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ADMINISTRATION EFFORTS ON LINE-BY-LINE BUDGET REVIEW
OCTOBER 5, 2011

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United States House of Representatives, Energy and Commerce Committee
Subcommittee on Oversight and Investigations

The United States' deep and structural financial imbalances are the result of decades of overpromising and overspending. With a near-stagnant economy, an already heavy debt burden, and the looming explosive growth of programs such as Medicare, Social Security, and Medicaid, Washington must take immediate, significant steps to get spending under control. If it does not, Americans will face very real and very painful economic and fiscal consequences.

During the 2008 presidential campaign, then candidate Obama promised to streamline Washington so that it would work in tough economic times. To achieve this, he would "conduct an exhaustive line-by-line review of the federal budget and seek to eliminate government programs that are not performing and demand that new initiatives be selected on the basis of their merits, not through a political process that rewards lobbyists and campaign donors."[2]

After his election, President-elect Obama underscored this pledge, declaring:

> In these challenging times, when we are facing both rising deficits and a sinking economy, budget reform is not an option. It is an imperative. We cannot sustain a system that bleeds billions of taxpayer dollars on programs that have outlived their usefulness, or exist solely because of the power of a politicians, lobbyists, or interest groups. We simply cannot afford it. This isn't about big government or small government. It's about building a smarter government that focuses on what works. That is why I will ask my new team to think anew and act anew to meet our new challenges....We 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.[3]

President Obama solidified this mission in his first budget proposal, stating:

> The President believes that we should be investing taxpayer dollars in efforts and programs with proven records of success and reallocating or cutting programs that do not

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[1] The ideas presented and opinions expressed in this document are the author's and do not represent official positions of the Mercatus Center or George Mason University.
[2] Barack Obama, *Blueprint for Change: Obama and Biden's Plan for America* (Chicago: Il: Obama '08, 2008), 20, http://www.wobook.com/WB_Y0WV4Gf7W-20.
[3] Barack Obama, news conference, November 25, 2008, http://www.clipsandcomment.com/2008/11/25/transcript-barack-obama-news-conference-the-economy-november-25-2008.

> work or whose benefits are not worth their cost. To this end, the Administration has begun an exhaustive line-by-line review of the Federal Budget, the first stage of which will be partially reflected in the spring release of the full FY 2010 Budget and will continue in subsequent years.[4]

The president was right. Unfortunately, little evidence suggests that the president's promise has been realized. However, if Congress and the Administration replaced the institutional incentives that sanction—perhaps even promote—waste and inefficiency with institutional incentives that encourage the prudent stewardship of taxpayer dollars, the promise could become a reality. To this end, this testimony highlights guiding principles and goals for a line-by-line review with which the agencies can assess which programs must be eliminated.

GUIDING PRINCIPLES FOR A LINE-BY-LINE REVIEW

Eliminate the low-hanging fruit of wasteful spending

Some wasteful spending is so obvious that it is hard to understand how it continues year after year. The federal government wastes money when it funds programs that duplicate another program or function, such as the 47 job training and 56 financial literacy programs that exist throughout the federal government.[5] The federal government also loses a considerable amount of money to overpayments or improper payments, such as those made by the Department of Health and Human Services, which estimates it made $48 billion in Medicare improper payments in fiscal year 2010.[6] Congress and the Administration must take immediate steps to eliminate this obviously wasteful spending.

Eliminate programs that do not demonstrate or even measure their own impact

There is a troubling tendency among agencies to poorly, if ever, measure the performance of the programs they manage. Agencies often fail to identify the goal a program is supposed to achieve or the need the program is supposed to address, and they infrequently conduct rigorous cost benefit analyses that assess whether there are any legitimate reasons to continue spending taxpayers' dollars.

Take the Small Business Administration for instance. It has been often noted that the agency does not collect any outcome-based information on its loan guaranteed programs, such as the 7a loan, and "none of the measures link directly to the SBA's long-term objectives."[7] In other words, the SBA touts the benefits of its 7a loan program by reporting how much money the agency spends on it, a true measurement of the performance of SBA loans should include the loans' effects on economic growth. It is possible, for instance, that even though a large share of SBA borrowers default on their loans, thus costing taxpayers money, the economic growth triggered by the other borrowers compensates for the losses. In other words, taxpayers are left in the dark about the performance and economic impact of SBA loans.

If a program cannot be bothered to measure its impact or if cannot demonstrate it is having an impact, it should not exist. Agencies should eliminate any such programs.

Eliminate spending on goods and services that the private sector should provide

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[4] Barack Obama, *A New Era of Responsibility: Renewing America's Promise* (Washington, DC: U.S. Government Printing Office, 2009), 34, http://www.washingtonpost.com/wp-srv/politics/budget2010/fy10-newera.pdf?hpid=topnews.
[5] Senator Tom Coburn, Table: "Duplication in Federal Programs" in "Back in Black" (deficit reduction plan, Senator Tom Coburn), 29, http://coburn.senate.gov/public//index.cfm?a=Files.Serve&File_id=bc1e2d45-ff24-4ff3-8a11-64e3dfbe94e1.
[6] Government Accountability Office Auditor's Report, "Improper Payments: Reported Medicare Estimates and Key Remediation Strategies," GAO-11-842T July 28, 2011 http://www.gao.gov/new.items/d11842t.pdf
[7] Government Accountability Office, *Small Business Administration: 7(a) Loan Program Needs Additional Performance Measures*, GAO-08-226T, November 1, 2007, http://www.gao.gov/new.items/d08226t.pdf.

Economic theory suggests that just as governments provide public goods more efficiently than the private sector would, private markets provide non-public goods—especially commercial ones—more efficiently that the government does. Unfortunately, according to OMB, about half of all federal employees perform tasks that are not "inherently governmental."[8] Having the government run businesses—such as Amtrak—and oversee infrastructure—such as the air traffic control system—is not just inefficient, it hinders economic growth, wastes taxpayers' money, and results in lower-quality services to customers.[9] The government should eliminate spending on goods and services that the private sector should provide.

Eliminate spending on programs and activities best provided by state and local governments

Just as the federal government is not the best-suited entity to deliver services that the private sector should deliver, it also is not the best entity to provide public goods better delivered at state or local levels.

Take the protection of the United States. In theory, the protection of the country against international enemies is a public good. Yet the federal government should not provide all of the protections. The federal government should invest in areas that have national scope, such as espionage, intelligence, and immigration control. But the protection of public infrastructure—such as bridges and water treatment plants— that benefit the residents of a particular state or locality should fall to the state or local government.[10]

Unfortunately, in recent history, the federal government has expanded its reach and taken over many state functions.[11] This confusion over federal versus state authority extends to spending on programs in areas such as education, transportation, and homeland security. As I have documented in detail during my testimony before the House Committee on Oversight and Government Reform, federal spending on programs that should be the responsibility of the state and local governments spurs wasteful spending and should be eliminated.[12]

CONCLUSION

The federal government wastes a lot of money. Thus the president's promise to go through the budget line-by-line to identify and eliminate such spending is welcome.

Unfortunately, government agencies have little incentive to engage in such an effort. That is why Congress and the Administration must outline some clear goals and principles that agencies could follow to identify obsolete, mismanaged, or otherwise dysfunctional programs for elimination. Such principles are a necessity for the effective implementation of the president's promise: the line-by-line budget review will not be able take place without them.

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[8] Chris Edwards, "Privatization" at Downsizing the Federal Government, February 2009, http://www.downsizinggovernment.org/privatization.

[9] Dong Fu, Lori L. Taylor, and Mine K. Yücel, "Fiscal Policy and Growth" (Federal Reserve Bank of Dallas Working Paper 0301, January 2003), 10.

[10] Even if there might be adverse effects throughout the economy if a specific bridge were to be destroyed, the principal economic impact of such an unfortunate event would be felt primarily locally.

[11] See Executive Order 12612, 3 CFR 252 (1988) http://www.archives.gov/federal-register/codification/executive-order/12612.html.

[12] Veronique de Rugy, "Wasteful Spending Does Not Stop at Earmarks and Overpayments," Testimony before the House Committee on Oversight and Government Reform, February 17, 2011, http://mercatus.org/publication/wasteful-spending-does-not-stop-earmarks-and-overpayments.