# GOVERNMENT OVERSPENDING:
# THE CONSEQUENCES

Americans have grown increasingly knowledgeable – and increasingly concerned – about the government's explosion of spending and debt. Americans also have begun to understand there really is no "free lunch"; Washington's fiscal recklessness has consequences, and these consequences grow exponentially worse with every day policymakers fail to get our nation's fiscal house in order.

## The Consequences of Overspending

- ❑ **Higher Taxes, Higher Cost of Living**
- ❑ **Dampened Economic Growth, Fewer Job Opportunities**
- ❑ **Less Flexibility**
- ❑ **Crushing Burden on Future Generations**

### Higher Taxes, Higher Cost of Living

The government does not have money of its own. Every dollar it spends must be taken from the private sector through taxation, inflation, or borrowing. Right now, the government is financing its overspending through borrowing, and incurring debt that will have negative consequences.

- As the national debt grows, policymakers will likely contemplate major tax hikes and increasing the money supply to pay our debt with less valuable money.
  - Tax increases would hamper the economic recovery, and hinder the prospects for future growth.
  - Increasing the money supply would lead to higher prices and make American families' savings less valuable.
- In March, Moody's Investor Service warned that, unless the United States reduced its debt, the renowned credit agency would consider downgrading the U.S. debt rating from AAA status for the first time in history.[1]
- Downgrading the U.S. debt rating would signal to lenders that the U.S. has a higher potential of default and is no longer the lowest-risk investment. Because of the increased risk associated with buying U.S. debt, investors would likely require a higher interest rate. This would push U.S. interest payments higher, and worsen the country's debt situation.

### Dampened Economic Growth, Fewer Job Opportunities

A too large government doesn't just lead to too high taxes and too much debt. It also impedes economic growth. Government simply doesn't allocate resources as efficiently as the private sector. When government spends more, more money gets wasted, and the private sector is less able to grow.

- When government allocates resources, it makes decisions based on political factors, such as the districts and political allegiances of those receiving federal money. Americans can see how much of this money gets wasted -- or at least not put to the best use -- in the thousands of earmark projects that do nothing to stimulate the economy.

- Because the government takes, but then wastes, such a great deal of money from the private sector, the economy does not benefit from what otherwise could have been done with it: investment that leads to innovation, business expansion, and job creation.

**Less Flexibility**

By 2020, interest payments and entitlement programs (such as Medicare, Social Security and Medicaid) will consume more than 90 percent of projected federal revenues, or 90 cents out of every dollar collected in taxes.[2]

- This means less than 10 percent of tax revenue will be left to fund all other government functions: from providing for defense and homeland security to education and the environment. Any additional spending will be done with borrowed money.

- If nothing is done to address our under-funded entitlement programs, both the programs' beneficiaries and taxpayers will pay a price.

**Crushing Burden on Future Generations**

Between 2011 and 2020 interest payments on the debt, adjusted for inflation, will nearly triple – spiking from $221 billion to $637 billion.[3]

- When more of our money goes to pay interest on our debt, there is less money available to spend on other priorities. This is true for the government, since a growing portion of the federal budget will be spent on interest payments, and also for the economy overall, since more resources will be eaten up by interest.

- Since World War II, government spending, on average, accounted for around one fifth, or 19.6 percent, of GDP. Today, federal spending accounts for nearly one quarter, or 24.6 percent, of GDP.[4]

- When government controls more of our economy and resources, the productive job-creating sectors are crowded out. Over the long run, this weakens our economy and threatens the financial stability of American families.

[1] David Jolly and Catherine Rampell, "Moody's Says U.S. Debt Could Test Triple-A Rating," *The New York Times*, 3/15/10

[2] Office of Management and Budget, Mid-Session Review, July 2010, Page 23, http://www.whitehouse.gov/omb/assets/fy2011_msr/11msr.pdf

[3] Office of Management and Budget, Mid-Session Review, July 2010, Page 29, http://www.whitehouse.gov/omb/assets/fy2011_msr/11msr.pdf

[4] Office of Management and Budget, Historical Table 1.2 and Mid-Session Review, July 2010, Page 20, http://www.whitehouse.gov/omb/assets/fy2011_msr/11msr.pdf