

Cutting the Federal Budget Line by Line

Tad DeHaven, Budget Analyst, Cato Institute,

before the House Subcommittee on Oversight and Investigations
of the House Committee on Energy and Commerce

October 5, 2011

SUMMARY

- Assuming that OMB did conduct a line by line review of the federal budget, the president's first budget proposal implied that he believed that 99.53 percent of the federal government was definitely needed.
- The president's list of savings created an aura of thoroughness because it targeted some obscure programs.
- It would be interesting to know whether some cuts recommended by OMB staff were shot down by the White House.
- My experiences as an Indiana state budget official taught me that political leaders are good at generating sound bites designed to make taxpayers believe that their interests come first. In reality, taxpayer interests usually end up taking a back seat to the interests of select individuals or groups.
- Cato has conducted its own page by page, line by line review of the federal budget. The results are posted on Cato's website, www.DownsizingGovernment.org.
- Policymakers need to do more than simply pledge to "eliminate waste, fraud, and abuse" in government programs. It's time to cut "meat"— not just "fat."
- If President Obama isn't serious about terminating unneeded federal programs, then it's up to Congress to do the job for him.

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Chairman Stearns and members of the committee, thank you for inviting me to testify today regarding the administration's purported effort to conduct a line by line review of the federal budget.

After the November 2008 election, president-elect Obama pledged that his Office of Management and Budget (OMB) "will go through our federal budget – page by page, line by line – eliminating those programs we don't need, and insisting that those we do operate in a sensible cost-effective way."¹

When the president released his first budget proposal in May 2009, it included a separate volume, *Terminations, Reductions, and Savings*, which identified \$17 billion in savings for fiscal 2010.² To put that figure in perspective, the president proposed to spend \$3.6 trillion that year, which means that he proposed savings equal to 0.47% of what he planned to spend. Assuming that OMB did conduct a line by line review of the federal budget, the president's proposal implied that he believed that 99.53 percent of the federal government was definitely needed at a time when we are running deficits of more than \$1 trillion.

Did the OMB really conduct a thorough line by line search of the federal budget for savings? The list of savings created an aura of thoroughness because it targeted some obscure programs. For example, the proposed savings included terminating tiny programs like the Christopher Columbus Fellowship Foundation (\$1 million) and the Javits Gifted and Talented Education Program (\$7 million). In all, the administration identified – and provided a detailed explanation for – 121 targets for savings.

The fact that the administration proposed to cut what amounts to needles in the budgetary haystack suggests that the president truly believes that almost everything the federal government does is needed. Indeed, subsequent *Terminations, Reductions, and Savings* released with the president's annual budget proposals in 2010 and 2011 have offered a similarly insignificant – but detailed – offering of spending cuts.

It would be interesting to know whether some cuts recommended by OMB staff were shot down by the White House. Was it communicated internally to OMB staff that they should only look for savings that would be the least likely to ruffle the feathers of special interests? If that's the case, then the president's suggested savings were nothing more than a political prop designed to fool the American people into believing that his administration was serious about reducing federal spending. Or, was OMB given the green light by the White House to truly go program by program, line by line? In that case, OMB itself could be responsible for producing the insignificant cuts.

I spent two years as a deputy director at the state of Indiana's Office of Management and Budget under Governor Mitch Daniels. If the circumstances at the federal OMB are similar to that which I experienced as a state budget official, then it's quite possible that the White House chose to ignore OMB's suggestions for more substantive budget cuts.

I was part of a dedicated team within Indiana's OMB called Government Efficiency and Financial Planning (GEFP). The group was tasked with conducting a "long-overdue inventory of the state's operations." We produced two reports with hundreds of recommendations for making state government more "efficient" and "effective." We also made recommendations to cut or eliminate various programs and boards.

Unfortunately, the governor did not follow through and execute very many of the recommendations. I suspect his political advisors also dissuaded him from ordering action. In fact, the advisors were so worried about the potential political fallout from aggrieved special interests over the recommendations contained in the second GEFP report that it was intentionally released when the media wouldn't notice. They needn't have worried because those interests who might have had cause for concern already saw that the first report was barely acted upon.

GEFP was respected internally, but it was not very effective. The governor's advisors typically sided with the turf-protecting department heads and they did little to support GEFP. The reason was simple: the perceived political cost of pursuing our recommendations usually exceeded the perceived political benefit.

I learned from my Indiana government experience – under a governor thought to be a fiscal hawk – that political leaders are good at generating sound bites designed to make taxpayers believe that their interests come first. In reality, taxpayer interests usually end up taking a back seat to the interests of select individuals or groups. I also learned that a failure to back up the sound bites with follow-through action only serves to embolden the special interests.

Downsizing the Federal Government

Cato has publicly challenged the president on his pledge to “go through our federal budget – page by page, line by line – eliminating those programs we don’t need.” Included below is a copy of a full-page ad that Cato ran in major newspapers with the headline, “With all due respect Mr. President, we’re still waiting.”³ We suggested 10 areas to target for cutting that would result in substantial savings. For example, eliminating energy subsidies would save about \$20 billion a year.⁴ The suggestions were arrived at based on Cato’s own page by page, line by line review of the federal budget.

The results of our review are posted on Cato’s website, www.DownsizingGovernment.org. We have posted essays laying out the case for terminating hundreds of agencies and programs. It’s worth noting that we’ve been able to cover all of that budgetary terrain through the efforts of a limited number of people.

Our research comes from publicly available data, including government resources such as reports from the Government Accountability Office and audits from various agency inspector general offices. However, a simple internet search for information on government programs will turn up countless examples of government failure. The information on widespread government failure is there for policymakers to see if only they would look. I suspect many OMB career analysts know how poorly many federal programs actually work, but their political masters keep it quiet.

It is important to note that the administration's inability or unwillingness to recognize that more than just 0.5 percent of the federal budget is unneeded is not a partisan affliction. President Obama inherited a federal budget that had massively expanded under the previous Republican administration of George W. Bush.

Republican policymakers have been doing a lot of talking lately about the need to cut spending, reduce deficits, and rein in our national debt. Unfortunately, there are only a few Republicans who have put the effort into creating detailed proposals for what agencies and programs they would terminate. Instead, far too many Republicans join their Democratic colleagues in taking the easy way out by pledging to simply "eliminate waste, fraud, and abuse" in government programs.

Policymakers always tell their constituents that they'll work to eliminate government waste. For example, previous House Speaker Nancy Pelosi instructed her committee chairs to uncover waste, fraud, and abuse as part of an effort to "ensure fiscal discipline for the

long term.” The House Republicans’ “Pledge to America” included a promise to “root out government waste.” What few in Washington want to acknowledge is that waste, fraud, and abuse always comes with government programs – the same way a Happy Meal always comes with a toy and a drink.

The massive warfare/welfare state built by Republicans and Democrats is morally bankrupt. And if the federal government were a business, it would be financially bankrupt. That means that the federal budget’s “meat” has to be cut in addition to the “fat.” Therefore, if President Obama isn’t serious about terminating unneeded federal programs, then it’s up to Congress to do the job for him.

Thank you.

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¹ http://change.gov/newsroom/entry/president_elect_barack_obama_announces_office_of_management_and_budget_dire/

² *Budget of the U.S. Government, Fiscal Year 2010, Terminations, Reductions, and Savings* (Washington: Government Printing Office, 2009).

³ <http://www.cato.org/files/DownsizingAd.pdf>.

⁴ <http://www.downsizinggovernment.org/energy>.