



BALANCING THE BUDGET AND REDUCING THE NATIONAL DEBT

The national debt has more than doubled over the past decade and now stands at a staggering \$14 trillion. The federal government's current fiscal course is unsustainable; the consequences of our failure to tackle the budget crisis now will be enormous. If our unrestrained borrowing continues, we will cede our sovereignty to our creditors, high interest rates and taxes will cripple the economy, and funding for critical government programs (including defense) will be slashed or eliminated.

Discretionary spending (the part Congress controls on an annual basis) is just 40 percent of the federal budget and more than half of that goes to defense. However, "auto pilot" spending (Social Security, Medicare, Medicaid, and interest on the debt) consumes 60 percent. If nothing changes, by 2025 that spending will consume every penny of tax revenue the federal government raises.

Putting the nation's fiscal house in order will take more than simply raising taxes on high earners or taking a scalpel to discretionary, non-defense spending. It will require comprehensive reform that includes:

- Overhauling the tax code to provide certainty and encourage economic growth
- Dramatically restructuring entitlements
- Eliminating inefficiency and duplication in federal programs and cutting discretionary spending that does not serve core national interests
- Raising user fees to pay for federal infrastructure programs in a fiscally responsible manner

Congress and President Obama must work together to balance the federal budget and reduce the national debt.

- In AED's 2011 public policy survey, members ranked "balancing the federal budget and reducing the national debt" as the top policy priority (4.61 on a 5 point scale).
- The federal budget was last balanced in 2001. Since then, the federal debt increased from 33 percent of Gross Domestic Product (GDP), the value of all goods and services produced in the economy, to 62 percent in 2010. The debt currently exceeds \$14 trillion. The Congressional Budget Office (CBO) projects that if there is no change in fiscal policy, the debt will reach 90 percent of GDP in 2020.
- According to the Bipartisan Fiscal Commission, in 2010, federal spending was nearly 24 percent of GDP. Only during World War II was federal spending a larger part of the economy.
- The Commission also reports that debt held by the public will outstrip the entire American economy, growing to as much as 185 percent of GDP by 2035. Interest on the debt could rise to nearly \$1 trillion by 2020.
- According to CBO, if tax increases alone were used to close the budget gap, the rates "would significantly reduce economic activity" and "would probably not be economically feasible."