



Debt and Annual Spending

Summary and Key Talking Points

Policy Proposals

1. Eliminate federal central planning programs that pick winners and losers.
2. Reform major entitlement programs to make them fiscally sustainable.
3. Adopt an accountable, responsible, and transparent budget process.
4. Reject tax increases.

Quick Facts

1. The federal debt is currently more than \$257,000 per household—almost the cost of a house. Left unchecked, it will grow by more than 189 percent per person by 2053. Adjusted for inflation, federal spending per capita soared by more than 416 percent, from \$3,782 in 1965 to \$19,515 in 2021.
2. Major health care programs, Social Security, and net interest accounted for 64 percent of federal spending in FY 2022.

Power Phrases

Unleash America's Wealth

- America's families, workers, businesses, and innovators—not the government — produce and own the wealth of this society. They—not government bureaucrats—should decide how to spend it.

Support American Taxpayers

- Current debt and spending levels are unprecedented and unsustainable and threaten economic opportunity and future prosperity for all Americans.

Prevent Inflation from Crushing Purchasing Power

- Every dollar spent by the government is taken from present and future taxpayers, and deficit spending makes inflation worse.
- Out-of-control government spending wastes the money of hard-working Americans that they could have used to expand their businesses, support their families, and invest in our communities.

The Issue

In 2000, the federal budget was balanced, and the national debt stood at \$5.6 trillion. In just over 20 years, the annual deficit has climbed to \$1.7 trillion for fiscal year (FY) 2023, and the gross debt now exceeds \$257,000 per household at \$33.7 trillion. Moreover, this mounting debt and deficit are only two of the many symptoms of the dramatically expanding size and scope of the federal government—a government that consumes more and more of the resources produced by the American people.

Driven in part by response to the pandemic, the federal government spent \$13.4 trillion in FY 2020 and FY 2021—an unprecedented amount by any metric, especially during peacetime. Federal deficits since the start of the pandemic have increased the federal debt by \$10.3 trillion. For perspective, the total debt only reached \$10.3 trillion in October 2008. The massive pandemic-era deficit spending spree was a driving force behind the crushing wave of inflation that began in 2021, followed by punishing interest rate hikes as the Federal Reserve seeks to minimize the damage.

To clarify: Every dollar spent by the government must first be taken from the economy. This money represents real goods and services that are produced by American workers and businesses and then redirected by the government based on the whims of politicians and bureaucrats. Though this growing issue has been exacerbated by the COVID-19 pandemic and the related expansion of the federal government, it also is deeply rooted in the largest and oldest federal programs. As the government consumes and redistributes more and more of the economy, it also inevitably stifles growth and destroys opportunities.

It is equally important to understand the sources of this runaway trajectory. This unsustainable path is the result of exponentially growing entitlement programs, runaway interest costs on the already mountainous federal debt, and Congress's recent binge spending on new non-defense programs. When federal programs grow at a faster rate than the economy—as they have for decades—the share of all resources consumed by the government increases. That is the definition of an unsustainable budget, as the government cannot extract more in tax revenues to pay for this spending than the economy can produce.

Federal spending represents the volume of goods and services produced by Americans that is either redirected to federal government operations and projects or redistributed among Americans. The federal government had already grown to more than one-fifth of the economy before the COVID-19 pandemic and is now projected to grow to almost one-third of the economy in just over another generation. The Left's attempt to frame fiscal policy as a matter of dollars in and out of the government intentionally masks this reality. Ultimately, fiscal policy is a determination of the size of the check signed by the taxpayer.

It is of paramount importance that policymakers remember that the private sector—America's families, workers, businesses, and innovators—produces the wealth of this society. Government, at best, guarantees law and order to facilitate economic activity, but it is not the source—the American people are. Federal spending beyond its original limited mandate is simply the mechanism by which a government redirects resources and redistributes that wealth.

The process through which governments raise revenue and then spend it unavoidably destroys productive arrangements in the private sector and then repurposes what real goods and services remain. Taxation directly hurts productivity by disincentivizing activities such as investment, savings, and work, while deficit spending does so indirectly by crowding out private investment. The immediate stifling of economic activity causes ripples into the future in the same way that planting fewer seeds today means smaller harvests tomorrow. Compounding this stagnation, runaway deficits today mean that far higher rates of taxation will be required in the future simply to manage the debt.

The Congressional Budget Office (CBO) projects that the current fiscal trajectory will bring the debt to one-and-a-half times the size of the economy over the next two decades. Net interest on the debt alone will be the largest federal program, eclipsing the entire national defense budget and the Social Security and Medicare programs. This projected future—in which the largest federal program could be paying interest on money borrowed (in some cases from foreign entities) long ago—is perhaps the starkest reminder of how far the fiscal reality is from what the Founders laid out in the Constitution.

Recommendations

In order to rein in spending and reduce the debt, Congress should:

Limit federal programs to responsibilities enumerated in the Constitution. For at least the past 100 years, the federal government's reach has expanded well beyond its constitutional limits, pushing federal spending to unsustainable heights and stifling the freedom and creativity of the American people. All federal spending comes at the expense of some productive private-sector activity, which must be justified by some compensating benefit. It is therefore vital to limit this harm by restricting the federal government's consumption of resources to what the government requires to fulfill its constitutional role.

Reform major entitlement programs to make them fiscally sustainable. Spending on Social Security and major health care programs is driving the unsustainability of the federal budget. The CBO projects that spending for these programs and net interest on the debt will swell to more than total federal revenues in 2046. Left unaltered, these programs—intended to protect Americans from poverty—would increasingly crowd out economic growth and sap the retirement savings of all Americans. On their present trajectory, Social Security and Medicare are expected to deplete their trust funds in 2034 and 2026, respectively. Policymakers cannot resolve this problem of budget unsustainability without also addressing entitlement spending. Fortunately, reasonable policy options are available that would modernize Social Security and health care programs, return control to Americans, and expand their choices of health care and retirement decisions while at the same time saving money. Lawmakers should make entitlement programs more affordable and fiscally sustainable by returning control of health and retirement decisions to the people.

Eliminate federal central planning programs that pick winners and losers. Mission creep and the overly expansive scope of federal activity undermine congressional and executive focus on performing core federal functions. This tendency has led to the creation of numerous federal programs that micromanage both private activity and the activity of state and local governments. When Washington creates these programs, it acts as a pass-through, absorbing monies, adding layers of bureaucracy, and redistributing wealth to well-connected and politically favored businesses and other entities. Congress should work toward reducing or ending most spending on welfare, health, infrastructure, education, energy, and other domestic programs. Private entities and state and local governments are best able to manage such activities effectively and efficiently.

Reduce the growth of federal spending to less than the growth of the economy. Whenever government spending is set to grow faster than the economy—as it has been for decades—the government is consuming and redistributing an ever-larger share of the goods and services produced by Americans, stifling both innovation and job creation and limiting the freedom of all Americans. Furthermore, government cannot sustainably increase spending faster than economic growth increases over the long run. The only way to ensure the freedom and prosperity of the American people and allow greater innovative investment in the future is to reduce the growth rate of federal spending to less than the rate at which the economy grows.

Implement fiscal controls to ensure responsible long-term balance. The best way to achieve a balanced budget is by reducing spending, not by raising taxes. Caps on federal revenues, paired with controls that keep government spending from increasing faster than economic growth, would ensure that the ratio of debt to

gross domestic product decreases to sustainable levels. Left unchecked, the current uncapped nature of federal taxation and deficits could well lead to economy-wrecking levels of taxation and the exponentially increased crowding out of private investment. Congress must focus both on its spending and on how that spending is financed. It is imperative that Congress reduce the footprint and long-term burden of the means by which the federal government raises revenue. The longer Congress waits, the closer the nation gets to a debt crisis, and the harder it will be to implement the needed reforms.

Eliminate budget gimmicks and unhelpful accounting practices. Budget gimmicks promote wasteful spending and thrive on a lack of transparency. Congress should eliminate them from the budget process. These gimmicks include creating temporary programs that are designed to force future Congresses to take hard votes to make them permanent, using scoring methods that undercut the true cost of programs rather than dynamic scoring or fair-value estimates, using scoring conventions that create false pay-fors, relying on baselines that assume continuous spending growth, or using shell budgets to ram large spending and tax bills through Congress. These practices and many more obscure the true cost of federal action and the incomprehensible mountain of federal programs: Even Washington lacks a firm accounting of how many federal programs exist. Supporters will claim that these practices bring order to the budget process, but they only help the federal bureaucracy to find new ways to expand itself and the burden borne by the American people.

Adopt an accountable, responsible, and transparent budget process. The 1974 Budget Act provides a timeline to guide completion of the congressional budget process and lays out clear deadlines to ensure that Congress enacts appropriations bills before October 1 of each fiscal year. The budget process allows Congress to evaluate priorities carefully and perform critical oversight of how agencies are spending taxpayer dollars. However, Congress has no will and little incentive to follow the budget process. The last time Congress completed each required step on time was in 1996. The rules intended to keep the process running smoothly are weak and largely ignored by both parties. This has led to a cycle of continuing resolutions, massive omnibus spending bills, and periodic lapses in appropriations. The budget and appropriations process has morphed from what was intended to be an orderly exercise into a continuing series of funding fights as Congress lurches from one crisis to the next. Amid this chaos, any semblance of fiscal restraint has been lost. Returning to the transparent budget process as laid out in law is a crucial step toward the restoration of a federal government that respects the American people.

Reject tax increases. While some on the Left look to tax hikes to reduce the deficit, this is an illusion that would simply trade one economic burden for another. Every dollar spent by the government must first be taken from the economy. Whether that dollar is taken through direct taxation, borrowing, or monetization of the debt (printing money just to finance the federal deficit), it is removed in a way that stifles investment and saps the purchasing power of all Americans. Tax cuts and pro-growth reforms, such as those implemented by the Tax Cuts and Jobs Act of 2017, improve the economic outcomes of all Americans by removing disincentives for private investment. These reforms led to the lowest unemployment and fastest real wage growth in 50 years. Tax increases, on the other hand, serve only to destroy productive economic endeavor. Instead of offsetting the true cost of federal spending, they mask the burden while destroying the foundations of the economy. The problem is not that taxes are too low, but that the government spends too much of what Americans earn and produce.

Facts + Figures

FACT: If the country is to avoid a fiscal crisis, Congress must reform entitlements.

- Major health care programs, Social Security, and net interest accounted for 64 percent of federal spending in FY 2022.
- Major health care programs, Social Security, and net interest will account for 79 percent of federal spending growth over the next decade.

FACT: The growth rate of federal spending—and the government’s consumption of the economy—is unsustainable.

- The growth of non-defense spending has driven the increase in the size and scope of the federal government.
- The problem with the federal budget is the rate of spending growth. While tax revenues will grow above the historical norm under current law, federal spending is projected to surge every year moving forward, which means that the federal government will consume and redirect almost one of every three dollars’ worth of the work done by all Americans within a generation.
- Adjusted for inflation, federal spending per capita soared [by more than 416 percent](#), from \$3,782 in 1965 to \$19,515 in 2021.

FACT: The current federal debt trajectory and the Left’s plans for more spending would lead to a catastrophic debt crisis.

- The federal debt is projected to nearly double as a percentage of the economy in just over one generation.
- The federal debt is currently more than \$257,000 per household—almost the cost of a house—and, left unchecked, [will grow by more than 189 percent per person](#) by 2053.

Resources

The Heritage Foundation, [Budget Blueprint](#).

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David Ditch, [Earmark Spending: Bad Fruit from Rotten Trees](#), Heritage Foundation *Backgrounder* No. 3741, February 27, 2023.

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David Ditch, [As National Debt Hits \\$32 Trillion, 4 Examples of Absurd “Only in Washington” Budget Logic](#), Heritage Foundation *Commentary*, June 26, 2023.

Richard Stern, [Why Debt Limit Is Indispensable Tool to Ensure Limited Government](#), Heritage Foundation *Commentary*, November 18, 2021.

David Ditch, ed., [Digging Out of the Hole: A Blueprint for a Responsible Post-COVID-19 Budget](#), Heritage Foundation *Special Report* No. 238, December 1, 2020.

Adam N. Michel, [The Promise of Fiscal Consolidation: How Cutting Spending Can Help to Return America to Prosperity](#), Heritage Foundation *Backgrounder* No. 3528, September 9, 2020.

Justin Bogie, [Senate Budget-Process Proposal Offers Some Positive Reforms, But Biennial Budgeting Could Worsen Dysfunction](#), Heritage Foundation *Backgrounder* No. 3439, October 8, 2019.

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Romina Boccia, [Needed: An Effective Fiscal Framework to Restrain Spending and Control Debt in the United States](#), Heritage Foundation *Backgrounder* No. 3374, December 19, 2018.

Paul Winfree, [Causes of the Federal Government’s Unsustainable Spending](#), Heritage Foundation *Backgrounder* No. 3133, July 7, 2016.