The Locker Room
THE JOHN LOCKE FOUNDATION'S STATEWIDE ISSUES BLOG

Cato's Tanner explains why the federal government's fiscal woes are tied to overspending

The federal government has a mismatch between the amount of money it spends and the amount of revenue it raises, primarily through taxes. Most commentary on the pending fiscal cliff assumes that the best way to address that mismatch involves boosting revenue.

The Cato Institute's Michael Tanner explains in a new National Review Online column why that formulation misses the key source of the federal government's fiscal woes.

For all those who think that our deficit is caused by a dearth of revenue, consider this thought experiment. In 2012, the federal government will spend $3.56 trillion. Last week's Powerball jackpot was a reported $587.5 million, the largest winning Powerball payout ever. In order to finance current spending, the federal government would have to hit that jackpot 6,570 times.
As recently as fiscal year 2001, President Clinton's last budget, federal spending amounted to just $1.9 trillion. If spending since 2000 had simply increased at the rate of inflation plus population growth, spending this year would have been less than $2.69 trillion. Our budget deficit this year, despite those Bush tax cuts and a recession-driven decline in revenue, would have been just $241 billion, compared with an actual deficit of more than $1.1 trillion.
To continue this thought experiment, if this inflation- and population-adjusted spending path from 2001 continued to 2022, spending in 2022 would be only $3.61 trillion, compared with the $5.51 trillion the current baseline predicts. This spending path would have seen budget deficits top out at a little less than $400 billion in 2009 and then return to surplus by 2014.
In fact, even starting from today's spending levels, if future spending grew at inflation plus population, it would be only $4.8 trillion in 2022. The budget deficit in that year would be $199 billion, with deficits decreasing each year.
Compare this to President Obama's proposed fiscal-cliff deal, which would increase spending to $5.5 trillion in 2022, the same as the current baseline. That's right: The president's proposal does not reduce spending at all. There are no net cuts, not even in the Washington sense of reductions from the baseline. The few programmatic cuts he recommends, most of which lack specifics, are offset by other spending increases.