

Policy Focus

Government Over-Spending

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

Carrie Lukas, Executive Director, Independent Women's Forum

January 2011

Volume 1, Number 1

IN THIS ISSUE

What You Need
to Know 1

Why You Should Care 2

More Information

Just How Bad Is It? 2

The Consequences 3

Too Much Government 4

Americans Deserve More 5

The Debt Limit Debate 5

What You Can Do 6

Independent
Women's
Forum

WHAT YOU NEED TO KNOW

Government over-spending and our massive national debt aren't just problems we will leave to our children and grandchildren. They are hurting our economy today.

The government borrowed more than \$1.3 trillion in 2010 and expects to borrow at least another trillion in 2011.

There are consequences to so much borrowing. Trusted credit rating agencies are considering downgrading the United States debt rating, which means lenders will start demanding higher interest rates. More tax dollars will go to pay interest on our debt. Those higher interest rates could make loans more expensive for all of us.

High government spending also means more government control over the economy. Currently, the federal government decides how nearly one-quarter of our Gross National Product (GDP) is spent. Do you think that government uses this money as wisely as families and private companies would? Of course not! Government often makes spending decisions based on political calculations, rather than where the money would be used best.

Money borrowed and spent by government isn't available for entrepreneurs and businesses to start up, expand, and hire more workers. As a result, we have fewer private sector jobs and slower economic growth than we would if government controlled less of our economy.

High government spending also paves the way for other bad economic policies. Washington politicians try to justify new taxes and higher tax rates as necessary to close the deficit. The public shouldn't accept those arguments. *Washington doesn't have a revenue problem. Taxes aren't too low. The problem is Washington politicians spend too much!*

It doesn't have to be this way! Sensible budget cuts can and should be made today to reduce our deficit and debt, and return government to its proper size.

WHY YOU SHOULD CARE

You've heard the numbers. A \$14 trillion national debt that's expected to grow to more than \$20 trillion by 2020. But you've also heard warnings about excessive debt before, and everything seemed to have turned out okay.

Here's why you *should* be concerned about government over-spending:

- **Borrowing at an Unprecedented Level, and with No End in Sight:** Our current unfunded liabilities are truly unprecedented. They are a drag on economic growth today, and a threat to our country's future economic health.
- **Discouraging Job Creation:** Too big government squeezes out the private sector and stifles job creation.
- **Making Loans More Scarce and Expensive:** Government borrowing means there's less money available for companies and individuals to borrow.
- **Paving the Way for Future Tax Increases:** Politicians see a large debt as an excuse to raise tax rates.
- **Creating a Less Flexible, Less Responsive Government:** We don't know what national challenges we will face in the future. A debt-strapped government is less flexible and less prepared to respond to new challenges and priorities.

Finally, it doesn't have to be this way! Our elected representatives can cut spending and return government to its proper size. All it will take is a public that demands less spending and responsible budgeting.

MORE INFORMATION

Just How Bad Is It?

It's bad. In 2010, the federal government borrowed about 10 percent of GDP to fund extra spending. That's the highest portion of borrowing since World War II.

Here's another way to look at it. In 2010, the federal government's deficit was \$1.3 trillion. A trillion has 12 zeroes in it. That's one million one millions. And this wasn't just a one-time massive spending binge to get us through a recession. Last year's budget from the White House would have had us borrowing nearly a trillion dollars a year through 2020, presumably long after the economy recovers.

The new borrowing is being added to an already alarming mountain of debt. Our national debt is currently \$14 trillion. The debt per family was about \$115,000 in 2010. Ten years ago, it was a comparatively modest \$68,000—that means our share of the debt nearly *doubled* in just ten years. And by 2020, each family is expected to owe about \$194,000, more than *three times* the liability they faced in 2000. This is a troubling trend.

And it gets worse. The official national debt vastly understates our country's true liabilities because it doesn't account for Social Security and Medicare. Politicians have promised benefits that exceed expected income for these programs to the tune of tens of trillions of dollars. Estimates vary (much depends on factors like increases in

life expectancy), but when Social Security and Medicare's unfunded liabilities are combined with the rest of our national debt, our nation's total unfunded liabilities run as high as \$100 trillion.

Yes, that's 14 zeroes, for those keeping track.

The Consequences of Government's Reckless Overspending

It can be difficult to understand how government spending affects the economy, much less our own personal finances. Many assume that so long as government doesn't raise taxes, it doesn't really affect their pocketbooks.

Yet government spending affects our economy as a whole and even our personal finances in important ways. We all have an interest in responsible government spending.

Paving the Way for Bad Economic Policy

Where does government get the money it spends?

The government's primary source of revenue is taxes. Each year, the federal government raises money by taxing individual income, corporations, payroll, and investment earnings, and by levying myriad other excise taxes.

It's easy to see the bite that some of these taxes take out of our personal income. Our pay stubs tell us how much of our paychecks we lose to the federal government to pay individual income taxes, Social Security's payroll tax (listed as FICA on most pay stubs), and for Medicare.

The impact of other taxes is more difficult to identify. Corporate taxes, for example, don't sound

like they affect you and me. But, in fact, businesses have to factor in taxes when making decisions about how much to charge customers and how much to pay workers and how many workers to hire. That means when corporate taxes go up, we all pay a bit of that bill by paying higher prices for goods and services, and by having lower wages and fewer job opportunities.

Most people know that taxes have unintended, negative consequences, such as discouraging people from working and leaving us less money to save and spend on our own. That's why, during the recent steep recession, just about all economists agreed that we shouldn't raise taxes, even though the government was greatly increasing its total spending.

When tax revenue isn't sufficient to cover all spending, the federal government has to borrow money. That means that the federal government has to sell bonds, which are essentially IOUs, promising that those who lend us money today will get paid back their money (with interest) in the future.

Already, the federal government pays \$202 billion in interest annually to service existing debt. By 2020, interest payments will balloon to \$778 billion. That means more taxpayer dollars will be swallowed by interest payments. Also, if we keep increasing total borrowing, lenders will demand higher interest rates. That means even bigger interest payments for future generations.

Government overspending and the ballooning debt pave the way for bad policy. Politicians justify higher taxes as necessary to close the deficit. High

deficits and debt also tempt Washington to increase the money supply by printing money in order to pay down the debt. Yet there are obvious problem to this tactic: With each new dollar printed, existing dollars become less valuable. Prices rise since more dollars chase the same number of goods.

This is the dynamic known as inflation: Prices artificially inflate, which means that we can afford less with the money we have. Once inflation begins, we will see higher prices on the products we use every day. Our energy bills will go up. Clothes, electronics, cars, and services will cost more. With the passing of each day, the dollars in your savings or checking account become less and less valuable. As you can imagine, inflation can place a big strain on family budgets.

Too Much Spending Means Too Much Government and Too Little Private Sector Growth

The problem with government spending isn't just that higher spending leads to higher taxes, more government debt, or inflation. Government spending also distorts the marketplace, making our economy less efficient and all of us poorer.

When a private investor decides to loan an entrepreneur money, that investor makes the decision based solely on who he thinks will give him the best return on his investment. When a homeowner decides what company to hire to renovate her house, she chooses the one she believes will do the best job at the lowest cost. That means

that in the competitive marketplace, those who use resources best and most efficiently tend to get the *most* resources. Money flows to those who will use it well, and that helps our economy grow.

The restaurant that makes the best pizza has the most costumers; the builder who makes the highest quality houses at the lowest price gets the most contracts; and the computer programmer who can create the best program will end up the leader of his field. The system may not always work perfectly, but the incentives lead in the right direction: toward rewarding excellence and encouraging productivity.

Government operates very differently.

Instead of focusing on who can provide the best value, politicians take other factors into account: How many people does this company employ in my district? Is this a union shop? And even, did this company give contributions to my party during the last election cycle? We've all seen countless examples of the government steering enormous amounts of taxpayer dollars to projects and industries that are politically attractive, but don't make economic sense.

Consider that the government has given billions of dollars in subsidies to the ethanol industry, even though the fuel is far less efficient than other competing energy sources, and its production harms the environment. Yet ethanol has powerful lobbyists, and Iowa, where they are many corn growers, plays an important role in presidential elections with its early caucuses. This political power and influence are among the reasons that so much of government's—and that means taxpayers'—money goes to subsidize

ethanol. (Self-proclaimed “climate change” guru and former Vice President Al Gore recently admitted that his support for environment-harming ethanol subsidies was fueled by his presidential ambitions.)

Of course, you already knew that the government is good at wasting your tax dollars. But we need to remember that government’s misallocation of resources isn’t just wasteful, it’s damaging to the private sector. It makes it harder for superior firms with superior products to compete against those who are politically well-connected. Through this process, government programs can impede economic progress and leave us all poorer.

It’s no surprise given the different incentives that individuals and the government have that money controlled by the private sector tends to produce more economic value than money spent by the government. After all, government’s incentive isn’t to maximize the economic impact—it’s to score political points.

Americans Deserve More Control of Their Resources

Government spending is really a question of control. When politicians and government spend more of our tax dollars, they not only take more money out of the economy, and leave less for individuals, they also set priorities and drive the economy—and the country—in a different direction.

Today, the federal government spends about one in four dollars our country spends each year. Politicians not only control today’s resources, but

by accumulating a massive debt, they will continue to dictate how our country spends much of its resources for decades to come.

Runaway government spending and our massive government debt already affect our economy. If we continue on our present course, the consequences for over-spending will become more severe. It’s time for the American people to say enough is enough and tell their elected Representatives to cut government spending.

The Debt Limit Debate Should Be A Spending Debate!

There are supposed to be limits to how much our federal government can borrow. When Congress reaches that limit and wants to once again put off necessary spending cuts and borrow more, they have to vote to raise the debt limit. This is a lot like a family deciding to increase the limits on their credit card limit. It makes it possible to borrow and spend more—and get into even more financial trouble.

The debt limit is an important signal to the American people that Congress is continuing to delay tough decisions about cutting spending and reducing the deficit. It reminds us that once again Congress is mortgaging our children’s future to consume more today.

Debates about the debt limit are important moments for the American people to note just how much Congress overspends and to speak out about the need for real spending cuts. But it’s also important to remember that the debt limit is more of a symptom of the underlying problem: the federal government’s habitual overspending. The problem of over-spending needs to be a top concern with every debate Congress has, not just when it comes time to raise the debt limit.

WHAT YOU CAN DO

You can help fight runaway government spending!

- **Get Informed:** Get the facts about government spending. Visit:
 - The Independent Women's Forum (www.iwf.org)
 - Bankrupting America (www.bankruptingamerica.com)
 - Committee for a Responsible Federal Budget (<http://crfb.org/>)
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor to your local paper. Show up at your local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

OUR PARTNERS

Contact us if you would like to become a partner!

**CONNECT WITH IWF!
FOLLOW US ON:**