27. The Federal Budget

Congress should enact a peace and prosperity budget that

- keeps the budget balanced for at least the next 10 years,
- reduces the size of government from 20 to 15 percent of gross domestic product over five years,
- eliminates more than 200 unnecessary and unconstitutional programs,
- reduces the federal tax burden substantially and in ways that would promote economic growth,
- includes a tax and expenditure limitation measure that limits federal spending growth to the rate of annual inflation plus population growth,
- reduces the national debt through federal asset sales, and
- rebates all tax surpluses to taxpayers at the end of each fiscal year with each taxpayer's rebate determined as a share of the total federal taxes he or she paid during the year.

We are now entering the fourth year of budget surplus politics in Washington. For 30 years the annual federal budget deficits set the parameters of the domestic agenda in Washington. The sea of red ink became a symbol of an out-of-control federal government. Now with massive waves of tax revenues pouring into the federal coffers, the crusade for fiscal restraint has lost much of its political appeal. Big government seems more affordable than ever before.

This era of surplus politics has not been kind to those who wish to see the role of the federal government in our lives diminished. The federal budget has exploded by some $350 billion since the Republicans took over Congress in 1995. The growth has been most pronounced in the very types of social welfare and income redistribution programs that Republican leaders pledged to curtail in the Contract with America.

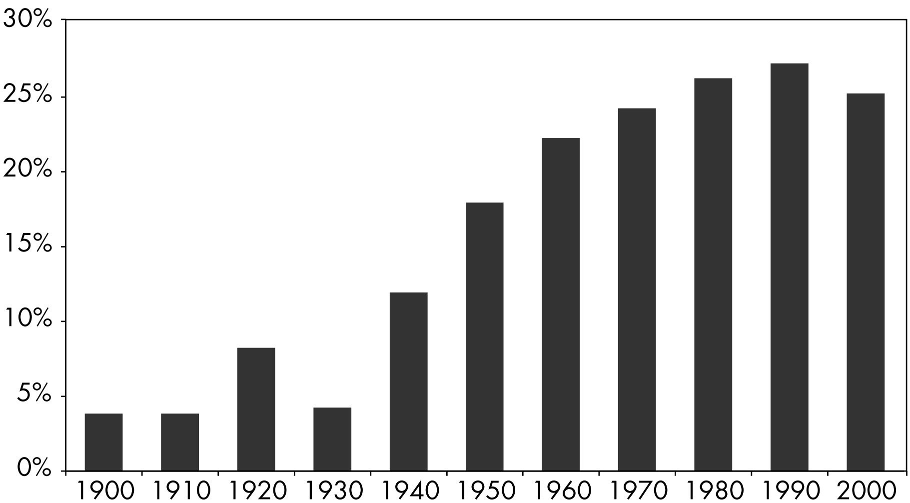
Today, there is no effective restraint on federal spending. The 2001 budget caps were exceeded by nearly $100 billion in the final days of the 106th Congress. With the budget balanced, and the amount of federal tax overpayments rising every month, the fiscal discipline argument against new federal programs has lost its political punch. Over the past three years, the federal government has run nearly $500 billion in surpluses.

In FY 2001 and 2002 another $200 billion in surpluses (each year), may well be on the way. If those surpluses are not devoted to pro-growth economic policies, they will be a curse, not a blessing, to taxpayers.

Republicans and fiscally moderate Democrats need to make the case that peace and prosperity are not excuses for busting open the federal piggy bank and playing Santa Claus to voters. Just the opposite. We now have an opportunity to reduce the burden of government on the American taxpayer. Figure 27.1 shows the long-term trend in federal expenditures as a share of national income. The federal government's consumption has escalated from 17 percent in the early 1950s to about 25 percent today.

Tax surpluses present us with a once-in-a-lifetime opportunity to fix two of the heaviest remaining millstones that Washington has placed

Figure 27.1
Federal Outlays as a Percentage of National Income



SOURCE: Author's calculations based on Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Washington: Government Printing Office, 1975), Series F-7, p. 224; and Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2001* (Washington: Government Printing Office, 2000), Table 1.1, p. 19.

around the neck of the American economy. The first is a Depression-era pay-as-you-go Social Security system that depletes national savings and robs young Americans of their financial future. Over the next 10 years the Social Security program will run a $2 trillion surplus of taxes paid in over benefits paid out. At the very least, every penny of that payroll tax surplus should be diverted into personal investment accounts of the individual workers who created the surplus in the first place. This would give workers a substantially better rate of return on their incomes (6 percent for private accounts, conservatively estimated, versus 2 percent for Social Security). It would also help close the wealth gap between rich and poor by giving lower-income Americans an opportunity to obtain real wealth and capital. Finally, a system of private accounts would dramatically reduce long-term liabilities of the Social Security system.

The second millstone is the tax burden—which is at a record peacetime level. As a consequence, the federal government is now running an operating surplus that is expected to accumulate $2 trillion in excess income tax receipts over the next decade. This surplus should also be returned automatically to workers. The optimal policy would be to devote the income tax surpluses to paying the cost of transition to a new flat-rate consumption tax system. But *how* taxes are cut is of secondary importance; the urgent reality is that they must be cut immediately.

The economic logic here is that tax surpluses should be devoted to the kinds of activities that will optimize personal freedom and economic growth for today's and tomorrow's workers. The combination of lower federal taxes and a system of private retirement accounts as an alternative to Social Security would be an enormous economic gift to leave on the doorstep of future generations of Americans. These policies could be instrumental in keeping the American economic growth rate at 3 to 3.5 percent over at least the next 20 years.

The preoccupation with debt retirement in both political parties today is misguided. Debt retirement has very little long-term economic benefit—particularly compared with tax reform and Social Security privatization. Debt retirement does not shrink the size and scope of government. The interest payments on the debt probably have the benign impact of crowding out other more invasive forms of government spending. Moreover, if we pay down the interest owed on our national credit card, politicians will find it easier to launch new deficit-financed spending in the future. Prosperity is the key to debt retirement. If the economy continues to grow, the debt will continue to fall as a share of our national economy. Even if we don't pay off a single penny of debt over the next decade, the national debt's share of the economy will fall to about 20 percent—its lowest recorded level.

There is a right way to pay down the debt. That is through the sale of federal assets. Hundreds of billions of dollars could be raised from selling federal assets—such as property and mining rights—and those proceeds should be used for debt retirement.

Finally, this chapter lays out a strategy for curtailing government spending. The goal should be to return the federal government to its size in the pre–Great Society era. Total federal spending should decline to about 15 percent of GDP—from 20 percent today. Given that we are in an era of peace and prosperity, both military and social spending can be shaved to reach this target. Since 1998, for every dollar of new spending, taxes have been cut by just 10 cents. It is time to reverse that ratio and return surpluses to the taxpayers and businesses that created them.

Why Republicans Won't Cut the Budget

The culture of spending in Washington that caused Democrats to finally lose control of Congress in 1994 has triumphed again. The powerful political forces that impel Congress to spend tax dollars, rather than save them, have spread like a virus from the Democrats to the Republicans.

Republicans and moderate Democrats in the 104th and 105th Congresses deserve credit for producing the first balanced budget (both the unified and operating federal budget) in 30 years. In 1994 the budget deficit was $200 billion and was projected to stay that high for as far as the eye could see. Fiscal 2000 ended with a $200 billion surplus. That is a remarkable improvement.

What's more, with respect to the deficit, the budget outlook for the next 10 years has substantially brightened. The latest Congressional Budget Office estimate indicates that the budget surpluses could reach $4 trillion over the next 10 years, with half of that surplus in the Social Security account and half in the operating budget.

The improvement, however, has not been a result of any shrinkage in the size or scope of government. Almost all of the budget progress has resulted from (1) a strong economic expansion, (2) a record tax burden, and (3) continued cuts in the military budget since the end of the Cold War. Real nondefense spending has expanded by more than $400 billion, or 47 percent, in the past 13 years. The Table 27.1 shows that even as defense spending has fallen rapidly over the past 13 years, the domestic budget has soared.

Table 27.1
What Happened to the Peace Dividend? (billions of 1999 dollars)

Year	Defense Spending	Social Spending
1987	383	1,009
2000	291	1,482
1987-2000	−92	+473
Percent change	−24%	+47%

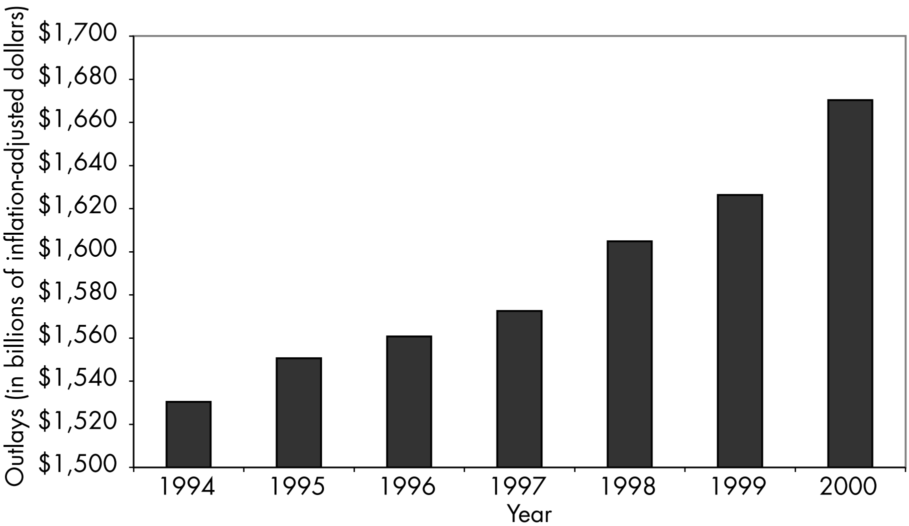
There is no mystery about what accounts for this progress. The Cold War ended. Military spending as a share of GDP is now at its lowest level since the late 1930s. The defense budget has been halved from 6 to 3 percent of GDP since 1987. Table 27.1 shows the divergent path of military spending and domestic spending over the past 13 years. This is the first postwar period in American history in which peace dividend savings have not been passed back to taxpayers through tax cuts.

The five-year federal spending total of $10 trillion envisioned for 2001–2005 is more money, adjusted for inflation, than America spent to fight World Wars I and II, the Civil War, and the Revolutionary War. In fact, in today's dollars, it is more money than the U.S. government spent on *everything* from 1800 to 1960. Figure 27.2 shows the growth of federal expenditures under the Republican Congress.

The failure to restructure the government in ways that make it less intrusive, less expensive, and less bureaucratic is all too similar to that of the Reagan years. In his masterful critique of the failed Reagan budget revolution, *The Triumph of Politics,* David Stockman complained that "the Reagan revolution amounted to the clearest test of doctrine ever likely to occur in a democracy like our own. And the anti-statist position was utterly repudiated by the forces of the politicians—both Republicans and Democrats." Stockman glumly concluded that "by 1984 the Reagan White House was nearly bereft of any consistent anti-spending policy principles."

That was precisely the case at the end of the 106th Congress. This past year the budget process became a fiscal free-for-all, with domestic agency budgets peaking at record levels and many of the most obsolete, counterproductive, and intrusive federal programs—Amtrak, the National Endowment for the Arts, bilingual education funding, Goals 2000, the Legal Services Corporation, and even the IRS—have received beefy increases in their budgets. The Republican-controlled 106th Congress ended up

Figure 27.2
Total Federal Government Expenditures



SOURCE: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2001* (Washington: Government Printing Office, 2000), Table 1.3, pp. 23–24.

being the biggest-spending Congress, measured by the real percentage increase in domestic spending, since the late 1970s when Jimmy Carter occupied the Oval Office and Tip O'Neill was the Speaker of the House.

The final budget approved for 2001 exceeded Congress's own budget caps by $100 billion. That's more money than we spent on the entire Gulf War. Congressional Republicans even managed to outspend Bill Clinton's original budget request by $20 billion. Or, to state the point more emphatically: taxpayers would be much better off if Republicans had simply rubber-stamped every Clinton administration spending request back in February 2000 and then adjourned for the rest of the year. At the start of the year, the White House requested $620 billion for discretionary programs. Instead, the Republicans appropriated $640 billion.

Perhaps the most depressing sign of the GOP's full-scale fiscal retreat from the anti–big government agenda was the 2000 agriculture appropriations legislation. That bill eviscerated one of the GOP's few domestic policy triumphs—the Freedom to Farm Act of 1996. That heroic legislation was designed to phase out crop and dairy subsidies over five to seven years so that farmers could finally produce for the market rather than for Uncle Sam.

In reality, farm subsidies have grown every year under the GOP Congress. Last year's $35 billion farm aid bill is by far the most costly ever, with enough subsidy payments to cram every silo in central Illinois, Iowa, and Nebraska with $100 bills. Florida citrus growers will get $58 million in payments; the famous wool and mohair subsidy has been resurrected so that Vermont sheep herders will get $20 million in renewed handouts this year; apple and potato farmers get $138 million; Connecticut oystermen will get an emergency bailout; and the loan program for Florida sugar plantation owners has been made more generous than ever. Aggrieved avocado farmers in California will now get funds from a new tax on imported avocados. The dollars generated from this tax "will be used to fund research and marketing campaigns in favor of avocado consumption." The bill even allocates $1.6 billion over the next five years for increasing food stamp payments, thus further diluting a key provision of the successful welfare reform effort.

The fate of the Department of Education budget over the past six years is equally dispiriting. Recall that in 1995 the Department of Education was possibly going to be shut down by Newt Gingrich and the House Republicans. In 2000 congressional Republicans trumpeted as one of their "accomplishments" that they spent several hundred million dollars more than Bill Clinton sought for the Education Department. This department has grown by almost 40 percent since 1996. *Education Week* reported in 1999 that "many school aid programs are faring a lot better" under a Republican Congress than they did when Democrats ruled Capitol Hill.

There are many other grim tales of how the Republicans have suddenly become more enthusiastic about growing the federal budget. Perhaps the best summary of the GOP's six-year fiscal odyssey from budget cutters to champion big spenders was provided by the National Taxpayers Union. NTU recently reported that in 1995 and 1996 there were more than 400 members of Congress who cast votes to cut spending. In the 106th Congress there was a grand total of two budget cutters—Reps. James Sensenbrenner (R-Wis.) and. Ron Paul (R-Tex.). Republicans and Democrats are now sponsoring seven bills to raise federal spending for every bill they propose to cut the budget.

How to Sell Smaller Government

So what lessons should voters and legislators have learned from the collapse of the GOP's budget-cutting agenda in the 105th and 106th Congresses? After six years, the pro-spending wing of the party seems to have triumphed on almost every important vote. We take no joy in reporting that the Democratic cardinals on Capitol Hill have simply handed over the reins of power to a cast of profligate Republican cardinals.

One lesson of the past several years is that the longer Republicans hold onto power, the more tolerant they become of expanding government. A 1998 Cato study by Aaron Steelman finds that the longer Republicans stay in office, the more supportive they are of higher spending. Term limits would seem to be a critical political reform if the budget is to be truly trimmed over time.

There is also another factor at play here that helps explain the expansion of government in recent years—the curse of the tax surpluses. Fiscal conservatives are losing the battle over the politics of budget surpluses. In 1998 Rep. Fred Upton (R-Mich.) made a prophetic statement when he declared that "with big budget surpluses on the horizon, there is little support in Congress for cutting government agencies." Upton was right. Since 1997 Republicans have not managed to eliminate a single major program in the federal budget—not one of the thousands that taxpayers finance every year. "For the last 20 years, the budget deficit was our one line of defense for restraint on spending in this town," says former Budget Committee chief of staff Wayne Struble. "Now that fence is gone and there are effectively no restraints left." Republican Rep. Joe Scarborough of Florida, one of the hard chargers from the class of 1994, agrees. He remembers that when he first ran for Congress in 1994 the $200 billion budget deficit was prima facie evidence to voters that the government was too big and too intrusive. "Now," he says, "the case for cutting government just comes down to philosophy. It's a tougher fight."

Some analysts have concluded that the GOP's fiscal spending binge of late is simply evidence that the goal of limiting government is utterly futile—that politicians are giving the voters all the government they want. We disagree. By two-to-one margins Americans still say they prefer fewer government services and lower taxes to more government and higher taxes.

The goal is not flawed, but the GOP's game plan has been. The budget-downsizing agenda has been poorly marketed, and the execution has been even worse.

To build a political consensus for spending reductions a strategy that incorporates four principles must be followed.

First, Americans must believe that the budget plan is even-handed. In the immortal words of David Stockman, it must target weak claims, not weak claimants. In 1995 Republican budget cutters made the mistake of targeting school lunches first. They should have targeted corporate lunches. The Republicans must begin to cut corporate welfare and subsidies for the wealthy. It is time for welfare reform part II: getting corporate America off the dole. Such a strategy would make Republicans appear to be principled and balanced in their attack on big government. If Republicans continue to fund preposterous business subsidy programs such as the Export-Import Bank, they are simply not serious about promoting free markets and free enterprise, and the public will sniff out their hypocrisy.

Second, fiscal conservatives have failed to recognize that the budget process is still severely biased in favor of spending, rather than cutting. Budget cutters in Congress have devoted insufficient attention to institutional reforms—to changing the fiscal rules of the game to end the pro-spending tilt.

Third, taxes must be cut dramatically as a way of taking extra revenues away from Congress so they can't be spent in the first place. Federal revenues drive spending; if taxes remain at their highest level since World War II, it will be politically futile to try to cut spending. Debt retirement is not an effective deterrent against the torrent of new spending demands by the pro-government lobby in Washington.

Fourth, a leaner federal budget must be sold to the voters as a means of promoting individual liberty and economic freedom. That is to say, there is a freedom and prosperity dividend from cutting the budget—and the public needs to be made aware of that benefit. Americans now pay roughly 40 cents for every dollar they earn to the tax collector in Washington, or in their state capital, or in city hall—a tax burden that is incompatible with a free society. Voters need to understand that, if they want lower taxes, they must support smaller government too. The two go hand in hand.

The Components of a Prosperity Budget

The nearly $2 trillion budget that the next president introduces in January will be four times larger than Jimmy Carter's last budget. It will consume 20 percent of GDP, or almost twice the long-run national average for the United States. To diminish spending to 15 percent of GPD in five years, the following steps must be taken:

1. A new budget act must be written that ends the pro-spending bias of the congressional budget process.
2. A five-year, $1 trillion tax cut must be enacted.

3. A private IRA account alternative must be offered to all workers as a substitute for Social Security.
4. Welfare should be abolished, and in its place the federal government should offer an expanded Earned Income Tax Credit.
5. The Transportation Department should be devolved to state and local governments and the federal gas tax should be repealed.
6. Corporate welfare elimination should be made a top congressional priority.
7. Legislation prohibiting American individuals and businesses with incomes of more than $1 million from receiving federal subsidies should be approved.
8. More than 300 obsolete, ineffective, or unconstitutional federal programs should be abolished.
9. At least $100 billion of federally owned assets should be privatized, and the proceeds should be used to retire the national debt.
10. Medicare and Medicaid should be converted into a system of pro-consumer medical savings accounts for seniors and the poor.
11. The Pentagon budget should be cut to reflect the post–Cold War world and to minimize U.S. interference in foreign conflicts.

Let us now examine each of these priorities in greater detail.

Enact a New Budget Act to Better Protect Taxpayer Interests

Congress has done little to reform the budget rules that skew political decisionmaking in favor of ever-larger federal outlays. Currently, the deck is stacked against those who wish to reduce expenditures or cut taxes, or both. The lesson from the states is that budget rules that deny lawmakers the power to spend and tax recklessly can be quite effective deterrents to fiscal irresponsibility.

Tax and Expenditure Limitation. This is the most crucial and overdue reform of all. There need to be constitutional caps on spending and taxes to limit the growth of Leviathan. The most effective measures adopted by the states cap spending according to an easily understood formula, such as the growth of population plus inflation in the previous year. A federal limitation on taxes and expenditures would force Congress to make tough choices about spending priorities. In recent years federal spending has been growing at about twice the rate of inflation. This would not be permitted if a constitutional spending cap were implemented.

Rebate Surplus Taxes. An annual tax rebate system would help deter the spending of budget surpluses. The idea is to rebate surplus tax payments automatically to taxpayers in proportion to the percentage of federal taxes each household paid. If taxes or spending were by law capped at the rate of inflation and population, the incentive for politicians to raise tax rates or introduce new taxes would be greatly diminished because any extra tax revenue collections could not be spent. Raising taxes would be constitutionally prohibited from fueling new spending. In fact, an automatic rebate mechanism might compel Congress to cut tax rates in advance rather than have to return surplus revenues at the end of the year.

The rebate, based on the size of the actual surplus recorded during the previous year, should be provided at the end of each fiscal year. Each individual's tax rebate would be determined on the basis of his or her share of total income and Social Security taxes paid. If Susan paid twice as much in income and payroll taxes as John, her rebate check would be for twice the amount of his. With current surpluses of $200 billion, many middle-income taxpayers would receive rebate checks of $500 or more. These rebate checks would provide a constituency for restraints on federal spending.

Balanced-Budget Amendment. We still need a balanced-budget amendment to the Constitution. Some opponents of the balanced-budget amendment now argue that, because we have a balanced budget, the amendment is no longer necessary. Those are the same people who argued in the 1980s that the deficit was so large that an amendment would be unwise because a balanced budget would be unattainable without gut-wrenching spending cuts or throwing the economy into recession.

Conservatives and liberals typically conjure up wrongheaded arguments against the balanced-budget amendment. The standard flawed liberal attack is that a balanced-budget requirement would prevent Congress and the president from using fiscal policy as a tool for stabilizing the economy. The evidence from the past 40 years suggests that fiscal policy has been more destabilizing than stabilizing. Even under the Keynesian model, the idea is to run budget deficits during recessions and surpluses during recoveries. Over the past quarter century Congress has run record deficits in good times and bad.

The flawed conservative attack is that a balanced-budget amendment would give rise to higher taxes. The flaw in the thinking here is that it ignores the fact that the deficit is a tax. Deficits are simply deferred taxes.

If the balanced-budget amendment restrained spending, then the true tax burden on the American economy would decline, not rise.

Statute of Limitations on Government Agencies. Ronald Reagan used to say all too correctly that the closest thing to eternal life on this earth is a federal government program. Example: the Rural Electrification Administration was created 60 years ago to bring electricity to farms. For at least 20 years 99.5 percent of Americans have had access to electricity, yet we still spend nearly $2 billion a year on the REA. Agencies should not have eternal life. They should be sunset after five years, thus requiring Congress to affirmatively reauthorize them. The presumption would be that they should not be automatically extended year after year. This would require the true "reinvention" of programs by forcing the reexamination of every program, including entitlements, every five years.

Constitutionality of Federal Spending Programs. Where does the Constitution grant Congress the power to spend money on swimming pools, beef jerky TV advertisements, local parking garages, purchases of surplus cranberry juice, and midnight basketball leagues?

The U.S. Constitution confines Congress's spending authority to a few limited areas. The powers of the federal government to spend money are enumerated in the Constitution, mostly in Article I, section 8. They include the powers to "establish Post Offices and post roads; raise and support Armies; provide and maintain a Navy; declare War;" and engage in other mostly national defense–related activities.

Members of Congress take an oath to uphold the Constitution. They should start taking that oath seriously. When dubious spending programs come before them for funding, they should first ask: Is there constitutional authority for Congress to appropriate this public money? In that way, Congress would establish a "constitutional veto" on federal spending that is clearly outside the bounds of the Constitution. For too long Congress has simply asserted an unlimited power of the purse. That attitude has undermined the role of the Constitution. It has also helped inflame our current fiscal crisis.

Term Limits. The ultimate political reform in Washington is term limits. Not only would they help clean up the campaign finance system, they would be a major step toward returning the federal government to its historical small size (see Chapter 9). Career politicians tend to be the most favorably inclined toward growing the government.

A Five-Year $1 Trillion Tax Cut

Chapter 5 explains *how* to cut taxes most efficiently in terms of promoting economic growth and mineralizing economic distortions caused by the tax code. Here we simply make the case that tax cuts are a virtual precondition to spending cuts.

The historical and more recent evidence confirms that revenues drive spending. A study by the Joint Economic Committee found that, between 1948 and 1992, every dollar of new tax revenues collected fueled $1.52 of new spending. The recent burst of federal expenditures under the Republicans confirms that higher than expected tax collections lead to higher than expected outlays. The most recent Congressional Budget Office report predicts that the on-budget surplus will be close to $2 trillion over the next decade (Table 27.2). Every penny of that tax surplus should be devoted to tax cuts—if only to prevent those dollars from being spent.

Private Social Security Accounts

An equally essential plank of a prosperity budget is to devote at least all of the Social Security surpluses over the next decade to helping underwrite the transition to personal retirement accounts (see Chapter 4). But how much of the payroll tax could be diverted into personal accounts without running a deficit in the pay-as-you-go financing of the system?

Table 27.2
Projected Surplus, 2001–10 ($ billions)

Fiscal Year	On-Budget	Off-Budget	Total
2001	102	165	267
2002	126	186	312
2003	143	202	345
2004	154	215	369
2005	169	232	401
2006	222	247	469
2007	260	263	523
2008	288	278	566
2009	332	293	625
2010	377	307	684
2001-10	2,173	2,388	4,561

Source: Congressional Budget Office, *The Budget and Economic Outlook: An Update* (Washington: Government Printing Office, July 18, 2000).

The surpluses are large enough to allow up to 3 percentage points of the 15 percent payroll tax to be rerouted to private accounts.

Eventually, the goal would be to allow workers to invest all of their Social Security tax dollars in personal retirement accounts. But the main priority now is to get the surpluses headed into those accounts for Americans who want this choice. This would have two practical advantages over the current financing. First, it would prevent Congress from spending the Social Security surplus as it did throughout most of the 1980s and 1990s. Second, it would create the infrastucture and financial rewards of a personal account system, thus facilitating its expansion in the future.

End All Welfare Programs and Expand the Earned Income Tax Credit to Help the Working Poor

Although Congress deserves praise for taking the first productive steps in more than a generation in the area of welfare reform, the system is still entrapping families in its insidious web of subsidies. Since President Lyndon Johnson launched the War on Poverty, some $5 trillion has been spent and millions of lives have been ruined. As Charles Murray of the American Enterprise Institute emphasizes, "The tragedy of the welfare state is not how much it costs, but how little it has bought." The system does not work well for either the poor or the taxpayer.

The 1995 welfare reform law made several desirable changes. The primary cash assistance program—Temporary Assistance to Needy Families—is now run by the states. The entitlement feature of the program has been ended in favor of an annual appropriated block grant. The law also technically requires work after two years of assistance, but the enforcement of that requirement has been spotty. Welfare caseloads have fallen by an average of 40 to 50 percent since the 1995 law was passed. Congress should finish the job by ending the TANF block grant and leaving funding, as well as running, the program to the states and the private sector.

But the underlying dysfunctional nature of the welfare state remains intact: it continues to reward bad behavior—illegitimacy and family breakup—and discourages good behavior—work, marriage, and individual responsibility.

So where do we go next on welfare reform? First, recognize there's still a lot of work to do. Despite all the encouraging trends in reduced caseloads and costs, there are still 7 million people with an umbilical cord to the welfare state. How do we get this hard-core welfare recipient population off of welfare and into jobs?

The best evidence we have suggests that the major impediment to pushing hard-core welfare recipients off the dole and into work is that the value of benefits *still* remains very generous relative to the economic return from working. That is to say, many people on welfare today are simply making an entirely rational calculated economic decision: it's more financially rewarding not to get a job.

The perverse behavioral incentives erected by the Great Society welfare state remain much more of an impediment to work than most analysts acknowledge. In 1995 the Cato Institute's Michael Tanner and Stephen Moore documented that in most states the full array of welfare programs—Aid to Families with Dependent Children, food stamps, Medicaid, heating subsidies, and public housing—paid better than the after-tax payment from working in most starter jobs. In high-benefit states like New York, Massachusetts, and Hawaii, the value of the full package of welfare benefits—including food stamps, housing benefits, AFDC, and others—could reach $12 an hour—more than many starter jobs pay. In New York, for example, welfare paid as much as $12 to $14 an hour. Not a bad reward for not working.

Our latest analysis finds that the higher the value of welfare in a state, the lower the declines in welfare caseloads. Hawaii, which offers the most generous welfare benefits of any state, totaling over $30,000 a year, has recorded the smallest reduction in caseloads in the nation. Conversely, Mississippi, whose welfare package comes out to less than $11,000 a year, reduced its welfare rolls by an impressive 70 percent. Overall, our analysis shows that a $3,000 reduction in the amount of benefits offered by AFDC, Medicaid, and food stamps, relative to work, would reduce welfare caseloads by the same amount as enacting a policy that would punish welfare recipients who repeatedly fail to engage in work or work-related activities.

Fortunately, welfare reform measures enacted at the federal and state levels have made work more financially rewarding. According to welfare expert Ron Haskins of the House Ways and Means Committee, in the 1980s a typical welfare mother who went to work full-time figured to gain only about $3,000 in extra income from her efforts. Today, that same mother would gain $9,000 more income from working than from staying on welfare.

Welfare reform round II, should achieve two compatible goals: first, keep increasing the rewards for working and, second, keep decreasing the rewards of welfare. Work is the key. For all its faults, the income support program that has the fewest perverse incentive effects is the Earned Income Tax Credit. The EITC provides working families with a livable income by supplementing wages with a government check. American taxpayers hate welfare, but they do want those who work 40 hours a week to have an income that provides them with all the necessities of life: health care, food, housing, and so on. The EITC is roughly designed along the lines of Milton Friedman's classic idea of a negative income tax. It has two big advantages over every other welfare program. First, the recipient gets a payment only by working. Second, there is no need for a vast and self-serving welfare bureaucracy—though a much better job needs to be done of weeding out rampant fraud.

The EITC is also a far superior program to the minimum wage. Why? First, because the cost of providing a livable income in return for work is not unfairly borne by employers but is spread among all taxpayers. Second, unlike the minimum wage, the EITC does not increase unemployment, because payments beyond the market wage are made by taxpayers, not employers.

Republicans should stop trying to cut the EITC. The ideal welfare state reconstruction would be to dismantle all welfare programs *except* the EITC, and to devote the cost savings to making EITC more generous. Great care must be given to reconfiguring the tax system so that working families in the phase-out income range do not face insurmountable tax rates. The main virtue of this plan is that it would turn the work disincentive problem of welfare on its head. It would also discourage bearing children out of wedlock as a means of gaining financial independence.

Back in 1935 the founder of the modern welfare state declared: "Continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit." The speaker was Franklin Roosevelt. The tragedy is that it took some 60 years for policymakers in Washington to conclude that he was right. But now we know that he and several generations of welfare critics were right.

Fiscal conservatives are winning this policy battle, but we have not won the war. If we lose welfare reform round II, we will find ourselves back where we started. And the nation's children will again be the victims.

Devolve the Department of Transportation and the Federal Gas Tax to the States

The dreadful 1998 highway bill made a most compelling case for getting the federal government out of transportation policy altogether.

The original rationale for the U.S. Department of Transportation was to build the interstate highway system. But the interstate highway system was completed 15 years ago. The vast majority of DOT funding is now spent on noninterstate highways, local roads, and urban transit systems. It makes no sense to collect the federal gasoline tax, send it to Washington, D.C., pass it through a bureaucratic maze of 65,000 workers at DOT, and then send it back to the states where the funds originated.

In transportation policy, the federal government has become a costly and meddlesome middleman. Until 1996 states were forced to comply with a federal 55-mile-an-hour speed limit in order to get back their gas tax revenues from Washington. It was the federal government that mandated airbags. Federal highway funds come with other strings attached that inflate construction costs: the Davis-Bacon Act (requiring union wages on federal highway projects), minority set-aside programs, and "buy American" provisions. Those add about 30 percent to the cost of federal construction projects and thus contribute to the decay of America's public infrastructure. Moreover, Congress increasingly uses the DOT budget as a pot of money to deliver pork-barrel projects that states would rarely fund if they were spending their taxpayers' own money, as shown in Table 27.3.

All of this inefficiency and redundancy could be ended by closing down the DOT and repealing the 18.4-cent-per-gallon federal gasoline tax. The states themselves could then raise the gas tax as much as they wished to pay for whatever road building and repair were needed. Eliminating the cost of the federal bureaucracy in Washington would cause construction and maintenance costs for highways, bridges, and transit systems to fall. It would also ensure that the highest-priority local transportation initiatives received the funding they deserve.

Table 27.3
Earmarked Demonstration Projects in Highway Bills

Year	No. of Projects	Cost ($ millions)
1982	10	386
1987	152	1,300
1991	539	6,200
1998	1,500	9,000

Source: U.S. General Accounting Office data.

Save $75 Billion a Year by Eliminating All Corporate Welfare Subsidies

The federal government currently spends roughly $75 billion a year on direct subsidies to business. If Congress were to eliminate all corporate subsidies, the savings would be large enough to entirely eliminate the capital gains tax and the federal estate tax. Reducing the deficit or eliminating those anti-growth taxes would do far more to benefit American industry and U.S. global competitiveness than does asking Congress to pick industrial winners and losers. Then-senator Bill Bradley's attack on the corporate welfare state was accurate: "The best way to allocate resources in America is through a market mechanism. Tax and direct-spending corporate subsidies impede the market's functioning for non-economic, special interest reasons."

Even though both Congress and the Clinton administration pledged to shrink the corporate safety net, those promises were largely unfulfilled. In 1995, for example, the corporate welfare budget was reduced by just 16 percent. In 1999 and 2000 corporate welfare spending actually climbed slightly (see Chapter 6 for more details).

The main villain in corporate welfare is government *spending,* not tax deductions. To the extent the tax code contains unjustified tax favors carved out for specific industries or firms, those provisions should be closed in conjunction with an overall reform or elimination of the income tax.

The 107th Congress should immediately enact a budget spending rescission bill, perhaps titled "The Corporate Welfare Elimination Act," terminating a minimum of 40–50 business subsidy programs and closing down the Departments of Commerce and Energy. Savings of at least $200 billion over six years should be targeted. The bill should be crafted in a bipartisan fashion by identifying those programs that have been recommended for extinction by groups such as the Cato Institute, the Heritage Foundation, the Progressive Policy Institute, and Ralph Nader's Public Citizen. Many Republican deficit hawks, such as former representative John Kasich, Sen. John McCain, and former senator Spencer Abraham, have made reductions in corporate subsidies a crusade. They should join with prominent Democrats who have also made good-faith efforts to reduce business aid, including Sen. Russ Feingold of Wisconsin and Rep. Rob Andrews of New Jersey.

If Congress will not make those cuts itself, then a second-best option is a corporate welfare elimination commission—modeled after the Military Base-Closing Commission of 1995. This commission should be chartered to identify for termination at least $50 billion a year in corporate subsidies. Congress should then be required to vote up or down on the entire package.

End Welfare for the Affluent

Many federal domestic programs primarily benefit Americans with high incomes. One way to eliminate federal subsidies to the affluent would be to pass legislation proposed by George Mason University economist Walter Williams and Stephen Moore. The act is called the Millionaire Subsidy Elimination Act. The act straightforwardly prohibits any individual, business, or other entity with a net income of more than $1 million a year from receiving a federal grant, loan, or subsidy. No exceptions.

The MSEA would end federal taxpayer assistance to the rich. Private utilities would no longer receive billions of dollars in subsidies from the Rural Electrification Administration. Boeing, Lockheed, and General Motors would have to wean themselves from Overseas Private Investment Corporation and Export-Import Bank loan guarantees. Ernest and Julio Gallo and the Pillsbury Dough Boy would be prohibited from eating tax dollars in the form of $90 million in advertising subsidies every year. High-income families would no longer be eligible for college aid. Fannie Mae and Freddie Mac could no longer help underwrite the mortgages of high-income families who buy $250,000 homes. Wealthy senior citizens with million-dollar pensions and Palm Beach homes would no longer be allowed to send their medical bills to working taxpayers.

A surprisingly large slice of the federal budget is pipelined into the coffers of the well-to-do. In 1994 the National Taxpayers Union conducted a study pinpointing just what groups get the benefits of federal income transfer programs. The study discovered that Americans with incomes of more than $100,000 a year account for 5.1 percent of all households, but they receive 5.6 percent of all federal subsidies.

The plan is not in any way meant to demean the rich or the successful. We are strongly in favor of Americans accumulating wealth and profits. The problem is income that is derived from the political marketplace. Washington doesn't create wealth. It reshuffles it. The federal government now redistributes at least $100 billion a year in income from ordinary working-class taxpayers to Americans who are already rich.

Eliminate Hundreds of Low-Priority Domestic Programs

In private industry—which drove the recent remarkably bullish economic expansion—sweating out waste and unproductive operations to cut costs has allowed American firms to outcompete international rivals. The $1.7 trillion federal government appears to be the only institution in America immune from competitive restructuring. Over the past 20 years

Welfare for the Affluent

- An estimated 40 percent of the $1.4 billion sugar price support program benefits the 1 percent of sugar farmers with the largest farms. The 33 largest sugar cane plantations each receive more than $1 million. One family alone, the Fanjuls, owners of several large sugar farms in the Florida Everglades, captures an estimated $60 million a year in artificial profits thanks to price supports and import quotas (and to its generous campaign contributions to both political parties).
- The Agriculture Department's wool and mohair subsidy program (now called the National Sheep Industry Improvement Center) is supposed to help people who have small herds of sheep. The *Wall Street Journal* reported in 1995 that the recipient of the third-largest wool and mohair subsidies in Lincoln County, New Mexico, was none other than ABC's Sam Donaldson, who received $97,000 in subsidy checks each year. The *Journal* reported that farm price support checks worth millions of dollars were delivered to "farmers" who live in cities.
- Amtrak riders—particularly on the Northeast Corridor routes—have average incomes far higher than the national median.
- Much of the money spent on the National Endowment for the Arts finances operas and art exhibits for wealthy clienteles in affluent areas. The beneficiaries can afford to pay for those programs themselves.
- Federal subsidies for higher education and for student loans disproportionately benefit the wealthiest groups of Americans. All federal aid to universities should be eliminated, and the student loan program should be targeted to students from families with incomes below the national median.

almost no obsolete or ineffective federal government agencies—out of thousands—have been shut down.

More than $100 billion a year is spent on domestic programs that have been identified as candidates for termination by such independent agencies as the Congressional Budget Office, the U.S. General Accounting Office, the Grace Commission, and even President Clinton himself in budget submissions during his first term. Those programs survive, not because they serve any national interest, but because of political or parochial considerations.

As noted above, since 1996 Republicans have terminated very few government agencies. The 1995 budget resolution crafted by House Budget Committee chairman John Kasich would have terminated 300 programs and closed down the Departments of Education, Energy, and Commerce. Unfortunately, Congress retreated from the plan.

If those terminations were combined with meaningful tax cuts for individuals and businesses, so that workers could see a tangible benefit to the retrenchment, the political resistance to program eliminations could be overcome. Congress should start by eliminating the easiest targets first. American voters, for example, have no interest whatsoever in preserving the U.S. Department of Energy. The billions of dollars spent by the DOE on alternative fuels since Jimmy Carter created this agency in the late 1970s have failed to produce any tangible benefits to consumers. Programs that incite public hostility, such as almost all forms of foreign aid, the National Endowment for the Arts, Goals 2000, and bilingual education funding, should also be targeted for instant elimination.

Privatize Federal Assets and Use the Proceeds for Debt Retirement

The U.S. government is the wealthiest entity on the planet. The federal government owns almost one-third of all the land in the United States—and under the Clinton administration Uncle Sam has seized millions of additional acres in the West. Yet only a tiny fraction of the vast federal land holdings are of environmental or historical significance. Moreover, time and again, the federal government has proven itself a miserable and negligent custodian of the lands it does own. The Department of the Interior's "let it burn" policies, for example, have destroyed hundreds of thousands of acres of land and millions of trees. The value of federal land holdings is clearly in the hundreds of billions of dollars.

Government also owns tens of billions of dollars worth of other assets, including mineral stockpiles, buildings, and other physical capital. Most of those assets are not put to productive use and thus yield little or no return to taxpayers. Some of the federal holdings that should be transferred to private ownership include

- nonenvironmentally sensitive federal lands,
- federal oil reserves,
- Amtrak,
- the Corporation for Public Broadcasting,
- the $300 billion federal loan portfolio,
- the federal helium reserve,

- public housing units,
- federal dams,
- the Naval Petroleum Reserve and the Strategic Petroleum Reserve, and
- the remaining broadcast spectrum.

The 107th Congress should begin a campaign to privatize those and other unneeded federal assets, with the goal of raising $50 billion a year. The funds raised from asset sales should be dedicated to retiring the national debt and reducing federal interest payments.

Adopt Market-Based Cost Controls to Slow the Inflation of Medicare and Medicaid Costs

Without question, the largest trouble spot in the budget over the next 20 years will be health care programs. By 2005 Medicare and Medicaid alone will cost more than $450 billion, consuming about 22 percent of the budget. When the baby boomers start to retire in the next 10 years, costs will really begin to explode. By 2040 the Congressional Budget Office expects Medicare and Medicaid costs to double from 4 to 8 percent of GDP. Yet Congress and the White House continue to bow to pressure from the senior citizen lobby to make Medicare more generous and more widely available to a greater share of the population. This is the equivalent of "putting more people aboard the Titanic," as Sen. Phil Gramm has complained.

Revamping Medicare and Medicaid won't be easy to do politically. Republicans in the 104th Congress stepped on a hornets' nest when they proposed relatively modest cost-saving reforms of Medicare. The tragedy of the GOP misadventure with Medicare in 1995 and 1996 is that Gingrich and company took the heat for trying to fix the program, but they endorsed solutions that did not fundamentally scale back the program in ways that would have gradually reduced senior citizens' reliance on government for health care. Since then, Republicans and Democrats have gingerly nibbled around the edges of the problem.

There are a number of common-sense reforms to Medicare and the health care system in general that could substantially reduce the escalating annual costs of the Medicare system. They include converting Medicare into a means-tested catastrophic insurance program and changing the tax treatment of health care so that more Americans can participate in cost-saving medical savings account programs. Of course, all efforts to expand Medicare's recipient base and its scope of coverage to items like prescription drugs should be fervently resisted. See Chapter 28 for specific policy remedies to the problems of Medicare.

Rather than allow younger workers to buy into Medicare, as the Clinton administration proposed, Congress should move in the opposite direction by gradually raising the age of eligibility for Medicare to 71. Beginning in 2001 the age of eligibility should be lifted by three months per year for the next 24 years. That would mean that the age at which one would receive Medicare benefits would be 66 in 2004, 67 in 2008, 68 in 2012, until the retirement age reached 71 in 2024. Workers could still retire at 65 but with a reduced benefit.

Because of a quirk in current law, the Social Security retirement age is scheduled to rise over time, but not that of Medicare. Without question, any increase in the retirement age for Social Security should apply to Medicare as well.

Streamline the Pentagon to Reduce Costs and Increase National Security

The Cold War has now been over for more than a decade, but our military has not been fundamentally reconfigured to recognize this global reality. The United States now faces no significant military threat anywhere in the world. Defense spending now constitutes a smaller share (17 percent) of the federal budget than at any time in American history. Over the past 12 years the Pentagon budget has fallen by almost $100 billion in real terms. Even so, the $290 billion that the Pentagon will spend this year still fails to reflect postwar geopolitical realities. The Pentagon budget is roughly the same in real dollars as when John F. Kennedy was president at the height of the Cold War. It is as high as the military spending of the next seven nations. It is the largest peacetime defense budget in American history.

Both Republicans and Democrats have proposed raising this already excessive level of spending. On defense issues, conservatives have fallen into the age-old trap that Democrats have fallen into on social programs: measuring success by how much money is spent. Yet, paradoxically, much of the U.S. military interventionism around the globe reduces, rather than enhances, American national security at home.

America's vital national security objectives can and should be met without raising overall defense spending levels—indeed, they can be achieved with a streamlined Pentagon budget. Creating a leaner Pentagon and building a stronger national defense are not incompatible goals. What is needed at the Defense Department is not more spending but smarter spending.

In just the past decade the United States has sent troops to Bosnia, Haiti, Somalia, and the Persian Gulf. This is in addition to the approximately 110,000 American soldiers still in Europe, the 37,000 in Japan, and the 37,000 in Korea. It is precisely this military interventionism that has prompted experts inside and outside the Pentagon to raise troubling questions about the combat readiness of U.S. forces. A consensus is emerging that our military is spread too thin. And more than anything, that *does* imperil our security.

By scaling back military missions around the globe, consolidating our defense needs, and canceling unnecessary weapons systems, large savings are achievable. And some of those savings can and should be diverted to national security spending that is essential, for example, for accelerating development of a strategic defense initiative. Here are some examples of how costs can be reduced:

- Stop funding weapons systems that are extravagant and expensive and add little to our defense capabilities. Among them are
  - the new attack submarine,
  - the F-22 and F-18-E/F bombers, and
  - the V-22 tilt-rotor aircraft.
- Bring soldiers home. There is simply no security rationale for having 110,000 troops in Europe. The commitment to permanently police Europe, Korea, and Japan should be ended or at least permanently scaled back. Most of the troops should be brought home and decommissioned for an annual savings of nearly $24 billion.
- End defense pork. The nonpartisan U.S. General Accounting Office has identified more than $5 billion in "nondefense" pork spending in the Pentagon budget. The list of high-priority "national defense" programs stuffed inside the defense budget includes $3 million for urban youth programs, $9 million for the World Cup soccer tournament, $57 million for AIDS research, $100 million for breast cancer research, and $10 million for U.S.-Japan management training.

Critics will argue that this new, leaner defense budget would be inadequate to preserve America's current military role around the world. That is true. But it is consistent with the new geopolitical realities of a post–Cold War world. The proposed funding levels would be adequate to maintain a survivable strategic nuclear force, sufficient active forces to meet the

Cato's Recommended Budget Savings ($ billions)

Major Proposals	2001	2001–2005
Replace welfare with EITC	15	125
Devolve transportation programs to the states	25	175
End corporate welfare	30	325
Eliminate subsidies for the wealthy	10	150
Terminate more than 200 domestic programs	50	500
Privatize federal assets*	10	100
Medicare and Medicaid cost savings	20	225
Redesign the military budget	20	150
Total savings	180	2,050

*Interest savings.

types of minor threats that might arise with short warning, and a sufficient mobilization base to respond to a major threat that could develop only over a period of years.

The proposed force would not be enough to maintain a global military presence *and* deploy a force the size of the one used in Operation Desert Storm, but there are strong reasons to question whether those capabilities are now worth the large cost. On completion of this proposed phasedown, a force as large as that used in Desert Storm could be deployed only with substantial augmentation from Reserve and National Guard forces. On net, this limitation is desirable; the willingness to call up Reserve and Guard units is an important test of whether a foreign development is a substantial threat to our vital national interests.

Even if the defense budget were reduced to $250 billion by 2005 (generating savings of from about $30 billion to $40 billion a year), America would still have the largest military budget in the world and by far the most modern and sophisticated weapons arsenal. (Indeed, Chapter 49 proposes even larger cuts in military spending, which would *still* leave the United States by far the strongest military power in the world.) But we would have to retreat from our recently adopted role as the 911 line for the world. And that would be a desirable policy change.

Conclusion

Ever since the birth of Franklin Roosevelt's New Deal, the federal budget has been on a steep, almost interrupted ascent. Throughout most of our history the federal government snatched away no more than 5 to 10 percent of our national output. Now it takes 20 percent. There can be little doubt that bringing the federal enterprise back down to 10 to 15 percent of GDP would enhance both freedom and economic growth.

The starting point for restraining government is a substantial tax cut. If surplus tax revenues remain in Washington, the political forces that favor more government will have a significant upper hand against those that favor governmental restraint. The debt hawks in the Republican and Democratic Parties who favor using surpluses for debt retirement rather than tax cuts are wrong in terms of economic priorities and even more so in terms of pursuing a political strategy to curtail the growth of government. Fiscal conservatives in Congress must always keep in mind Milton Friedman's important reminder to us that "the cost of government is how much it spends, not how much it borrows."

If this Congress were to adopt the fiscal blueprint detailed in this chapter, the United States would have the potential to sustain a long wave of rapid economic growth that would raise living standards for all Americans to unprecedented heights. Conversely, if surplus politics leads to a new expansionary spiral of government spending—we have already seen the first stages of that in the past few years—the prosperity that created these surpluses in the first place could be at risk.

Appendix: Cato Institute List of Recommended Federal Program Terminations, FY 2000 Spending (in $ millions)

U.S. Department of Agriculture	
Economic Research Service	$56
National Agricultural Statistics Service	$100
Agricultural Research Service	$825
Cooperative State Research, Educ. and Extension Serv.	$922
Agricultural Marketing Service	$593
Conservation Reserve Program	$1,690
Federal Crop Insurance Corporation	$1,936
Agricultural Commodity Price Supports and Subsidies	$13,492
Natural Resources Conservation Service	$1,017
Rural Housing Service	$568
Rural Community Advancement Program	$836
Rural Business Cooperative Service	$56
Rural Utility Service	$810
Foreign Agricultural Service and P.L. 480 Grants	$1,489

Market Access Program	$90
Food Stamps (devolve to states)	$19,727
Child Nutrition Subsidies for Nonpoor	$1,690
Commodity Credit Corporation Export Credit	$734
Export Enhancement Program	$478
Land Acquisition Programs	$160
Forest Service Infrastructure	$364
Forest Service, Forest and Rangeland Research	$202
Forest Service, State and Private Forestry	$198
Total Department of Agriculture	$48,033
Department of Commerce	
Economic Development Administration	$433
Economic and Statistical Analysis	$50
International Trade Administration	$300
Export Administration	$63
Minority Business Development Agency	$26
National Ocean Service	$281
National Marine Fisheries Service	$432
Oceanic and Atmospheric Research	$297
Fishery Products Research, Development, and Promotion	$6
Advanced Technology Program	$211
Manufacturing Extension Partnership	$105
National Institute of Standards and Technology	$269
National Telecomm. and Information Administration	$69
Total Department of Commerce	$2,542
Department of Defense (see Chapter 49)	
Department of Education	
21st-Century Community Learning Centers	$453
Bilingual & Immigrant Education	$406
Byrd Scholarships	$40
College Work-Study Grants	$1,123
College Direct Loans	$10,605
Education Technology	$766
Education for the Disadvantaged Grants	$8,378
Even Start	$154
Federal TRIO Programs	$645
Goals 2000	$490
Howard University Academic Programs	$219

Impact Aid Payments for Federal Property	$32
Indian Education	$81
Office of Educational Research and Improvement	$691
Office of Civil Rights	$51
School Improvement Programs	$1,497
Safe & Drug-Free Schools Act	$272
School-to-Work Programs	$125
Special Education—Parent Training/Information Centers	$19
Special Education—Personnel Development/Preparation	$83
State Student Incentive Grants/LEAP	$90
Vocational and Adult Education	$1,547
Total Department of Education	$27,767
Department of Energy	
General Science, Research and Development	$2,819
Solar and Renewable Energy, Research and Development	$353
Nuclear Fission, Research and Development	$324
Energy Supply, Research and Development	$1,407
Fossil Energy, Research and Development	$389
Energy Conservation Programs	$690
Strategic Petroleum Reserve	$164
Energy Information Administration	$71
Clean Coal Technology	$156
Power Marketing Administration Subsidies	$267
Departmental Administration	$135
Total Department of Energy	$6,775
Department of Health and Human Services	
Agency for Health Care Research and Quality	$120
National Health Service Corps	$117
Maternal and Child Health Block Grant	$709
Healthy Start	$90
Title X Family Planning Program	$239
Indian Health Service	$2,071
Substance Abuse and Mental Health Services Administration	$2,451
Child Care Entitlements	$2,420
Temporary Assistance for Needy Families (TANF)	$14,966
State Child Support Administrative Costs	$2,819
Low-Income Home Energy Assistance	$1,100
Refugee Assistance Programs	$444

Family Preservation and Support Grants	$286
Child Care and Development Block Grant	$1,170
Social Services Block Grant	$1,623
Head Start	$3,867
Children and Family Services Programs	$2,347
NIH Overhead Cost Reimbursements	$100
Violent Crime Reduction Programs	$103
Children's Research & Technical Assistance	$62
Total Department of Health and Human Services	$37,104
Department of Housing and Urban Development	
Public Housing Operating Subsidies	$2,972
College Housing Grants	$16
Community Development Block Grants	$4,856
HOME Investment Partnerships Program	$1,657
Housing Opportunities for People with AIDS	$212
Low-Income Housing Assistance (sec. 8)	$16,090
Distressed Public Housing	$588
Rental Housing Assistance	$710
Fair Housing Activities	$36
Federal Housing Administration Mortgage Program	$491
Policy Development & Research	$53
Drug Elimination Grants	$325
Homeless Assistance Grants	$961
Total Department of Housing and Urban Development	$28,967
Department of the Interior	
Bureau of Indian Affairs	$1,795
Bureau of Reclamation Water Projects	$676
U.S. Geological Survey	$797
Migratory Bird Conservation	$55
North American Wetlands Conservation	$14
Cooperative Endangered Species Conservation	$38
National Wildlife Refuge Fund	$19
Sport Fish Restoration Fund	$257
Land Acquisition Programs	$289
Total Department of the Interior	$3,940
Department of Justice	
Juvenile Crime Programs	$179
Community Oriented Policing Services (COPS)	$829

Violence Against Women Act	$288
Byrne Law Enforcement Grants	$567
Correctional Facilities Grants	$489
Substance Abuse Treatment for State Prisoners	$65
State and Local Law Enforcement Assistance	$1,176
Weed and Seed Program	$22
Antitrust Division	$89
Drug Enforcement Administration	$1,229
Interagency Crime and Drug Enforcement Task Force	$314
Total Department of Justice	$5,247
Department of Labor	
Workforce Investment Act	$5,369
Welfare to Work	$960
Community Service Employment for Older Americans	$440
Trade Adjustment Assistance	$328
Employment Standards Administration	$451
Total Department of Labor	$7,548
Department of State	
United Nations Organizations	$619
Inter-American Organizations	$124
North Atlantic Treaty Organization (NATO)	$43
Org. for Economic Cooperation & Development (OECD)	$57
United Nations Peacekeeping Activities	$493
International Fisheries Commissions	$15
Migration and Refugee Assistance	$815
Narcotics Control Assistance to Foreign Countries	$382
East-West Center	$13
Economic Support Fund	$2,358
Foreign Military Financing Program	$4,789
Total Department of State	$9,708
Department of Transportation	
Motor Carrier Safety Grants	$109
Intelligent Transportation System	$222
Highway Traffic Safety Grants	$210
Federal Railroad Administration	$272
Amtrak Subsidies	$597
Federal Transit Administration	$5,940
Grants-in-Aid for Airports	$1,896

Payments to Air Carriers (essential air service program)	$50
Maritime Administration	$285
Transportation Systems Center	$205
Partnership for a New Generation of Vehicles	$226
Coast Guard Boat Safety	$54
Federal Highway Administration	$25,394
Total Department of Transportation	$35,460
Department of the Treasury	
Presidential Election Campaign Fund	$218
Customs Service, Air and Marine Interdiction Program	$163
Community Development Financial Institutions	$90
Interagency Crime and Drug Enforcement Task Force	$82
Total Department of the Treasury	$553
Department of Veterans Affairs	
V.A. Benefits for Non-Service-Related Illnesses	$200
V.A. Health Care Facilities Construction	$431
Total Department of Veterans Affairs	$631
Other Agencies and Activities	
Agency for International Development	$1,313
Assistance for Eastern Europe	$555
Assistance for Former Soviet Union	$836
African Development Fund	$120
Appalachian Regional Commission	$66
Consumer Product Safety Commission	$49
Corporation for National and Community Service	$500
Corporation for Public Broadcasting (CPB)	$318
Corps of Engineers Construction	$1,499
Davis-Bacon Act	$1,000
Equal Employment Opportunity Commission	$260
Environmental Protection Agency	$7,040
Cargo Preference Program (interagency)	$589
Export-Import Bank	$600
Federal Drug Control Program	$281
Federal Labor Relations Board	$22
Federal Trade Commission	$126
Foreign Military Financial Program	$3,000
Inter-American Development Bank	$45
International Development Association	$992

International Organizations	$295
International Monetary Fund	$20
International Trade Commission	$44
Legal Services Corporation	$305
NASA	$13,447
National Endowment for the Arts (NEA)	$111
National Endowment for the Humanities (NEH)	$103
National Flood Insurance	$1,270
National Labor Relations Board	$196
National Science Foundation	$3,596
Neighborhood Reinvestment Corp.	$75
North American Development Bank	$11
Office of National Drug Control Policy	$50
Office of Science and Technology Policy	$5
Overseas Private Investment Corporation	$53
Peace Corps	$264
Securities and Exchange Commission	$371
Selective Service System	$23
Small Business Administration	$753
Trade and Development Agency	$57
U.S. Global Change Research Program	$1,700
World Bank	$52
Total Other Agencies and Activities	$42,012
Total Cato Budget Savings	$256,287

Suggested Readings

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—Prepared by Stephen Moore