Everyman's Deficit

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The United States is at a fiscal crossroads. According to 2010 Office of Management and Budget (OMB) estimates, the deficit will reach 1.4 trillion dollars this year, which is a whopping 10 percent of Gross Domestic Product (GDP), a figure that has tripled since 2007. Recent warnings from Greece, Portugal and Spain tell us what continued deficit spending can cause. Reining in spending and reducing regulatory burdens along with increasing GDP growth can eventually close the deficit gap, but under the best of circumstances, this will take time, and will take considerable sacrifices on the part of the "Everyman" family.

RESEARCH FINDINGS

- Why do we get deficits and debt and why should you care? Deficits emerge from a budgetary commons, a kind of no-man's land; a valuable resource not subject to property rights or rules to ration its use. It's everyone's property, and therefore no one's property. In 2008 the "Everyman's", a family of two children, earned an income of $78,767, which was exactly the nation's median income for a family like theirs.[1] Most Americans do not yet understand the implications of past excessive spending and the resulting high levels of debt, but the time for understanding is fast approaching. In March 2010, the total federal debt stood at almost $14 trillion. Each person's share of the debt is now about $40,000. How many people list $40,000 as a liability on their personal balance sheets when applying for a loan or tallying their net worth?

- Overspending has typically outpaced revenue growth to generate red ink. The federal government has long suffered from systematic overspending, an economy-crippling malady that cannot be cured simply by higher taxes. Looking at 19-year intervals in revenue and spending data for the federal government from 1950 through 2009, spending growth exceeded revenue growth every time. From 1970 to 2009, the growth rate for federal spending is positive all 39 years. In comparison, the revenue growth rate is negative for only four of the 39 years.

- When government expands its activities, it "crowds out" the private sector, slowing economic growth. Deficits have an almost invisibly slow but ultimately massive effect on what our government does, how it operates, and how we, as citizens, adapt to the changed political economy. Growing deficits and public debt affect the performance of the entire economy—private and public. As the private sector becomes relatively smaller, real GDP growth becomes less vibrant. Take together—growing deficits and debt and growing provision of once-private services by government—create a society that is marginally

[1] Tax Policy Center, "Historical Federal Income Tax Rates for a Family of Four" (Washington, DC: Urban Institute and Brookings Institution, 2010), http://www.taxpolicycenter.org/taxfacts/displayfact.cfm?Docid=226.

more dedicated to consumption than to investment and that is looking more frequently to the federal government to address problems previously dealt with privately or at the state and local level.

- The Federal Budget Deficit is the most important issue of our time. The deficit problem seems to be so serious that it was a key focus of President Obama's 2010 State of the Union address. The Federal Budget Deficit is also the most important problem facing the country according to a Gallup poll conducted February 10, 2010. President Obama also announced a goal of restraining the deficit to 3 percent of GDP from its current level at 10 percent, by 2015. To accomplish this goal, the U.S. faces the prospect of raising taxes significantly, cutting government spending drastically, or some combination of the two.

- What does this mean for the Everyman family? The Everymans will not likely read about a serious financial crisis caused by U.S. deficits and debt. The Everymans will not be shocked by suddenly rising taxes or a severe debt-induced recession. Instead, this family, like every other American family, will bear gradually higher taxes, experience slower income growth, bear the cost of more regulation, and see expanded public funding of goods and services, even though it may cost $1.60 for every $1.00 transferred through government. Their private world will contract while the public sector expands. Their expectations for future wealth and prosperity will gradually be revised. And they will not likely know that deficits and public debt led to these results.

OPPORTUNITIES FOR CHANGE

- Spending cuts or massive tax increases? In order to escape such a sudden and dramatic increase in taxes, the U.S. can and should consider cutting back on spending and adopting policies that increase economic activity. International Monetary Fund data show that the U.S. and other countries with large debt to GDP ratios face the inevitable prospect of higher taxes or massive cuts in spending.[2] A tax increase associated with a 10 percent U.S. budget deficit would cause the Everyman's federal tax bill to rise from $4,767 to $10,279 (based on 2008 figures). Spending cuts must be a large part of the solution in order to keep taxes low, encouraging economic growth.

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[2] International Monetary Fund (IMF), *The State of Public Finances Cross-Country Fiscal Monitor*, IMF Position Note (Washington, DC: IMF, September, 2009).