

GOVERNMENT OVERSPENDING: UNSUSTAINABLE SPENDING

Americans have grown increasingly knowledgeable – and increasingly concerned – about the government’s explosion of spending and debt. Americans also have grown increasingly angry as Washington seems unable, or simply unwilling, to get control of its unsustainable levels of spending.

An Unsustainable Spending Path

- Overspending Mentality**
- From Bad to Worse**
- From Worse to Crisis**
- Spending Reduction Only Sustainable Solution**

Overspending Mentality

The problem of government overspending is not new. With few exceptions, government has always overspent (creating deficits by spending more than it took in) *regardless of how much it taxed*.

- The federal government has run a deficit every year since 1969, with the exception of the years between 1998 and 2001.¹ Washington is expected to run a fiscal year 2010 deficit of \$1.5 *trillion*.²
- Between 1980 and 1990, inflation-adjusted federal government spending increased by 34 percent. Between 1990 and 2000, inflation-adjusted spending increased by another 11 percent. And over the past decade, from 2000 to 2010, inflation-adjusted spending increased by 62 percent.³
- Adjusted for inflation, the gross federal debt grew from \$2.4 trillion to \$5.3 trillion during the 1980s. Washington added another \$1.7 trillion during the 1990s. Since 2000, our debt has grown from \$7 trillion to \$13.2 trillion.⁴
 - University of Maryland economist Carmen Reinhart, an expert on debt, recently testified before Congress that the United States’ current debt is approaching levels that will have significant negative impact on jobs and economic growth.⁵

From Bad to Worse

Recent explosive spending growth has made a bad situation much worse.

- Federal government spending has averaged around one fifth, or 19.7 percent, of our economy since World War II.⁶ This year, federal spending will account for roughly one quarter, or 24.6 percent, of the nation’s GDP.⁷
- This explosion of government spending isn’t just a temporary spike in reaction to the recent economic crisis; official government sources estimate spending to remain above 24 percent of GDP from 2024 on.⁸
- The government’s explosive growth means it is consuming ever more of our nation’s resources, leaving ever less for American families and businesses – the true engines of progress and economic

growth.

From Worse to Crisis

If Washington continues on its current spending path, America will face a devastating economic and fiscal crisis. Interest on the debt and entitlement spending *alone* will grow to consume almost the entire federal budget. The cost of government itself will grow to consume so much of the nation's economic resources that little will be left for the private sector to create actual growth.

- Between 2011 and 2020 interest payments on the debt, adjusted for inflation, will nearly triple – spiking from \$221 billion to \$637 billion.⁹ This is a best-case scenario, predicated on maintaining low interest rates.
- 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 tax dollar.¹⁰ This means just ten percent of all tax revenue will be left to fund all other government functions: from providing for defense and homeland security to education and the environment.
- 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.¹¹ This would make it harder for the U.S. to borrow money, leading to higher interest rates, higher interest payments, and a worsening debt crisis. This is exactly what happened to Greece, setting off its economic and fiscal downfall.

Spending Reduction Only Sustainable Solution

It is impossible to tax, or even to grow, our way out of the coming fiscal crisis; spending must be reduced to sustainable levels.

- To close the gap between what we are expected to spend and what we are expected to take in for fiscal year 2011, the federal government would have to increase total revenues by \$1.4 *trillion*. That would require over 50-percent more money be taken out of the economy in taxes than would otherwise occur.
- The Tax Policy Center has found that to raise income taxes to try to close the deficit would require a top tax rate of 77 percent¹², which economists say would significantly hamper productivity.
- If the federal government returned to the average, inflation-adjusted, per-household spending levels of the 1990s, the budget could be balanced in less than three years without any tax increases.¹³
- A big tax hike might appear to improve the deficit situation for the moment; but it will simply leave us with a still-unsustainable sized (and growing) government -- just with a higher-taxed people. Failing to address the actual problem of unsustainable government spending means Washington will just have to raise taxes again...and again...and again as spending continues to grow. Clearly, this model is itself unsustainable. It will increasingly discourage work, investment, business expansion, and job creation for as long as the government attempts the tax-hike 'remedy' to cure its spending problem.

- ¹ Office of Management and Budget, Historical Tables, Table 1.1, <http://www.whitehouse.gov/omb/budget/Historicals/>
- ² Office of Management and Budget, Mid-Session Review, July 2010, p. 23, http://www.whitehouse.gov/omb/assets/fy2011_msr/11msr.pdf
- ³ Office of Management and Budget, Historical Tables, Table 1.3, <http://www.whitehouse.gov/omb/budget/Historicals/>
- ⁴ Office of Management and Budget, Historical Tables, Table 1.7, <<http://www.whitehouse.gov/omb/budget/Historicals/>>
- ⁵ Walter Alarcon, "U.S. debt reaches level at which economic growth begins to slow," *The Hill*, May 26, 2010.
- ⁶ Office of Management and Budget, Historical Tables, Table 1.3, <<http://www.whitehouse.gov/omb/budget/Historicals/>>
- ⁷ Office of Management and Budget, Mid-Session Review, July 2010, p. 20, http://www.whitehouse.gov/omb/assets/fy2011_msr/11msr.pdf
- ⁸ Congressional Budget Office, Summary, Extended Baseline, June 2010.
- ⁹ Office of Management and Budget, Mid-Session Review, July 2010, p. 29, http://www.whitehouse.gov/omb/assets/fy2011_msr/11msr.pdf
- ¹⁰ Office of Management and Budget, Mid-Session Review, July 2010, p. 23, http://www.whitehouse.gov/omb/assets/fy2011_msr/11msr.pdf
- ¹¹ David Jolly and Catherine Rampell, "Moody's Says U.S. Debt Could Test Triple-A Rating," *The New York Times*, 3/15/10.
- ¹² [Rosanne Altshuler](#), [Roberton Williams](#), Op-Ed, *The Washington Post*, 4/4/10
- ¹³ JC Watts, Op-Ed, "Getting the budget under control," *The Las Vegas Review Journal*, 5/2/10.