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Congress to Boost Spending Across the Board Despite Unprecedented National Debt

By Hans Bader

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Despite recent unprecedented increases in the national debt, Congressional leaders have reached an "agreement to hike spending across the board," reports *Reason Magazine*:
"Lawmakers unveiled a $1.5 trillion spending package on Wednesday morning that would keep the federal government funded through the end of the fiscal year by hiking spending on just about everything. The plan 'would substantially boost funding for the military and nearly every non-defense agency, growing domestic spending to $730 billion, an almost 7 percent increase over current funding. The measure would boost national defense coffers to $782 billion, about a 6 percent increase,' *Politico* reports....

"Sen. Patrick Leahy (D–VT) hailed the agreement as 'the largest increase in non-defense discretionary spending in four years.'....the CBO's projections show persistently high deficits for the rest of the decade and beyond.

"That projection, of course, is based on current law — in other words, it does not take into account additional spending like what's contained in the new budget agreement. Hiking spending will only inflate future deficits and add to the $30 trillion national debt."

The national debt is now far larger than our economy. It is now at least 126% of the size of our economy, even if you accept low estimates that are based on rosy accounting. By contrast, in the World War II era, America's national debt never exceeded 119% of the size of our economy, even though the war forced the government to borrow lots of money to fight Hitler's Germany and send aid to allied nations that were being bombed or invaded. The national debt is three times as big as it was in 2008.

President Biden wants to spend even more. In 2021, Biden proposed a record $6 trillion budget that "would push federal spending to its highest sustained levels since World War II" as a share of our economy, reported the *New York Times*. It would have made the national debt skyrocket even faster, and resulted in even larger, persistently huge budget deficits. The Biden

Administration itself forecasted “deficits at more than $1 trillion for at least the next decade” if his budget plan is adopted, notes CNN.

“This is not a moderate budget. It’s the fastest peacetime increase in spending ever, on top of already record deficits,” noted David Boaz, the anti-Trump executive vice president of the Cato Institute. Biden wanted to increase the federal budget by more than 20% in a single year.

Biden claimed the $6 trillion in spending would somehow make America more “competitive.” But past spending by the Biden Administration has backfired and made America less competitive, by reducing America’s workforce and thus our economy’s overall output. Economists had expected that the U.S. economy would add over a million jobs in April 2021, because it had been growing rapidly since fall 2020 after bouncing back from the recession caused by the coronavirus. But instead, after Congress passed Biden’s $1.9 trillion “American Rescue Plan” in early March, employment grew by far less than expected in April, resulting in a shortfall of 700,000 jobs, due to work-disincentives contained in Biden’s plan.

Biden’s so-called “rescue plan” was financed with borrowed money. That increased our country’s huge national debt, which was already bigger than our economy — as big as in nations that could not pay their debts during the European debt crisis.

Biden also has proposed the $1.8 trillion “American Families Plan,” a huge package that would spend money on education, childcare, and paid family leave. The Biden Administration has said it intends to finance that package by boosting taxes on the rich. But an analysis from the University of Pennsylvania says it would actually increase the national debt by $1 trillion, since its true cost is $2.3 trillion, and Biden’s tax increases to pay for it would only raise $1.3 trillion.

That’s because some of Biden’s tax hikes would reduce, rather than increase, federal tax revenue, by discouraging economic activity that yields tax revenue. For example, *Forbes* notes that Biden’s proposed increase in capital gains tax rates could actually increase the budget deficit, shrink tax collections, and harm medical innovation:

"One analysis out of the Wharton Business School at UPenn found that raising the capital gains rate could actually lower federal tax revenue by $33 billion between 2022 and 2031. That analysis dovetails with findings from the Tax Foundation, which said the policy would cost the Treasury $124 billion over 10 years…..higher taxes could imperil the creation of new business, which is especially troubling since there are fewer startups than in the past.

"'The doubling of taxes would hurt the returns on private investment into venture capital and private equity funds,' said Mace McCain, chief investment officer at Frost Investment Advisors. 'These funding sources have been a primary source of funding for new drug discoveries and technology innovation.'”

This ocean of debt will expand further if Congress adopts additional spending proposed by Biden, such as his $2.3 trillion infrastructure plan. Biden’s infrastructure plan will spend big on obsolete technologies, and shrink private investment in infrastructure by $1 trillion. And although it will contain major tax increases, those tax increases won’t cover its massive costs.

Biden's infrastructure plan relies on funny accounting, covering spending for just 8 years with 15 years of tax increases. So in its first eight years, it will clearly add to the budget deficit, crowding out private investment and thus shrinking the economy.

"The existence of the debt saps the rest of the economy," says the University of Pennsylvania's Efraim Berkovich. "When the government is running budget deficits, the money that could have gone to productive investment is redirected.…You're taking away from the capital that we need to grow our economy in the future."

Biden is proposing "major tax increases" to fund his infrastructure package, such as raising the corporate tax rate to 28% from 21%. But raising the corporate tax rate could backfire, driving companies overseas to countries with lower tax rates, and resulting in them paying tax to those countries, not America. Restrictions on freelance work contained in the Biden infrastructure plan would also shrink tax revenue, by reducing employment.