

OPINION

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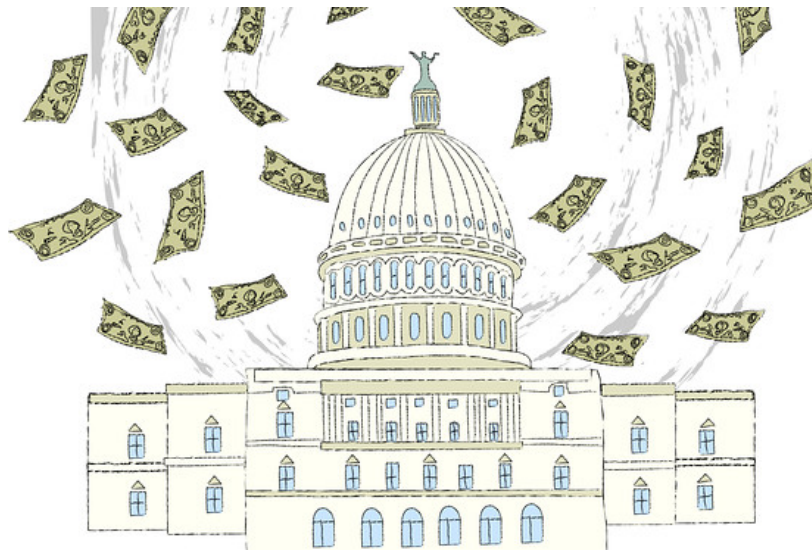
How to Stop Lurching From One Budget Crisis to the Next ¹

A bipartisan effort to cut spending could find billions in savings even while leaving the heavy lifting for later.

By MICHAEL J. BOSKIN

Regardless of how the government shutdown and debt-ceiling fight plays out, our political leaders will eventually have to negotiate meaningful spending cuts and entitlement reforms. Otherwise, the country will lurch from one stalemate-and-crisis to another. Here's a proposal that might bring the two sides together:

First, appoint a commission to propose by, say, next May 15 specific reforms to reduce and eliminate waste, inefficiency and fraud in government programs—with a minimum target of \$1 trillion in the next decade. Yes, "government commission" has often been a synonym for inaction—witness the Simpson-Bowles commission on fiscal reform created by President Obama, who ignored its report. Yet several rounds of Defense Base Realignment and Closure Commissions since the 1990s have led to the closure of hundreds of military installations, most recently in 2005.



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¹ The published version was edited for space, simplicity and technicality, so details on baselines in the sequestered accounts, offsetting one time savings with one time, and ongoing with ongoing, partial sequester relief offset (I use \$1 of program relief for every \$2 of savings, identified, enacted and achieved ex post) were not included, but are important details to avoid abuses.

This time a commission to fix wasteful spending might work. The commission must consist of highly respected, high-ranking officials from both parties—the likes of Paul Volcker, Alice Rivlin, George Shultz and James A. Baker III who have no recent policy to defend. Then make Congress vote up or down on the recommendations (as they do on base closings), so voters can hold their officials accountable.

Second, for every \$2 of savings from reducing waste and inefficiency, ease up to \$1 of the sequester spending caps. Lest projected savings evaporate before they occur, the 2-for-1 rule would apply only after the fact. In other words, for every \$2 of verified savings from the past year, a maximum \$1 of sequester relief would be granted this year. The procedure is similar to the look-back provisions many states employ to enforce balanced budgets.

Why agree to such a plan? Democrats would get relief from the sequester on such programs as education and public housing. Republicans would get less spending and debt, as well as sequester relief for defense. Citizens would get a more efficient government costing less.

Where are the savings? Many can be found in the reports by Simpson-Bowles and other commissions, private studies, the president's 2014 budget, congressional budget resolutions and previous "almost" budget deals. But here are a few:

Consolidate and reform duplicative programs that are not achieving their goals. Forty-six separate job training programs in nine federal agencies cost \$18 billion a year, with few performance metrics. There are also more than 100 federal housing programs. Cabinet members and congressional committees cannot possibly manage such sprawl.

A few programs that work would focus accountability, improve effectiveness and reduce costs. The Government Accountability Office has identified duplication and inefficiencies within the federal government costing "tens of billions of dollars annually," and thus hundreds of billions a decade.

Curtail improper payments and fraud, improve collection of vast unpaid loans and penalties. Every major private business deploys advanced analytics to deter fraud. The GAO documents considerable fraud in such benefit programs as the earned-income tax credit and Medicare. Fraudulent providers and recipients are to blame. Press reports highlight egregious examples, like the Los Angeles outpatient Medicaid drug-treatment program that earlier this year was found to be billing the government for many times its number of clients.

The IRS estimated that in 2006 unreported income meant more than \$300 billion in taxes went uncollected. Some of this was not the result of fraud but the complexity in tax laws, eligibility formulas and paperwork requirements—which a simpler, flatter tax code could reduce.

Modernize and upgrade personnel and technology. The federal government spends vast amounts on information technology; the recent snafus in ObamaCare exchanges add to a long list of IT problems. Unnecessary segmentation, poor interoperability across agencies, obsolete hardware and software, and inadequate technical training and pay result in the government spending too much to achieve too little.

Roughly 40% of federal civilian workers (half of the payroll) are expected to retire in the coming decade. Replacing a considerable fraction with upgraded technology and one-stop shopping would save hundreds of billions of dollars and result in a leaner, more productive workforce.

The federal personnel system should be overhauled so that the government finds it easier to reward high productivity and fire poor performers. New York University's Paul Light recently highlighted on these pages \$1 trillion of potential savings from federal personnel reform.

Move government programs closer to their original intent. The government's disability insurance program was intended to help those who could no longer work, but faulty eligibility screening has allowed it to expand so that it will be broke in three years. The program must be reined in to help only those who truly need it.

Using a more accurate measure of inflation for government programs is also essential. Each month, the Bureau of Labor Statistics publishes the improved measure recommended by the Consumer Price Index Commission in the late 1990s. Switching to "chained CPI"—tying the price index closer to the rate of inflation—would save \$300 billion in over-adjustments (two-thirds in spending, one third in taxes) in a decade, approaching \$1 trillion in two.

This plan offers a constructive way out of the recurring debt-limit and budget stalemates. What it would not do: obviate the urgent need for Congress and the White House to finally start doing the heavy lifting of entitlement and tax reform.

Mr. Boskin, an economics professor at Stanford University and senior fellow at the Hoover Institution, was chairman of the Council of Economic Advisors under President George H.W. Bush.