



Statement of
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Regarding the Committee's Hearing on
"Waste and Abuse: The Refuse of the Federal Spending Binge"

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Introduction

Chairman Issa and distinguished Members of the Committee, thank you for the opportunity to testify on behalf of the American Taxpayer regarding the important issue of waste in our federal government. My name is Andrew Moylan, and I am Vice President of Government Affairs for the National Taxpayers Union (NTU), a non-partisan citizen group founded in 1969 to work for lower taxes and smaller government at all levels. NTU is America's oldest non-profit grassroots taxpayer organization, with 362,000 members nationwide.

Few citizen groups in Washington can match NTU's 42-year history of principled advocacy, which is why I hope you will find these comments on waste, inefficiency, and duplication in the federal budget of value during your deliberations. You can also find further research into these topics on our website at www.ntu.org.

The Problem

In the past decade, under the direction of Presidents and Congressional leadership from both parties, our federal budget has expanded dramatically no matter what measure one consults. At the dawn of the new millennium in 2001, federal outlays were about \$1.8 trillion, a level below post-World War II averages at 18.2 percent of our economy. Through the middle of the decade, we saw an explosion in spending driven by such factors as the creation of a new cabinet-level Department of Homeland Security as well as increased expenditures on defense and education. By 2003, the modest spending discipline of the late 1990s had given way to federal outlays that now seem permanently fixed at or above the post-war average of 19.6 percent of GDP. Add in the more recent surge in so-called "crisis response" spending, such as the \$700 billion Troubled Asset Relief Program (TARP) of 2008 or the \$862 billion "economic stimulus" bill of 2009, and the picture grows even bleaker.

In 2011, our budget is more than twice as large as in 2001, reaching about \$3.8 trillion. As a percentage of our economy, 2011 outlays will surpass a level unseen since the era of full-scale war mobilization in the 1940s, at over 25 percent. Perhaps most disturbing, President Obama's estimate of our overspending problem at roughly \$1.6 trillion in 2011 is about equal, in inflation-adjusted terms, to the *entire* federal budget in 1982. Put another way, we will raise through the tax code and spend (in real terms) roughly the federal budget of 2003 and throw in an amount approximating the 1982 federal budget just for good measure.

The federal government has seen deficits during 54 of the last 60 years. This fact ought to give pause even to die-hard Keynesians, who believe surpluses should be the norm in most economic growth cycles. While NTU's dedication to limited government would on its own lead us to conclude that this spending spree is unacceptable, sheer mathematics tell us that it is unsustainable. As of today, we are perilously close to the point where our country's debt exceeds its economic output. This sad statistic places us in rare company – just slightly below countries already staggered by debt crisis (like Ireland) and just above countries thought to be under grave threat of one (like Portugal).

If corrective action isn't taken soon, the United States could face a devastating debt crisis that would likely precipitate not only dramatic spending cuts but also massive tax hikes in very short order. If we are to have a sustainable fiscal future, this Congress must begin the hard work of reducing spending immediately. In that pursuit, no portion of federal outlays can be "off the table." The problems confronting us are simply too immense to allow walling off entire portions of the federal budget.

While the causes of the recent spending spree are myriad and complicated, the remedies are relatively straightforward. On the discretionary side, Congress must cancel wasteful programs, root out inefficiencies, and roll back agency spending to at least 2006 levels. With mandatory spending, Congress must take hold of the so-called "third rail" of politics with both hands and enact serious entitlement reforms primarily focused on controlling the growth in spending on Medicare.

Low-Hanging Fruit

Congress should begin with a thorough review of existing outlays to identify the "low-hanging fruit" of federal spending: the waste, inefficiency, and duplication that plague so many federal programs. During the deliberations of the President's National Commission on Fiscal Responsibility and Reform, NTU joined with the liberal U.S. Public Interest Research Group (U.S. PIRG) to do exactly that. Together, we released a report called "Toward Common Ground: Bridging the Political Divide to Reduce Spending," in which we compiled more than 30 specific recommendations to save taxpayers over \$600 billion by 2015, the target date for the Fiscal Commission to reduce our publicly-held debt-to-GDP ratio to a more sustainable level of 60 percent. I am submitting that report along with my testimony.

While our two organizations have widely divergent views on the proper size and scope of our federal government, we are steadfast in the belief that Washington squanders billions of dollars every year on programs that do not serve the interests of the American people. We authored this joint report in an attempt to identify spending reductions that could be undertaken without fundamentally harming the core operations of the federal government, as either conservatives or liberals understand them.

The report laid out nine ways to save up to \$62 billion just by eliminating wasteful subsidies. These focused largely on agriculture supports, subsidies for energy production, and "corporate welfare" programs. For example, the Market Access Program has been on the lists of watchdog groups for years. It consumes taxpayer dollars to fund advertising and promotion in foreign countries for products of American companies, including McDonald's, Nabisco, and Fruit of the Loom. American businesses should compete abroad by making excellent products, not by drawing upon taxpayer subsidies.

In addition, we identified up to \$353 billion in savings from six recommendations to improve contracting and asset acquisition procedures. These items centered on improving procedures in the Defense and Homeland Security Departments. For example, the Government Accountability Office found that the Army, Navy, Air Force, and Defense Logistics Agency were wasting billions of dollars by ordering too many spare parts. Purchasing-process reforms and better data could save taxpayers over \$184 billion.

Furthermore, we offered eight suggestions to eliminate payment errors, end duplicative programs, and sell off unused federal property that could yield up to \$77 billion in total savings. For example, Social Security currently faces a ceiling on its ability to collect mistaken payments from the Supplemental Security Income program. Removing that cap would improve the agency's ability to recover erroneous payments and save taxpayers more than \$500 million.

Finally, ten recommendations to end wasteful or outdated military programs could save taxpayers up to \$104 billion. These suggestions focused on addressing weapons programs that have been riddled with delays and cost overruns or that are no longer needed. For example, according to the Government Accountability Office, the Expeditionary Fighting Vehicle is 14 years behind schedule and highly unreliable. Canceling it could save taxpayers over \$16 billion.

In addition to the NTU-PIRG report, the Republican Study Committee (RSC) has made excellent progress in highlighting areas of federal expenditures that are ripe for reduction. In their recently-introduced "Spending Reduction Act," RSC members identified more than 100 specific program eliminations and spending reductions totaling \$330 billion over ten years. From the controversial, such as zeroing out funding for the National Endowment for the Arts, to the common-sense, such as ending the "Historic Whaling and Trading" program, the RSC has cataloged dozens of actionable items whose impact would be nearly immediate. In fact, the Whaling and Trading scheme is among several items the RSC blueprint has in common with the "Terminations, Reductions, and Savings" section of the President's budget proposal, demonstrating once again that quick bipartisan agreement ought to be achievable in at least some instances.

The RSC bill also contains several eminently practical provisions to cancel ineffective "stimulus" spending and to finally remove the federal government from the housing business by ending its ties to housing giants Fannie Mae and Freddie Mac. Combined, these items would generate \$75 billion toward bringing down future deficits. The Spending Reduction Act derives the bulk of its savings, however, from a non-defense discretionary spending limit set at 2006 levels through 2021. While this is a laudable goal, taxpayers could be saved even more by including defense within that proposal's strictures.

The above recommendations would save, in total, at least \$3.1 trillion over the course of the decade, but even that is insufficient in light of Congressional Budget Office estimates that the federal government will spend nearly \$7 trillion more than it raises in taxes over the next ten years. In order to close more of the gap and prevent enormous spending hikes in out-year budget projections, Congress will have to enact serious reforms to our entitlement programs.

Entitlement Reforms

While it has been clear for more than a decade that our nation's entitlement programs are on a crash-course with disaster, it has been equally clear that most Members of Congress have been reluctant to right the ship. Whenever serious reform plans are put

forth, their sponsors are subjected to unfair attacks about “gutting” the programs and taking benefits away from senior citizens and the disadvantaged. The truth of the matter is that Medicare, Medicaid, and Social Security are “gutting” themselves right now and we simply must act if they are to survive in any form.

The most powerful driver of cost growth is Medicare, which according to the Congressional Budget Office is on track to devour about 4.2 percent of GDP in 2020, and an astonishing 14.3 percent of GDP in 2080. Meanwhile, Medicaid will grow from 2.1 percent of GDP to 3.7 percent over that same time period. For its part, Social Security is set to rise from 5.3 percent of GDP to 6.1 percent. If this growth goes unchecked, our fiscal situation in 2080 will be an unmitigated disaster: federal spending at 34.4 percent of GDP, a deficit equal to nearly 43 percent of GDP, and publicly-held debt at an inconceivable 716 percent of GDP. I use the term “inconceivable,” because the nation’s finances and its economy would almost certainly collapse before reaching such a level.

The most ambitious plan to avert this calamity is Representative Paul Ryan’s (R-WI) “Roadmap for America’s Future.” The Roadmap would tackle spiraling entitlement costs, restructure the tax system, and hold down discretionary spending in order to create a sustainable federal budget.

With Medicare, the Roadmap would provide future beneficiaries a fixed payment that they could apply to a list of Medicare-certified health plans. That payment would be allowed to grow every year by a measure that outpaces GDP growth by one percentage point. This simple yet important alteration would rein in future Medicare outlays, preserve the program for seniors, and inject real market forces into health services for older Americans by giving them strong incentives to seek out cost-effective care. The Medicaid reforms are similar, as the Ryan plan would transition to a system where individuals would have personal ownership of “health care debit cards.”

For Social Security, the reforms would allow younger workers to devote a share of their payroll taxes to personal investment accounts in order to provide them with greater returns and individual ownership.

The Roadmap may not be perfect and its reforms are unlikely to be achieved without significant debate, but it is the only detailed plan in Congress today that is comprehensive in its scope and conservative in its goals.

How to Prevent Future Problems

Though Congress should aggressively pursue the spending reductions that have been detailed in this testimony, they will not be enough to rectify the defects of the budget process itself. Some of these flaws can be addressed by applying or expanding certain budgetary concepts that have proven successful elsewhere. These include the use of technical auditing for infrastructure projects and greater reliance on recovery audit contracting for federal benefit programs. Another approach with promise is the more aggressive use of life-cycle budgeting, which encourages more thoughtful, disciplined, and cost-efficient planning for capital projects. This evaluative tool has helped several states to improve the fiscal accountability of their spending initiatives.

Nonetheless, even with these worthy reforms, the built-in incentives that have fueled debt growth in the past will not disappear with the cancelation of wasteful programs. Thus, Congress must enact with all deliberate speed a robust Balanced Budget Amendment (BBA) to the Constitution.

Since its founding in 1969, NTU's most fundamental and enduring goal has been to establish constitutional limits on the size and future growth of government. Throughout the 1970s and 1980s, my organization helped to launch and sustain the movement for a limited Article V amendment convention among the states to propose a Balanced Budget Amendment for ratification, all while pursuing a BBA through Congress. Our members were elated over the passage of S.J. Res. 58 in 1982, and the passage of H.J. Res. 1 in 1995 through the House of Representatives. In both cases the measures, whose provisions varied somewhat, fell short of enactment in the other chambers of Congress.

This history provides an illustration of how prescient the arguments of BBA advocates have proven to be, and how specious those of opponents have been. For the better part of 40 years, we were told that fiscal discipline would evolve simply by "electing the right people," all while Republican and Democratic Presidents and Congresses abused the nation's good credit. We were told that statutory measures would bring outlays under control, even as laws such as the Gramm-Rudman Hollings Act were trampled underfoot. We were told that our foundational document shouldn't be "cluttered" with mundane matters of budgeting, even as the tax and spend culture in Washington eroded the foundations of prosperity for current and future generations.

The notion that limits on taxes and spending are too trivial for the Constitution seems quaint today, as our national debt tests the ominous level of 100 percent of the nation's economic output. As noted earlier, unsustainable entitlement programs, whose dire condition has been known for at least 20 years now, threaten to heap unfathomable burdens on taxpayers. BBA naysayers sought to derail the constitutional budgetary discipline that could have made adjustments to the realities of these programs gradual and bearable, all while they complained that the measure would "take too long to ratify" for it to have any salutary effect. The question now before Congress is, how could our Constitution not be allowed to contribute toward restoring our nation's fiscal stability? The fiscal crisis our government faces overwhelmingly demonstrates the continued relevance of a BBA to curing the maladies that threaten the health of our economy.

There are several iterations of a Balanced Budget Amendment that have already been introduced in the 112th Congress. The strictest of them, S.J. Res. 5 introduced by Senator Mike Lee (R-UT), would prevent outlays from exceeding receipts with a requirement that a two-thirds supermajority vote in favor of any attempt to override that limit or the nation's debt ceiling. In addition, it establishes a strong spending limitation which says that our federal government cannot spend more than 18 percent of GDP, roughly the historical post-war average for receipts.

Senators Cornyn (R-TX) and Hatch (R-UT) have also introduced a Balanced Budget Amendment, S.J. Res. 3, that would achieve many of the same goals, though its

spending limit is placed at a higher level of 20 percent of GDP, roughly the historical post-war average for outlays. In your chamber, Representative Bob Goodlatte has continued his long history of leadership on this issue by introducing H.J. Res. 1, which incorporates other supermajority requirements and spending limitations. All of these proposals, and perhaps some others yet to be introduced, deserve consideration, but Congress must do so without delay.

Thomas Jefferson once wrote, “I wish it were possible to obtain a single amendment to our Constitution . . .; I mean an additional article, taking from the federal government the power of borrowing.” No proposal in Congress today would guarantee such an outcome – an end to deficit spending. What a BBA will guarantee is a more deliberative, accountable budgeting process that avoids the rash impulse to tax or borrow and encourages consensus-building toward spending restraint. Constitutions shouldn’t make policy, but they should set rules within which policymakers operate and they should safeguard the rights of citizens. If the fundamental right – of every generation – to be free of excessive federal debt cannot be protected by our Constitution, little else in that precious document will matter. Jefferson would certainly agree. Thus, the past, present, and future all speak clearly to us on behalf of this reform.

Conclusion

The arithmetic of our budget problems is elementary; it is the political calculus that has proven difficult. NTU urges this Committee and the Congress as a whole to begin a systematic review of our obligations with sharp eyes toward a sustainable budget future. This necessitates not just eliminating waste or tackling entitlements or enacting structural reforms like a BBA; it requires all of them, working together, to effect lasting change. NTU and its members are ready to join you in these tasks – tasks whose completion will be vital to our very future as a nation.. Thank you for the opportunity to submit this testimony.