

## Reining in Runaway Spending and Deficits

### THE ISSUE:

The Obama Administration has used the recession as an excuse for a historic and permanent expansion of government and deficits. Only during the height of World War II has Washington matched current levels of spending (25% of GDP) and deficits (10% of GDP). Even after the recession, runaway spending is expected to keep annual budget deficits over \$1 trillion, which could result in sharply higher interest rates, painful tax increases, and even a Greece-like economic crisis. Beyond our own economic consequences, dumping this staggering debt on future generations would be absolutely immoral.

### THE FACTS:

- **Soaring Spending.** Federal spending per household, which has already [surged](#) from \$25,000 to \$31,000 since 2008, would reach \$36,000 by 2020 under President Obama's budget (adjusted for inflation). If spending rises \$11,000 per household, taxes will eventually have to follow.
- **Debt and Taxes.** Even with \$3 trillion in tax increases over the next decade, the President's budget would [double](#) the national debt to more than \$20 trillion (\$138,000 per household) by 2020.
- **Spending Is Driving Long-Term Deficits.** Even if all of the tax cuts are extended, revenues will exceed their 18% of GDP historical average by the end of the decade. The reason the budget deficit is projected to [rise by 6%](#) of GDP over its historical average by 2020 is that spending will exceed its historical average by 6% of GDP. Nearly all of this growth will occur in Social Security, Medicare, Medicaid, and net interest. And deficits will expand even further if lawmakers repeat the past decade's 79% growth (adjusted for inflation) in discretionary spending.

### THE SOLUTIONS:

- **Enact Spending Caps.** Washington has no enforceable limits on its spending. Discretionary spending has nearly doubled since Congress let its spending caps expire in 2002. Entitlement spending grows every year on autopilot. The repeated bypassing of Pay-As-You-Go ([PAYGO](#)) rules has rendered that budget constraint irrelevant. As long as Congress remains under pressure to spend, Members need annual spending caps to help them set priorities and make the necessary trade-offs. Congress should enact a firm cap on the annual increase in total government spending, limited to inflation plus population growth. It should also include triggers and other protections to prevent lawmakers from bypassing this cap.
- **Stop Digging.** A recession is no excuse for irresponsible federal spending. Washington should repeal the remaining stimulus funds, which have [failed](#) to create jobs and growth. Any new unemployment assistance should be offset by spending cuts elsewhere. Remaining TARP funds should be rescinded before they can be allocated to new spending. Most important, lawmakers must repeal Obamacare, a ticking spending and deficit [time bomb](#).
- **Rein in Entitlements.** Social Security, Medicare, and Medicaid are driving long-term deficit growth. It is impossible to rein in runaway spending significantly without fundamentally [reforming](#) these programs.
- **Empower States.** Washington taxes families, subtracts a hefty administrative cost, and sends the remaining revenues back to state and local governments with specific rules dictating how they may and may not spend the money. Instead of performing many functions poorly, Congress should focus on performing a few functions

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#### Entitlements

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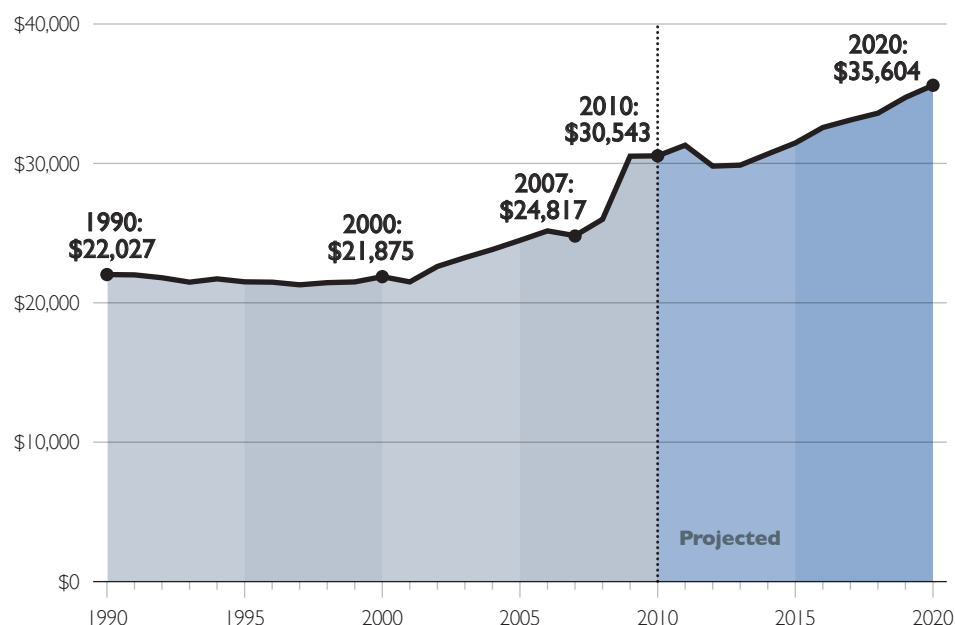
well. Most highway, education, justice, and economic development programs should be devolved to state and local governments, which have the flexibility to tailor local programs to local needs (thus likely performing those functions at a lower taxpayer cost).

- Empower the Private Sector.** Anyone who has dealt with the post office or lived in public housing understands how wasteful, inefficient, and unresponsive government can be. Government ownership of business also crowds out private companies and encourages protected entities to take unnecessary risks. After promising profits, government-owned businesses frequently lose billions of dollars, leaving taxpayers to foot the bill. Any government function that can also be found in the yellow pages may be a candidate for privatization. Washington should also develop a plan to sell unused land and assets, which could include government-owned dams in the Western U.S., underutilized government buildings, and commercially oriented land owned by the Bureau of Land Management and National Forest Service.

- Ban Corporate Welfare.** Even before the financial bailouts, Washington spent more on corporate welfare (\$90 billion) than on homeland security (\$70 billion). There is no justification for taxing working Americans to subsidize profitable companies. Lawmakers could start by reforming America's largest corporate welfare program—[farm subsidies](#), which are overwhelmingly distributed to large, profitable agribusinesses rather than struggling family farmers. Other programs like the Technology Innovation Program (formerly known as the [Advanced Technology Program](#)) should be eliminated.

## In 2010, Washington Will Spend \$30,543 per Household

INFLATION-ADJUSTED DOLLARS (2010)



Source: Office of Management and Budget, *Budget of the United States Government, FY 2011, Historical Tables*, Table 1.1, at <http://www.whitehouse.gov/omb/budget/Historicals> (April 26, 2010); Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for Fiscal Year 2011," March 2010, at <http://www.cbo.gov/ftpdocs/112xx/doc11280/frontmatter.shtml> (April 26, 2010). Household totals based on U.S. Census Bureau data.

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- Eliminate Pork and Waste.** Each year, for [example](#), Washington loses \$98 billion to payment errors and pays \$25 billion to maintain vacant federal properties. Washington also diverts about \$20 billion annually into pork projects, corrupting the legislative process by assigning taxpayer dollars based on lobbying rather than merit.
- Bring Federal Pay in Line with the Private Sector.** Not only is the federal government doing too many things best left to the private sector and to state governments but, adding insult to injury, it pays the federal employees who carry out those tasks substantially more than they would earn in the private sector. Total compensation—hourly wages plus benefits—is 30 to 40 percent above that of comparable private sector workers. Congress should bring equity to federal pay and align federal compensation with market rates. Doing so would save taxpayers approximately \$47 billion a year.