



Eliminating Waste and Controlling Government Spending

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Abstract

Waste and inefficiency in the U.S. government are rampant. The federal government does too many things that would be done better by individuals or businesses in the private sector, or by state and local governments, or that should not be done at all. Moreover, unnecessary taxing, spending, and regulating distorts economic activity in numerous ways, leading to less growth and prosperity than if the government refrained from acting outside its proper constitutional domain. Ultimately, succeeding in eliminating waste and controlling government spending requires reducing the size and scope of the federal government.

If one asks Americans how many cents of every dollar that the federal government spends they believe is wasted, their answer reflects a belief that Washington is vastly incompetent when it comes to managing taxpayer money. A 2014 Gallup poll reported that Americans think the federal government wastes 51 cents of every dollar they pay in taxes.[\[1\]](#)

This year's figure is tied for the highest since Gallup began asking the question in 1979, when Americans thought their government wasted about 40 cents of every tax dollar it spent.[\[2\]](#) Except for a low point of 38 percent in the midst of Ronald Reagan's presidency, American perception of government waste has gone the same direction as the size of the federal budget—up.

While a narrow definition of government waste might include such boondoggles as a bridge to nowhere or the infamous RoboSquirrel, any attempt to control government spending and eliminate waste is best served by a broader definition based in economic principles.[\[3\]](#)

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What Counts as Government Waste?

Every year, countless news articles highlight wasteful spending by government. Waste in that sense often means lavish conferences, use-it-or-lose-it purchases made by agencies before the end of the fiscal year (FY), subsidies to dead farmers, or scratch-your-head programs, such as paying for a reality TV show in India.[\[4\]](#)

Economists use a broader definition of waste. They characterize the misallocation of resources as waste. When higher-valued resources are used for lower-valued activities, that is waste. The federal misallocation of resources takes various shapes, including:

- Spending on projects that cost more than the benefits they create;
- Government intervention in the form of subsidies or regulations that cause individuals and businesses to reduce their productive efforts or to engage in unproductive activities. A direct example is lobbying for additional government favors (“rent seeking”) instead of seeking profit from serving consumers to the best of their ability;
- Federal spending on functions that could be better performed by the private sector, or by state and local governments;
- Mis-targeted programs whose recipients should not be entitled to government benefits;
- Spending on outdated, unnecessary, or duplicative programs; and
- Inefficiency, mismanagement, and fraud.

A definition of government waste based in economic principles encompasses a much broader spectrum of government activities and is helpful as a guide to evaluating existing and new spending programs from a principled vantage point. An economic perspective should by no means be the only guide to defining the proper role of government, as other considerations, first and foremost the consent of the governed, plays the most important role in the American constitutional form of government. The consent of the governed is substantively distinct from “the will of the majority.” As explained in *The Heritage Guide to the Constitution*:

Any political powers not derived from the consent of the governed are, by the laws of nature, illegitimate and hence unjust... The “consent of the governed” describes a situation in which the people are self-governing in their communities, religions, and social institutions and into which the government may intrude only with the people’s consent... In Europe, the “will of the majority” signals an idea that all decisions are ultimately political and are routed through the government. Thus, limited government is not just a desirable objective; it is the essential bedrock of the American polity.[\[5\]](#)

By both standards of measure, the federal government has overextended itself into areas that fall outside its proper domain. Eliminating government waste and controlling spending is necessary to return America to its constitutional form of government.

The Growth in Government Spending

Federal spending is divided into three broad categories: discretionary, mandatory, and net interest. Discretionary spending is provided through appropriations acts and is subject to congressional debate every year. This category covers the costs of most government agencies, including federal salaries, and includes spending on defense and domestic programs, such as transportation, education, and the enforcement of environmental regulation. Mandatory spending is authorized by laws other than appropriations acts, either on a permanent or multi-year basis. Mandatory funding becomes available automatically each year, without further legislative action by Congress. Net interest is what the government pays to service the national debt.

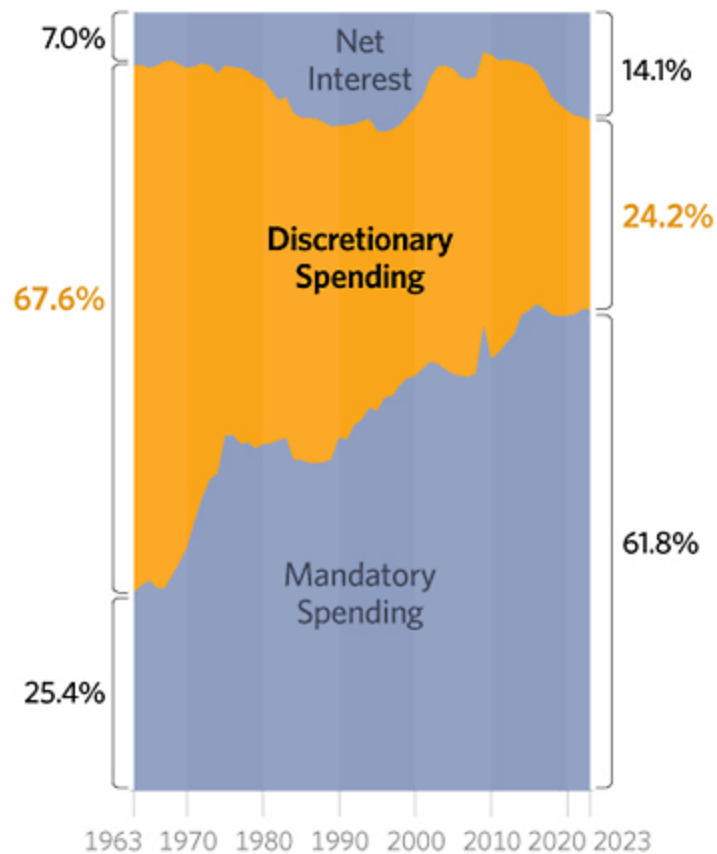
Over the past 20 years total federal spending grew by nearly two-thirds after inflation.^[6] Although spending has increased across the board, the share of the budget dedicated to mandatory spending has expanded most significantly.^[7] Mandatory spending, including Social Security and means-tested spending, doubled since 1993, while discretionary spending grew by half.

The expansion of mandatory spending as a share of the budget has proceeded steadily over the past 50 years. Whereas discretionary spending made up two-thirds of the budget in 1963 and mandatory spending consumed about one-fourth, by 2013 these shares had almost perfectly flipped with mandatory spending consuming nearly two-thirds of the budget and discretionary spending falling to about one-fourth.

CHART 1

As Entitlements Grow, the Discretionary Share of the Budget Falls to Below One Quarter

SHARE OF TOTAL OUTLAYS



Sources: Office of Management and Budget, *Historical Tables: Budget of the U.S. Government, FY 2014*, Table 8.5, April 2013, <http://www.whitehouse.gov/omb/budget/Historicals> (accessed May 8, 2013); and Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013, <http://www.cbo.gov/publication/44172> (accessed May 15, 2013).

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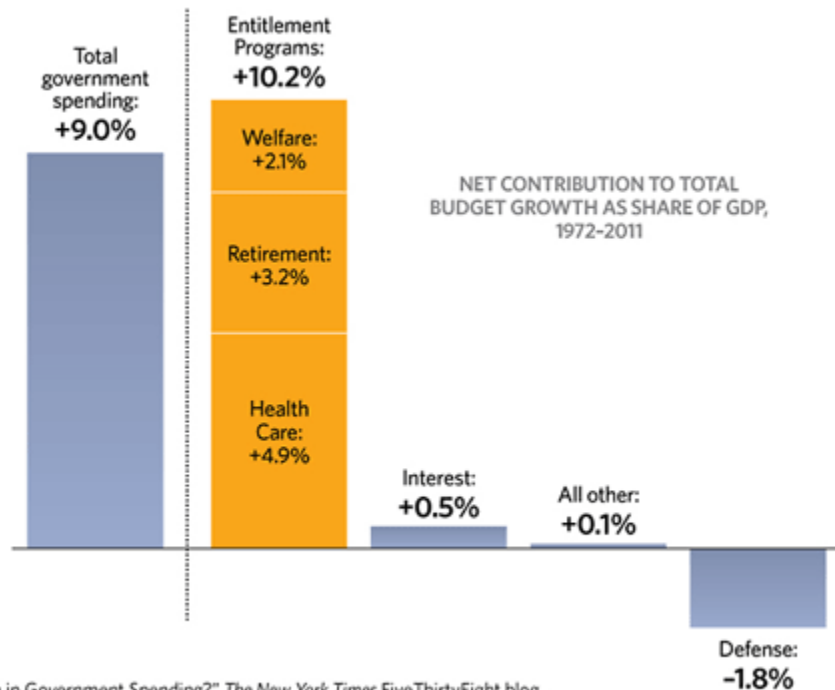
The growth in mandatory spending can particularly be traced to policies enacted between 1965 and 1972. Both Medicare and Medicaid were enacted in 1965, and they and Social Security were significantly expanded in 1972. Other programs targeting the poor and disabled, like the Earned

Income Tax Credit (EITC) and Supplemental Security Income (SSI), were added in the 1970s, further increasing the population eligible for federal benefits.

CHART 2

Entitlement Programs Primary Cause for Rise in Government Spending

Nearly all the growth in government spending over the past 40 years is due to growth in entitlement programs. In fact, government spending would be even higher were it not for reductions in defense spending.



Source: Nate Silver, "What Is Driving Growth in Government Spending?" *The New York Times* FiveThirtyEight blog, January 16, 2013, <http://fivethirtyeight.blogs.nytimes.com/2013/01/16/what-is-driving-growth-in-government-spending/> (accessed September 23, 2014).

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Additionally, health care costs per person have been on the rise, fueling the growth in federal health care spending in large part due to poor incentive structures provided by third-party payment. Moreover, the increase in American life expectancy over this period is contributing to a large degree to the rising cost of Medicare and Social Security as more beneficiaries draw benefits from both programs for longer periods of time.

Nate Silver, statistician and journalist, analyzed the increase in government spending over the past 40 years by grouping spending into four broad categories: (1) entitlement; (2) military; (3) infrastructure and government services (such as education and the criminal justice system); and (4) interest on the debt.

Silver identified that entitlement spending increased sixfold from about \$0.5 trillion in 1972 to \$2.9 trillion in 2011, faster than gross domestic product (GDP) and all other government spending. Entitlement spending even increased by more than the overall increase in government spending, meaning that spending on other categories remained flat or decreased relative to the size of the economy, as seen in Chart 2.

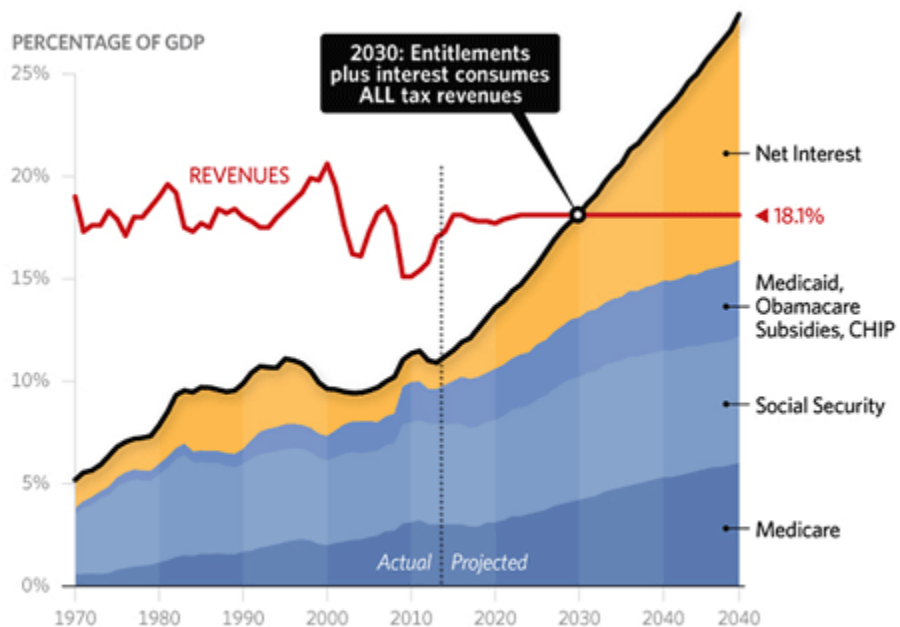
Silver concludes that "essentially all of the increase in spending relative to economic growth, and the potential tax base, has come from entitlement programs, and about half of that has come from health care entitlements specifically."^[8]

Looking forward, entitlement programs will continue to be the major drivers of spending and debt. Social Security, Medicare, and Medicaid (including Obamacare's expansion) are all projected to grow faster than the economy and revenues. By current Congressional Budget Office (CBO) projections, Social Security, Medicare, and Medicaid, and what Americans pay in interest to service the public debt, will consume all tax revenues by 2030.^[9] This means that the federal government could cease all other operations, including its core constitutional duty to provide for the national defense, and would still end up in a fiscal hole within one generation.

CHART 3

All Tax Revenue Spent on Entitlements and Net Interest by 2030

In less than two decades, all projected tax revenues will be consumed by three federal programs (Medicare, Social Security, and Medicaid, which includes CHIP and Obamacare) and net interest on the debt. Entitlement reform is a must.



Sources: Congressional Budget Office, *The 2013 Long-Term Budget Outlook*, September 17, 2013, <http://cbo.gov/publication/44521> (accessed September 30, 2013), and Office of Management and Budget, *Historical Tables: Budget of the U.S. Government, Fiscal Year 2014*, April 10, 2013, <http://www.whitehouse.gov/omb/budget/Historicals> (accessed October 9, 2013).

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Overspending on entitlement programs is the biggest driver of future debt. In its *2014 Long-Term Budget Outlook*, the CBO highlights that the current debt trajectory is unsustainable. In the CBO's own assessment,

[T]he high and rising amount of federal debt that CBO projects under the extended baseline would have significant negative consequences for both the economy and the federal budget... The large amount of debt could also compromise national security by constraining defense spending in times of international crisis or by limiting the country's ability to prepare for such a crisis.^[10]

In sum, doing nothing to address the growth in entitlement spending is simply not an option.

With the overall majority of spending going toward, essentially, federal insurance programs (for health, retirement, and unemployment) and with these entitlement programs growing at a

disproportionate rate, eliminating waste and controlling spending in entitlements is an absolute necessity. A better understanding of the meaning of a minimal safety net should guide this process.

Social Insurance v. Egalitarian Redistribution

Austrian economist Friedrich von Hayek laid out his case for a minimal safety net in an industrialized world where labor mobility dissolved community ties in *The Constitution of Liberty*:

All modern governments have made provisions for the indigent, unfortunate, and disabled... [T]he necessity of some such arrangement in an industrial society is unquestioned—be it only in the interest of those who require protection against acts of desperation on the part of the needy.[\[11\]](#)

Providing for those in need does not mean that the government should nationalize the provision of retirement income, health care, and other social services. For the government to become the sole provider of these services and for it to require that everyone participate in them, regardless of ability to provide for oneself, turns a system conceived to relieve poverty into one in which the government redistributes income above and beyond what is necessary to care for the poor. As Hayek describes the situation:

Seen as an alternative to the now discredited method of directly steering production, the technique of the welfare state, which attempts to bring about a “just distribution” by handing out income in such proportions and forms as it sees fit, is indeed merely a new method of pursuing the old aims of socialism... It is essential that we become clearly aware of the line that separates a state of affairs in which the community accepts the duty of preventing destitution and of providing a minimum level of welfare from that in which it assumes the power to determine the “just” position of everybody and allocates to each what it thinks he deserves.[\[12\]](#)

Social Security and Medicare, the two largest federal government programs, redistribute money from younger working generations to older and on-average wealthier generations, regardless of need. Although many program beneficiaries argue that they paid for their own benefits, the programs are structured on a pay-as-you-go basis in which current workers finance the benefits of current retirees. Moreover, past and current retirees receive much more in benefits from Social Security and Medicare than they ever paid into the programs.[\[13\]](#)

Most Americans support the idea of providing a minimal safety net to prevent poverty in retirement.[\[14\]](#) But Social Security and Medicare go far beyond that. More than 47,000 millionaires receive federal retirement benefits, including some wealthy lawmakers’ children.[\[15\]](#)

Overall, when it comes to net wealth, older Americans are faring much better as a group than younger Americans. A 2009 Pew study revealed that the typical household headed by someone 65 or older had *47 times* as much net wealth as the typical household headed by someone below the age of 35.[\[16\]](#)

Means-tested welfare programs have expanded beyond their purported aims. The government runs over 80 means-tested welfare programs that provide cash, food, housing, medical care, and social services to poor and lower-income Americans.^[17] Since the War on Poverty began in the 1960s, means-tested welfare spending has grown sixteen-fold, adjusted for inflation. Total government welfare spending was \$943 billion in FY 2013. Since 1960, taxpayers have spent \$22 trillion on means-tested welfare programs.^[18] Today, roughly one-third of the population receives benefits from a means-tested welfare program. Tragically, these programs have failed to promote self-sufficiency.

Cutting Government Down to Size and Limiting Its Growth

The need to eliminate waste and control government spending is clear. Less clear is how such a feat can be accomplished. Most spending decisions are not made within the context of thorough congressional deliberation. Rather, special interests are driving politics in America at the expense of the interests of the general public and the American taxpayer. The challenge then becomes to convince lawmakers to bind themselves to rules that, if violated, carry painful consequences. Rules should be simple so they can be understood by a watchful public to help hold lawmakers accountable.

The other, perhaps bigger, challenge is to help the American public understand that the most popular programs, Social Security and Medicare, also pose the biggest challenge to eliminating waste and controlling government spending. Reducing the government's role in the provision of health care services and retirement income does not by any means indicate that Americans would not enjoy the same or better benefits in retirement. Rather, freeing up resources that are today being diverted to government programs would allow them to produce more opportunity for Americans to enjoy greater retirement security. Eliminating waste and controlling government spending requires the support of the electorate.

The following agenda corrects course in America by eliminating waste where possible and by controlling government spending by cutting it down in both size and scope. Congress should:

- **Refocus entitlement programs and end government provision where feasible.** The massive increase in entitlement spending is a direct consequence of mis-targeted programs that provide benefits to recipients that should not be receiving them, and that provide them inefficiently. Assuming a basic social safety net as proper in an industrialized society, government should provide for those in need in the least harmful way possible. This means limiting benefits to those who actually need them and providing them in the most economical way possible. Social Security should focus benefits on those least able to prevent destitution in old age or those with disabilities, while encouraging others to save for their own nest egg.^[19] Medicare and Medicaid spending, other than for the needy disabled and elderly who may require additional administrative support, should be targeted to those individuals who need support the most, in the form of a premium support payment that enables beneficiaries to choose their own health care plans.^[20] Other federal means-tested social programs that are measurably more costly than the benefits they provide for their recipients should be eliminated.^[21] The most efficient method of providing insurance against poverty is

through direct cash benefits, tied to specific purposes where deemed necessary, such as health care. Convolved social programs have a tendency to provide greater benefits to the bureaucracies who administer them than to the needy they are supposed to help. With the right reforms, Congress can better protect America's most vulnerable populations by providing a durable safety net, without burdening younger generations with economically harmful debt levels or higher taxes.

- **Reform welfare programs.** Welfare reform should begin with taking account of the vast expanse of the welfare state. Total annual welfare costs as well as cost projections should be included in the President's annual budget. Means-tested welfare programs are spread across multiple government agencies and are approached in a piecemeal fashion rather than viewed as a whole. Policymakers should place a cap on total welfare spending, adjusting for inflation, which would require policymakers to prioritize among welfare spending categories. Welfare programs should first and foremost promote self-sufficiency, requiring all able-bodied adults to work, prepare for work, or look for work in exchange for receiving assistance.
- **End corporate welfare.** Corporate welfare, or the provision of financial and other benefits to businesses, distorts markets and directs productive activities toward unproductive rent-seeking. It also breeds corruption. According to analysis by the Cato Institute's Ted DeHaven, the federal government spends \$100 billion a year on corporate welfare.[\[22\]](#) Ending corporate welfare in practice means, for instance, shutting down the Export-Import Bank, and ending energy mandates, loan programs, and agriculture subsidies. Taxpayers would be better off if government stopped doling out favors to special interests.
- **Eliminate waste, duplication, and inappropriate federal spending.** Undoubtedly, there is a great deal of waste that can be cut from the federal budget. From \$5 million spent on fancy crystal in the State Department, to a single \$1 million bus stop in the Washington area, the federal government knows how to spend money irresponsibly. Greater congressional oversight and financial transparency would go a long way toward reining in lavish agency spending. To allow Congress to conduct proper oversight, however, government must be cut in size and scope. The government has simply grown too big for Members of Congress to keep pace. Case in point: There are 2,283 federal domestic-assistance programs.[\[23\]](#) Each year, the Government Accountability Office (GAO) releases a report detailing duplication among federal government agencies, along with recommendations on how to fix the problem. Congressional oversight can tie agency funding to improvements in the management of taxpayer resources. Other GAO-identified actions require congressional authorization, such as preventing individuals from double-dipping from unemployment and disability benefits. Moreover, reducing improper payments through better oversight and management could save billions every year. The federal government wasted more than \$100 billion in 2013 alone by making improper payments, such as sending checks to people who should not receive them, overpaying for medical equipment or paying for goods and services that were never delivered, as well as paying benefits to dead people.[\[24\]](#) The vast bulk of improper payments happen in federal health care programs, where government intervention has grown rapidly. A specifically dedicated, independent commission with the charge to eliminate waste, cut programs that are outside the proper scope of the federal government, and consolidate duplicative programs, could help Congress eliminate waste

and control government spending.^[25] Such a commission should also be charged with identifying government programs that unfairly compete with the private sector, or that should be within the purview of state and local government. It should also judge programs based on performance measures, including the outcomes of randomized controlled trial experiments. Reining in the federal government as it encroaches on more spheres that are not national priorities and reducing its current bloated scope is key to reducing the power of Washington bureaucrats to meddle in affairs better left to individuals, businesses, and state and local government.

- **Enact and enforce firm spending caps.** Firm spending caps would encourage lawmakers to allocate scarce resources toward their greatest uses, by prioritizing federal spending based on constitutional principles. Spending caps enable lawmakers to say no to special interests and protect American taxpayers from wasteful spending burdens. Spending caps could be implemented in a number of different ways. For example: *Spend One Dollar Less*. This rule would require Congress to spend precisely one dollar less next year than it did this year.^[26] *Limit Spending Growth to Inflation*. This approach would stop government from growing faster than changes in the cost of living. *Limit Spending Growth to Economic Growth*. Measuring the size of government in terms of the economy, through GDP, shows how big government is compared with measured private-sector activity. This rule would bind government so that it can grow no faster than the economy.
- **Control the debt.** George Washington, the nation's first President, suggested that Congress should avoid "the accumulation of debt" so as to "not ungenerously [throw] upon posterity the burden which we ourselves ought to bear."^[27] The public debt has reached heights not seen since right after World War II and entitlement spending growth threatens to elevate the public debt to levels never before seen in the U.S. Such high levels of debt endanger the nation's economy and its people. Unlike wars or economic crises, which may require the temporary accumulation of debt, the projected increase in the public debt is due to structural spending challenges. Congress should return the debt to below its historical average of 40 percent of GDP and limit the accumulation of debt by keeping spending within its means. Congress should further refrain from suspending the debt limit, as that abdicates its constitutional power to control the borrowing of the federal government.
- **Uphold the earmark ban.** Earmarking is the practice of directing funds to specific projects by bypassing competitive bidding processes and other forms of impersonal allocation of funds. Earmarks contributed to spending on often-inappropriate (beyond the scope of government) and wasteful federal programs. Earmarks have a damaging effect on the budget process beyond their dollar cost. In the transportation area, earmarks are often carved out of each state's formula allocation so that a dollar devoted to an earmark means that this dollar is no longer available to the state's own priority projects. By bypassing competitive bidding processes, moreover, earmarks often allocate funding to lower-quality and higher-cost projects at a loss to the public. Moreover, earmarks breed corruption.^[28] Congress should uphold its 2010 rule to ban its own earmarks and seek to eliminate administrative earmarks next.

Reducing the Size and Scope of Government

The federal government does too many things that would be done better by individuals and organizations in the private sector, or by state and local governments, or that should not be done at all. A smaller, more limited federal government would focus on providing essential public services, legal services, and a basic social safety net, and would otherwise leave individuals free to determine their own affairs to the maximum extent possible in the defense of liberty. Eliminating waste and controlling government spending is best accomplished by reducing the size and scope of government.