would be eligible for Disability Insurance. Expenditure would decline by hundreds of billion dollars per year under full implementation.

Medicare, like Social Security, is both excessive and harmful. The generous subsidies mean that consumers do not pay the full costs of their health care, so they consume too much. The result is inflated prices and distorted incentives, including unnecessary testing, surgery, and medication.

As with Social Security, policy can reduce these distortions by phasing in a higher age of eligibility. Further, policy can improve the balancing of costs and benefits by expanding co-pays and deductibles. Most beneficiaries can handle these increased costs, while the poorest elderly would receive Medicaid. These changes can save hundreds of billions per year, all while generating a more efficient health care sector.

The defense budget is a further source of beneficial expenditure cuts. Misguided weapons systems and unwanted military bases around the world divert significant resources from private uses. And conducting three wars with no apparent benefit to our national security just inflames hostility against the United States. The savings from a better targeted national defense could approach \$300 billion year.

Cutting \$1 trillion from annual federal spending is therefore not just possible; it is crucial because this expenditure harms the economy. And expenditure cuts generate a productivity bonus: they permit lower tax rates, which improve the economic incentives for work, savings, and investment.

The U.S. faces a fiscal meltdown because government undertakes activities that are not necessary or useful functions of government. The only way to end our fiscal pain is for government to get out of these activities. The good news is that so doing will pay a double-dividend: improved economic performance, and end to our fiscal nightmare.

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