

WebMemo



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President's Budget Cuts Should Go Towards Deficit Reduction

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President Obama today released a list of 121 proposed program terminations and reductions at a savings of \$17 billion.¹

It is important for the President to get acclimated to the idea of streamlining government, and this exercise can be the first step. Many of the programs that President Obama has proposed eliminating—particularly in transportation, education, and health—are functions best left to state and local governments anyway.

One concern, however, is that defense accounts for nearly half the cuts, even though it comprises only 20 percent of all federal spending. The Defense Department is certainly wasteful and should not be spared from any exercise in cleaning up government. At the same time, President Obama should explain that the disproportionate targeting of defense is not ideological, and he should employ similar diligence when examining the other 80 percent of the federal government.

Phantom Savings. Two important observations should be noted:

1. *Nearly Every Dollar "Saved" Would Go into New Spending.* The President already proposed a specific discretionary spending level, and Congress has already approved a budget that would spend \$1,086 billion on regular discretionary spending in FY 2010. The discretionary savings proposals affect only the composition of such spending. Thus, even if the entire \$12.5 billion in discretionary spending cuts are enacted, the savings would automatically be plowed into other pro-

grams to maintain discretionary spending at that level. So this exercise is about reorganizing—not reducing—government.

Even on the entitlement side, \$3.6 billion of the \$4.6 billion in 2010 savings comes from phasing out the subsidized student loan program, with all savings redirected into expanded Pell grants. There is virtually no deficit reduction from these reforms.

2. *The \$17 Billion Is Relatively Little Money.* The proposed \$17 billion in spending cuts amounts to half of 1 percent of the total FY 2010 budget—it is just over 1 percent of the FY 2010 budget deficit. And it is the amount the federal government will pay in *interest* on the recent \$787 billion stimulus bill for six months.

By contrast, President Bush sought \$34 billion in annual cuts and terminations even when the federal government and budget deficit were substantially smaller than today. Furthermore, the Congressional Budget Office regularly releases "Budget Options" books recommending as much as \$140 billion in low-priority spending cuts.

What Congress Should Do. Congress should welcome President Obama's interest in streamlining government and offer two suggestions:

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1. *Mandate that savings go towards deficit reduction.* Congress should consider an amendment mandating that 100 percent of these savings would go toward deficit reduction rather than new spending. They can do this by reducing the discretionary spending 302(a) target level by the amount of all discretionary program reductions and making sure that entitlement reform bills do not transfer all savings into new spending.
 2. *Go further.* No one could reasonably believe that only half of 1 percent of the federal budget is wasted. Congress should use the President's proposals as a starting point to reform or eliminate wasteful spending, such as:
 - At least \$55 billion in annual program overpayments;
 - \$60 billion for corporate welfare;
 - \$13 billion on 9,287 earmarks in the recent omnibus spending bill;
 - \$25 billion in unused federal property;
- \$123 billion for programs for which government auditors can find no evidence of success;
 - \$140 billion in potential budget savings identified in the "Budget Options" books; and
 - Massive program redundancy, such as the 342 economic development programs, the 130 programs serving the disabled, the 130 programs serving at-risk youth, and the 90 early childhood development programs.

Stop Growing the Government. With budget deficits forecast to average \$1 trillion annually for the next decade, the need for spending restraint is more important than ever. Congress should go much further than the President's proposed \$17 billion in cuts and should make sure these reductions are not transferred into new spending elsewhere.

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1. Office of Management and Budget, "Terminations, Reductions and Savings," May 7, 2009, at <http://www.whitehouse.gov/omb/budget/fy2010/assets/trs.pdf> (May 7, 2009).