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Cutting Deficit Is Easy—Just Unpopular

CAPITAL ACCOUNT

By Greg Ip

E arly last week, legislators from both parties agreed on a plan to keep the government funded until March. Then Elon Musk, co-head of President-elect Donald Trump's Department of Government Efficiency (DOGE) demanded that the 1,547-page bill be scuttled. "Either there is massive change or America goes bankrupt," he wrote on X.

When Congress passed a slimmed-down 118-page bill Friday, Musk posted to his followers, "Your actions turned a bill that weighed pounds into a bill that weighed ounces!"

But slim isn't the same as cheap. The bill still included an eye-watering $100 billion for disaster relief and $10 billion for farmers. Separately, last week the Senate, on a bipartisan basis, agreed to boost Social Security benefits for some public-sector employees. The bill was just three pages long but will cost nearly $200 billion over 10 years.

The federal deficit reached $1.8 trillion, or 6.4% of GDP, last fiscal year, a record outside of war, recession or emergency. Musk and Trump have promised to attack it by cutting federal spending. One simple step would be to stop adding to it. And yet last week neither stood in the way of Congress's largess. Musk posted in favor of the money for disaster victims and farmers. The vice presi--dent-elect, Ohio Sen. JD Vance, co-sponsored the Social Security expansion.

The reason is obvious: Spending is popular with voters and both parties. This is why commissions, think tanks and earnest outsiders have been papering Washington for decades with ideas to cut spending and the deficit—and mostly gotten nowhere.

Will this time be any different? Musk certainly brings sizzle and a soapbox that the typical think tank lacks. He claims he can slash federal spending, which was $6.75 trillion last year, by at least $2 trillion.

And yet to date DOGE's ideas mostly revolve around firing civil servants, closing or merging agencies, and cutting regulations. Whether this makes the government more efficient, it won't save much money. Salaries for all civil servants cost around $200 billion to $250 billion a year—or roughly one-eighth of the deficit—and more than 60% of them work for military or security-related agencies, the functions Trump plans to beef up.

The reality is that the big money isn't tied up in the people who work for the government, but in the checks they send out. And the checks are much more popular than the people.

For example, the Education Department, perennially marked for extinction by Republicans, spent more than half of last year's $274 billion budget on loans and grants to students. The Transportation Department spent half its $117 billion budget on checks, mostly to state and local governments, for highways, bridges and other infrastructure.

Federal spending falls into three categories. First, interest on the debt, at $882 billion last year. Not much you can do about that without defaulting. Second, discretionary spending, which gets authorized each year by Congress. This is what last week's funding fight was about. It covers defense plus most of the federal services Americans encounter day to day, from the National Park Service to the National Weather Service.

Third, mandatory spending: this is for programs that continue each year without new authorization including Social Security, Medicare, Medicaid, Affordable Care Act subsidies, food stamps, welfare, child tax credits, veterans' benefits and pensions.

At $4.1 trillion, mandatory is more than double discretionary spending and, because of population aging and health costs, growing much faster.

Some efficiency evangelists claim mandatory programs can be run much more cheaply. Medicare, for instance, spent $12 billion last year on administrative expenses. Can that be reduced? Maybe. But it's just 1% of total costs, compared with 12% or more at private insurers.

So taming mandatory spending means reining in benefits. Fundamentally rewriting social programs is mostly a job for Congress, and indeed, Republicans on Capitol Hill are considering a 10-year budget plan that ties mandatory spending cuts of $2.5 trillion to extending Trump's 2017 tax cut.

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But Trump can also cut mandatory spending unilaterally. There's a misconception that because such spending is mostly determined by the authorizing law, it's on autopilot. In fact, presidents have a lot of discretion in how they interpret the law.

Perhaps no president has exercised this discretion as brazenly as President Biden. He reversed an Obama era interpretation of the Afford--able Care Act to expand subsidies to families, at a projected 10-year cost of $34 billion.

In a way, Biden did Trump a favor: The new president can restrain deficits unilaterally by undoing Biden's executive actions. The nonpartisan Committee for a Responsible Federal Budget has identified up to $1.4 trillion in such potential savings. Some, like student debt cancellation, have already been halted by courts, but plenty of others remain.

Last month, Biden handed Trump a golden opportunity when he proposed that Medicare and Medicaid cover anti-obesity drugs. Biden officials say this would cost $36 billion over a decade, but the nonpartisan Penn Wharton Budget Model puts the cost at $140 billion based on the big boost to utilization when other drugs gained similar coverage.

The rule can't be completed until after Trump's inauguration, which means he can prevent up to $140 billion in new federal spending by simply not implementing the rule.

This wouldn't be popular: Polls show a majority of voters want Medicare to cover anti-obesity drugs, as do 120 legislators from both parties. Trump's nominees have sent mixed signals. Trump has regularly promised not to cut existing Medicare benefits. And during the campaign he promised to make in vitro fertilization free, potentially saddling federal health programs with huge costs.

Trump, a populist, has built his economic platform around avoiding unpopular choices. If he's going to make good on his promise of slashing the deficit while cutting taxes, he'll have to do some unpopular things.

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