



## FACING UP TO THE Nation's Finances

A nonpartisan project on the long-term challenges of the federal budget

### ***Making Sure our Government Uses our Money Wisely***

#### ***A **Choicework** Discussion Guide***

Because of the global financial crisis, U.S. government spending is up sharply, including over a trillion dollars allocated to stabilize the financial system and for the stimulus package intended to create millions of jobs and get the economy back on its feet. The U.S. government is expected to spend at least \$3.5 trillion in 2009. That is about one-quarter of the nation's economy. But how do we know if it will be wisely spent?

Nearly two-thirds of federal government spending is "mandatory" — for entitlement programs such as Medicare, Social Security, and Medicaid, as well as interest on the national debt — that is, determined by law, not congressional appropriations. The other 37 percent of the federal budget is spent on "discretionary" programs, with more than half of that (21 percent) going to defense. The Congress votes on twelve appropriations bills each year to fund thousands of government initiatives — from the State Department and federal law enforcement to education and the environment.

Everyone's heard stories of the government wasting taxpayer money: on "pork barrel" spending, programs that don't work, or cost overruns on defense and other federal contracts. However, "pork" (also known as "earmarks") -- when members of Congress add spending bills for pet projects to an existing piece of legislation -- accounts for just one percent of the budget. In addition, while we could do a much better job curtailing government waste, similar problems exist in the private sector. Waste is infuriating, but budget experts generally agree it's not the cause of the government's budget problems.

The government pays for this spending through a variety of types of revenue. Income taxes are the largest source of revenue, but “payroll” taxes (what most people think of as Social Security taxes) are a close second, and most taxpayers pay more in payroll taxes than in income taxes. Business taxes, excise taxes, tariffs, and income from government activities also contribute to federal revenue.

The U.S. government has a long history of budget deficits, which are covered by borrowing. In 2009, given that deficits are projected to be \$1.2 trillion to \$1.6 trillion, this borrowing through the sale of Treasury securities (and “intra-governmental” borrowing from sources such as the Social Security Trust Fund) will be enormous. The biggest long-term problem is not the deficits caused by the current financial crisis, but rather those that will result from rapidly rising spending for Medicare and Social Security. To close that long-term shortfall of tens of trillions of dollars, the nation must reform and curtail spending and/or increase revenues through taxes or other means.

We must figure out how to provide Social Security (and, more generally, income security) as well as quality, affordable health care to Americans of all ages, today and in the future, while paying for other important, discretionary government programs.

In addition, the government could do a better job regulating parts of business and financial sectors, as the current financial crisis has made evident. If such regulations had been in place, the government might not have had to be spending hundreds of billions of dollars of taxpayer money on the current bailouts.

We also need to recognize that some federal monies are well spent, and may be good investments in our nation’s future, and deficits are sometimes necessary (e.g., to help Americans weather difficult times), while other federal monies are poorly spent. Government spending also can be necessary to simulate the economy in hard times.

Nonetheless, we, as a nation, need to stop regularly spending more than our government receives in taxpayer dollars, borrowing money to pay for government programs, bailing out large financial firms and businesses, and promising unfunded benefits to future generations. Our national debt and unfunded liabilities total more than \$53 trillion, and are growing by several trillion dollars per year. Bringing federal debt under control will mean making tough choices, such as cutting programs, raising taxes, and imposing rules on how federal funds are spent. But people will only be able to make such hard choices if they trust their leaders to act responsibly, so that their sacrifices are not wasted.

To help you think through the best ways to do this, we describe several different approaches:

- *Strengthen and Expand Systems to Encourage Responsible Spending*
- *Make it Easier for Americans to See How the Government Spends its Money and What Programs Work*
- *Remove Temptation: Change the Incentives for How Our Leaders Spend Our Money*

Through your deliberations on these choices, it will be helpful to keep several questions in mind: Which approaches would lead to more responsible management of the nation's finances? Why? Are there other measures that we should be considering, besides those covered in these choices? What do your deliberations suggest that you and your fellow citizens can do to improve the situation?

These alternative sets of approaches are merely intended to be discussion starters. You should not think that you need to adopt every idea under any one approach. You can mix and match ideas from different approaches, and toss in other ideas while considering this question: *What do you think are the best courses of action, and why?*

### **Option One: Strengthen and Expand Systems to Encourage Responsible Spending**

According to this point of view, since we can't always trust politicians to use good judgment, we should create rules and procedures that require them to act responsibly. In other words, the more leeway we give politicians and government bureaucrats, the more likely it is that they'll waste the nation's money.

#### **Therefore we should:**

- *Live within our means.* Pass "pay-as-you-go" legislation, meaning that if a spending bill is passed, it must be offset by either a spending cut someplace else in the budget or a raise in taxes to cover the new expenses.
- *Implement other reforms to the budget process,* such as linking spending increases to population growth, or creating specific triggers or defaults so that if revenues and spending do not match, taxes are automatically raised and/or spending is automatically cut.

- *The Amendment approach.* Pass a balanced budget amendment. Most states have this and it simply makes it illegal to run a deficit and run up debt.
- *Set tough, long-term financial goals.* Right now, the federal government has projections but no actual long-term targets for reducing the deficit and paying off the debt. Other countries have legally binding plans to pay down their debt or to set limits for spending and taxes.

#### **Arguments for:**

- This is the simplest answer to the problem because it removes the possibility of creating more debt by borrowing money to cover our expenses, and therefore guarantees more responsible spending by the government.
- This would require government officials to think ahead, plan carefully and worry about long-term budget issues instead of focusing on short-term politics.
- This brings government in line with the realities that businesses and families face every day: spending plans must depend on the amount of money that is available.

#### **Arguments against:**

- This is a dangerously inflexible approach to governance. Sometimes the government needs to borrow money in a national emergency, such as a hurricane or a terrorist attack, or when facing the prospect of economic collapse.
- This approach also obstructs responsible borrowing for important investments in things like education, new technologies or new sources of energy that can be vital for our economic future. It's like saying that just because some people run up their credit cards too much, no one will be allowed to take out a student loan anymore.
- This doesn't do anything to keep government open and honest: without ethics reform and greater transparency, we'd just wind up with politicians fighting over a smaller pie.

## **Option Two: Make It Easier For Americans To See How Government Spends Its Money And What Programs Work**

A better way to create more trust and accountability is to make sure politicians can't hide what they're doing, so that government watchdogs — like the news media, good-government organizations, and concerned citizens — can keep an eye on them and hold them accountable.

### **Therefore we should:**

- *Make the federal budget easier to understand.* We need to simplify the presentation of the federal budget, and also require that it be placed on the Internet each year in an easily searchable form. That way, reporters and watchdog groups can easily find out what the government is proposing to spend the nation's money on.
- *Protect whistle-blowers.* Strengthen legislation that protects and rewards government employees who report wasteful or corrupt spending, so they will be more likely to come forward and bring abuses to light.
- *Strengthen watchdog agencies.* Ensure that government is able to demonstrate stewardship by strengthening program accountability entities and mechanisms such as the Government Accountability Office, the Government Performance and Results Act process, and the Performance Assessment Rating Tool.
- *Shine a light on pork barrel spending.* We should require members of Congress to make a formal vote for each added earmark to create a public record of their support for that additional spending. We also need an online earmark database that identifies every such project, along with who sponsored the earmark, who benefits, and which representatives voted for it.
- *Strengthen government oversight* of areas such as banking and hedge funds, to protect Americans from incompetence, corruption, and greed in the private sector.

**Arguments for:**

- The best way to clean up government spending is to bring keep things out into the open and keep a close eye on them: sunlight is the best disinfectant.
- Government employees should be encouraged to stand up for what's right – and protected from retaliation when they do.
- Maybe there's nothing wrong with members of Congress getting money for their home states, but if so, they should stand up and take responsibility for it.

**Arguments against:**

- This sounds fine in principle, but in practice, the federal government is so vast and complex, it's impossible to keep enough of an eye on it.
- Transparency by itself is not enough. Campaign contributions have been public for decades, but politicians and donors always find a way around the rules. Therefore it's important for voters to see if the spending their elected officials support is influenced by their donors.
- The real problem is how the government taxes and spends our money. We need to actually change the way that's done, not just get a better view of how the government does it.

**Option Three: Remove Temptation: Change The Incentives For How Our Leaders Spend Our Money**

As things stand now, there are too many incentives to avoid making politically tough decisions or wasting the nation's finances on pet projects. If we remove the most corrupting influences and incentives from the political system, and create new incentives for responsible behavior, we can expect politicians to exercise better judgment in how they manage the nation's finances.

Since many Americans do not trust most politicians to use good judgment, we should create rules and procedures that *require* them to act responsibly.

**Therefore we should:**

- *Reform campaign finances.* Elections are so expensive that candidates can't help but become dependent on big donors. We should reform campaigns so politicians are less beholden to big campaign donors and therefore less tempted to propose and back spending bills to keep donors happy.
- *Tighten ethics and lobbying rules.* There should be severe penalties for politicians who abuse the system in regard to conflict of interest.
- *Create positive incentives.* The public should reward politicians who manage the nation's finances responsibly through their votes. Moreover, we should provide bonuses to government bureaucrats who improve efficiency and save the nation money by figuring out how to do more with less.
- *Reduce political partisanship.* This affects the management of the nation's finances.

**Arguments for:**

- If we want leaders who can exercise judgment on behalf of the greater good, we need to stamp out corrupting influences and reward responsible behavior.
- These bad influences are the real source of our budget problems.
- Voters are the key to changing the system: if the public held politicians accountable for how they spend the taxpayers' money, we'd have better government.

**Arguments against:**

- People have been talking about things like campaign finance reform for years and we've seen very little, if any, progress. We need faster solutions before we're so buried in federal debt we'll never be able to get out.
- A government can be honest and still avoid tough decisions, particularly if American voters aren't ready to make sacrifices.

For more information on **Facing Up to the Nation's Finances** and **Students Face Up to the Nation's Finances** – nonpartisan educational and civic engagement projects on the budget deficit and the national debt – go to **FacingUp.org** or contact Shaheen Hasan at 212-686-6610, extension 50, or via e-mail at [shasan@publicagenda.org](mailto:shasan@publicagenda.org).