

# MERCATUS ON POLICY

## The Case for Across-the-Board Spending Cuts

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**A**MERICA'S FISCAL PROBLEMS are best addressed by a combination of tax reform and spending cuts to encourage economic growth.<sup>1</sup> The idea of cutting federal spending across-the-board is much maligned in Washington. Such cuts are often referred to as using a "meat ax," as opposed to more carefully targeted cuts, which are compared to using a "scalpel." Interest group pressure will weigh in against targeted cuts, however, and especially in our current divided government, across-the-board cuts are the only realistic way to cut spending.

### WHAT IS AN ACROSS-THE-BOARD SPENDING CUT?

ACROSS-THE-BOARD SPENDING CUTS could take the form of either specific dollar decreases (all programs are cut by, say, \$100 million) or a percentage reduction (all programs are cut by, say, three percent). The latter is preferable, as specific dollar reductions would fall very unevenly on programs of different magnitudes (a \$100 million cut in a \$200 million program is a 50 percent reduction, whereas a \$100 million cut in a \$10 billion program is only one percent). Equal dollar reductions across all programs truly are a meat ax.

Across-the-board cuts can apply in principle either to actual spending (cut every existing program by three percent) or to out-year spending projections (all programs can grow at only, say, two percent per year as opposed to four or five percent).

For present purposes, across-the-board cuts are those that cut widely across government programs, even if not every single account is touched. This is sensible because,

TABLE 1: FEDERAL EXPENDITURES: 2008 AND 2013\*

Function	2008 Outlays (in billions)	2013 Est. Outlays (in billions)	Increase
050 – Defense	616	701	14%
150 – International Affairs	28	59	111%
250 – Science, Space & Technology	26	31	19%
270 – Energy	.6	13	2066%
300 – Natural Resources/Environment	31	41	32%
350 – Agriculture	18	25	39%
370 – Commerce and Housing Credit	27	-25	( --- )
400 – Transportation	77	114	48%
450 – Community & Regional Development	23	34	48%
500 – Education, Training & Social Services	91	122	34%
550 – Health	280	385	38%
570 – Medicare	390	530	36%
600 – Income Security	431	559	30%
650 – Social Security	617	825	34%
700 – Veterans	84	140	67%
750 – Justice	48	62	29%
800 – General Government	20	26	30%
900 – Net Interest	252	247	-2%

\*Derived from Table 3.2, Historical Tables, "The President's Budget for Fiscal Year 2013," Office of Management and Budget. Outlays are in nominal dollars, as provided by OMB.

[Several accounts require explanation. Expenditures for the Energy Account (270) in the early 2000s often reflected surpluses in the Energy Supply Subfunction (271). Expenditures for the Commerce and Housing Credit Account (370) have varied wildly in recent years due to inflows and outflows related to housing market guarantees. For example, expenditures were \$291 billion in FY 2009, -\$82 billion in FY 2010, -\$12 billion in FY 2011, and \$79 billion in FY 2012. Finally, net interest payments have been relatively stable over recent years, reflecting declining interest rates on a growing debt. OMB estimates that as interest rates rise, net interest expenditures will grow to \$309 billion in FY 2014, \$390 billion in FY 2015, \$482 billion in FY 2016, and \$565 billion in FY 2017.]

for example, net federal interest payments on accrued debt neither can nor should be reduced by mandate. Indeed, we propose an even somewhat looser definition, such that not every program must be reduced by the exact same percentage, as long as most programs are significantly affected.

### ARGUMENTS AGAINST ACROSS-THE-BOARD CUTS

THERE ARE FOUR arguments—not all consistent with one another—that are frequently made against across-the-board spending cuts. The first is that they are “draconian,” that is, that some or many programs cannot be cut at all without doing great harm. This is less an argument than a rhetorical ploy, however, because modest reductions in actual or proposed future spending are hardly “draconian.” Moreover, as Table 1 below demonstrates, in the case of the federal government virtually every program has grown so rapidly in the past five

years—on average, roughly 35 percent—that there is plenty of room to cut.

Are we really to suppose that, say, a three percent reduction in a program that has grown by 35 percent in five years would be catastrophic? Or that we simply cannot imagine a federal program running at last year’s funding level?

Second, across-the-board cuts are said to be “thoughtless” or even “unfair.” The premise of this argument is that some programs deserve to be cut and others do not. But this is precisely the nub of the problem: which programs are which? There are no objective ways to rank programs; moreover, there is no political agreement on what programs are to be cut. Some favor defense while others favor the food stamp program. The fact is that modest across-the-board cuts approximate whatever degree of thoughtfulness or fairness exists in the current budget, which legislators have already adopted.

Third, across-the-board cuts are said to be ineffective because they do not touch the large entitlement programs, such as Medicare, which are outside the so-called discretionary budget. Entitlement programs have grown rapidly in recent years and, unless reformed, will do so in the future as well. There is no reason in principle why entitlement programs should be exempt from across-the-board cuts; to the contrary, were it not for the problem of interest group dynamics, there would be every reason to focus predominantly on cutting these programs.

This brings us to the fourth argument: across-the-board cuts are technically difficult to achieve. They are not; there is no reason that legislative instructions cannot be given to congressional committees of jurisdiction to, say, reduce Medicare spending by three percent, or to craft a program in which Medicare grows more slowly in the future. This is the precise process followed in what is known as “reconciliation,” where congressional committees are required to meet budgetary targets. It would be the course of wisdom to make across-the-board cuts in broad budget categories while giving both congressional committees of jurisdiction and the executive branch flexibility as to how to apply the reductions to specific programs within these categories.

### EXPERIENCE WITH ACROSS-THE-BOARD SPENDING CUTS

ONE MIGHT ARGUE, only slightly tongue in cheek, that there are very few examples of government spending cuts anywhere, any time or in any way. But there are good examples of across-the-board spending cuts. At the state level, there is perhaps no better example than New Jersey in 2010–2011. Newly elected Governor Christie discovered massive and unsustainable deficits in New Jersey’s finances. He acted immediately, using executive authority in FY 2010 to close the deficit. But for FY 2011 he proposed cuts across-the-board to virtually every government agency to the New Jersey legislature.<sup>2</sup> These varied by percentage but were very broad-based and exempted only a handful of programs. Interestingly, these reductions were adopted in a divided state government, with a Republican governor and Democratic control of both houses of the legislature.

At the national level, Canada offers an excellent example of successful across-the-board cuts. In the early 1990s Canada’s federal finances were in disastrous

shape, with substantial deficits looming. In 1992 Canada’s combined federal, provincial and local spending constituted 53 percent of the Canadian GDP. Beginning in 1994 Canada’s newly elected Liberal government adopted broad-based defense and non-defense cuts—by differing percentages, and excepting certain programs, to be sure—reducing non-interest spending by 10 percent in just two years.<sup>3</sup> Following these cuts Canada limited the growth of federal spending to two percent in each of the next three years.<sup>4</sup>

### WHY TARGETED REDUCTIONS WILL NOT WORK

THE ARGUMENTS AGAINST across-the-board cuts are weak, and cuts like these have worked when employed in practice. There is no comparable case to be made for targeted spending cuts. Why? Public choice theory would tell us that all programs in the current federal budget are there for a reason. They have constituencies who have put them there, who have expanded them, and who will defend them. This is true in general, but it is especially true at a time of divided government. Divided government reinforces the inherent tendency of interest groups to drive federal spending; in a government characterized by split party control of Congress and the presidency, there are few, if any, programs that do not have political advocates. That is why there have been only minor targeted reductions in federal programs, occurring in marginal programs so far out of date as to have lost every constituency.

### GOING FORWARD

WE HAVE A choice. We can continue to hold out misplaced hope for carefully targeted reductions. The temptation is obvious. But our system does not permit any single individual to choose which programs to cut; it requires agreement by both houses of Congress and the president. The chance of meaningful targeted reductions in this environment is slim to none. The argument for using a scalpel has become little more than a pretext to cut nothing at all. Targeted cuts are a bit like cutting “waste and fraud”; if it were obvious where these cuts should be, would they not already have been made?

It was the wisdom of the framers to found our system not on men as we wish them to be, but on men as they are. As Madison asked, what is government itself but the greatest of all reflections on human nature? In this

same spirit, we should give up the fantasy of broad-based agreement on targeted reductions and understand that across-the-board cuts are the only realistic way to reduce federal spending, now or going forward. Churchill once said that “Democracy is the worst form of government, except for all those other forms which have been tried from time to time.”<sup>5</sup> So it is with across-the-board spending cuts.

## ENDNOTES

1. Tax reform is an important issue, with many of the same interest group dynamics that affect spending cuts; however, this policy paper focuses only on the issue of spending cuts.
2. “March 16, 2010—Remarks of Governor Chris Christie to the Joint Session of the New Jersey Senate and General Assembly Regarding the Fiscal Year 2011 Budget,” State of New Jersey website, accessed March 21, 2013, <http://www.state.nj.us/governor/news/addresses/2010s/approved/20100316.html>. It should be noted that spending in New Jersey has subsequently grown again, exceeding 2010 levels.
3. See Figure 2, Henderson, David R. “Canada’s Budget Triumph.” Mercatus Working Paper. Arlington, VA: Mercatus Center at George Mason University, September 2010, 12.
4. Chris Edwards, “We Can Cut Government: Canada Did,” Cato Policy Report, May/June, 2012, 3.
5. Winston Churchill, Speech to the House of Commons, November 11, 1947.

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