

The Responsible American Budget: Bringing Fiscal Sanity to the Federal Budget



May 2021

by Vance Ginn, PhD



Texas Public Policy
Foundation

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Executive Summary

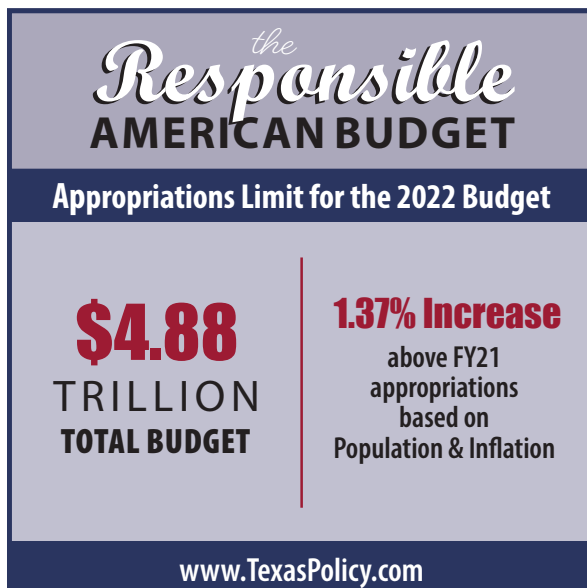
Irresponsible government spending damages the productive private sector through redistribution of resources, higher taxes, higher price inflation, and higher interest rates, reducing Americans' real incomes, job opportunities, and prosperity. While there have been multiple attempts to reduce the excessive growth of federal spending in the U.S., these attempts have had limited success, if any, as noted by the \$28 trillion—and quickly rising—national debt and its \$350 billion—and skyrocketing—interest payments. There is debate about whether deficits matter, and these days many from across the political spectrum suggest that they do not; they are partially correct. The part of fiscal policy that matters to our daily lives is government spending, which is the fundamental source of higher taxes, more regulations, higher debt, and more crowding out of the productive private sector. Given these challenges, the time is now to address excessive government spending, and we need to promote sound fiscal rules that make the budget tangible for Americans to understand and to hold elected officials accountable for excessive spending.

During my time as the associate director for economic policy (essentially the chief economist) at the White House's Office of Management and Budget during the Trump administration, I worked with our fantastic team that proposed nearly \$5 trillion in savings over a decade in the president's FY21 budget that would have helped balance the U.S. government's budget in 15 years ([Office of Management and Budget, 2020a](#)). But Congress did not follow our proposals or the prior budgets of the Trump administration, which proposed historic savings

each year because of no desire to rein in spending, disagreements on policy choices, lack of political will, or some combination of these. Then the COVID-19 pandemic happened, contributing to Congress passing legislation that led to appropriations outside of the normal federal budget process of more than \$6 trillion over a decade during the Trump and Biden administrations. While some of these appropriations may have been necessary, it

Key Points

- Federal government spending is reducing Americans' prosperity.
- Many countries and states have used sound fiscal rules to effectively restrain spending to better match taxpayers' ability to pay for it.
- The benefits of a fiscal rule are many and should be addressed in America, before additional costs to our future.
- The time is now for the maximum budget threshold called the Responsible American Budget that limits total appropriations to less than population growth plus inflation, based on proven efforts in states.
- By implementing and maintaining the Responsible American Budget, whether in law or by stakeholder pressure, America would be poised to provide more opportunities to let people prosper.



clearly made the fiscal path substantially worse. In addition, the Biden administration has proposed the American Jobs Plan ([White House, 2021a](#)) and the American Families Plan ([White House, 2021b](#)) that would increase spending by at least another \$4 trillion over a decade, bringing this administration's passed or proposed spending to more than \$6 trillion in the first 100 days. While this administration's push for these proposals sound good as money would go to "infrastructure" and "families," they are really progressive policy initiatives that would put the country on economic and fiscal trajectories that will weaken and eventually bankrupt our nation. In addition to weakening our economic institutions, this sort of policy approach would weaken the essential institutions of the family, civil society, religious communities, and state and local governments.

Given past spending excesses by both political parties and the concerns about the future of our nation, we need a strong fiscal rule to tout as Americans while working toward a new law that helps to correct the lack of responsibility by our federal government. We will consider which fiscal rules tend to work best in other countries and in our system of federalism, which provides a laboratory of competition among states to support improvements of the institutional framework of governance. While the optimal outcome would be a new law that limits federal spending based on the growth in population growth plus inflation, there may not be the political will to do so in the immediate future. However, there is an opportunity for Americans to have a voice in the budget process by having a tangible maximum threshold for the federal budget. Armed with the same approach that has been helpful to the success of limiting spending in Texas through the Foundation's Conservative Texas Budget, we can provide fiscal sanity in D.C. through what is called the Responsible American Budget.

The Costs of Federal Government Spending Excess

The cost of the federal government's expenditures to taxpayers continues to increase. The amount of the federal government's budget comes from a combination of discretionary (e.g., defense and non-defense) and mandatory (e.g., Medicare and Social Security) programs. These programs have been expanded dramatically over time from a combination of factors. Americans' demand for governmental provisions contributed to those roles for the federal government but were reserved to the states or the people. The provisions delegated to the federal government were rather limited at first as the priority was to preserve life, liberty, and the pursuit of happiness. Additions to these demands

were added through amendments to the Constitution (e.g., Amendment XVI that allowed for Congress to have the power to tax incomes) or through legislative changes (e.g., Social Security Act of 1965). In addition, elected officials often demand additional expenditures through rent-seeking purposes (e.g., bridges to nowhere in Alaska). But how do we pay for all of this?

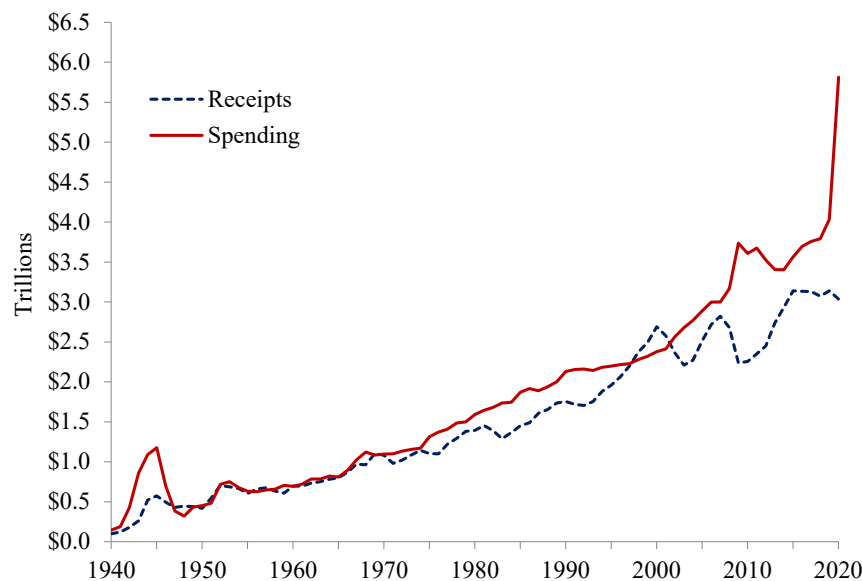
While the federal government collects tax receipts from multiple sources, the degree of taxation should be limited as taxes hinder economic activity in the productive private sector. Considering that government spending must be paid for through higher taxes, higher debt, or higher inflation, it is the primary fiscal policy tool that distorts economic activity in the private sector. Moreover, increased issuance of U.S. Treasury securities to pay for the increased federal debt provides instruments for the Federal Reserve's monetary policymakers to contribute to additional distortions in our economy. These additional distortions will exist if there is action by a central bank that influences the economy in a fiat monetary system whereby the U.S. dollar is backed by

High taxes and debt are always and everywhere a government spending phenomenon.

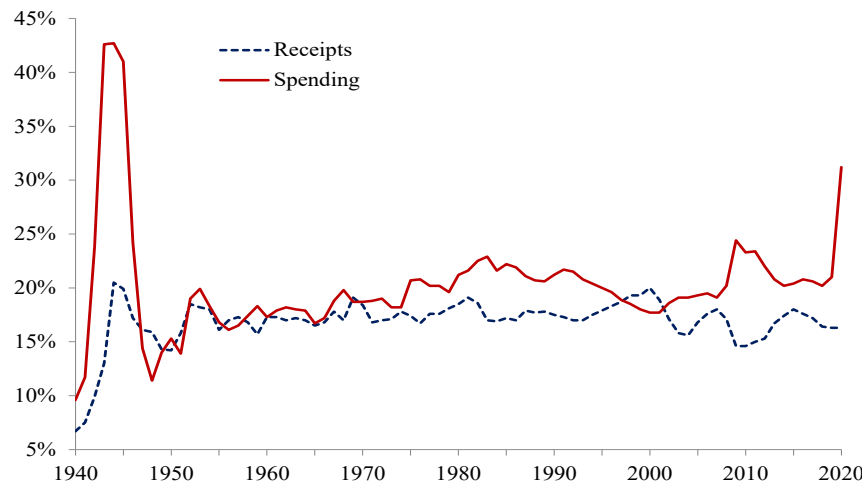
the federal government's debt. But the level of distortion from monetary policy can be limited if it is based on a rule, such as the Taylor rule ([2012](#)), that provides a useful measure for the growth rate in the money supply to target the federal funds rate based on growth in economic output and

inflation relative to trends. Likewise, a fiscal rule could limit the costly effects on Americans from excessive government spending along with poor policies regarding taxation, regulation, and added budget deficits. These budget deficits give the Fed more debt securities to use in their discretionary monetary policy that also distorts economic activity. Reducing excessive spending and resulting deficits would help restrain the Fed's potentially harmful discretionary policy, which should instead be driven by a monetary policy rule. The costly effects of these fiscal and subsequent monetary policy excesses challenge Americans' opportunities to improve their communities' as well as their future by owning a business, having the dignity of work, saving for a rainy day, and donating to institutions throughout civil society ([Ginn, 2018](#)).

In the spirit of the late economist Milton Friedman's famous statement about inflation ([1970, p.24](#)), I say that high taxes and debt are always and everywhere a government spending phenomenon. The federal government, unlike most states, does not have a balanced budget requirement nor a statutory spending limit. Given the trends in federal spending and tax receipts shown in **Figures 1 and 2** and the sizes of

Figure 1*Real Federal Tax Receipts and Spending, 1940-2020 (2012=100)*

Note. Data from *Historical Tables*, Office of Management and Budget, n.d. (<https://trumpwhitehouse.archives.gov/omb/historical-tables/>) and *Budget and Economic Data*, Congressional Budget Office, n.d. (<https://www.cbo.gov/data/budget-economic-data>).

Figure 2*Federal Tax Receipts and Spending as Percentages of GDP, 1940-2020*

Note. Data from *Historical Tables*, Office of Management and Budget, n.d. (<https://trumpwhitehouse.archives.gov/omb/historical-tables/>) and *Budget and Economic Data*, Congressional Budget Office, n.d. (<https://www.cbo.gov/data/budget-economic-data>).

deficits and the national debt, government spending growth needs to be restrained at the federal level.

Not since WWII has government spending represented such a large share of the economy. Federal spending most often exceeds tax receipts in dollar terms and as a share of gross domestic product (GDP). While the U.S. Tax Code has changed much since WWII, annual receipts as a share of GDP have averaged 17.3%, while spending has averaged 19.6%, resulting in a 2.3% historical average deficit.

This excessive spending has contributed to a gross national debt of more than \$28 trillion, which amounts to about \$85,000 per person or about \$225,000 per taxpayer ([U.S. Debt Clock, n.d.](#)). These data do not include much of the at least \$6 trillion in appropriations related to emergency items for the COVID-19 pandemic by Congress during the Trump and Biden administrations ([Committee for a Responsible Federal Budget, n.d.](#)), the roughly \$4 trillion in new spending proposals by the Biden administration, or the more than \$100 trillion in unfunded liabilities related to Social Security, Medicare, and other programs over time ([U.S. Debt Clock, n.d.](#)). In other words, America faces a challenging future not based on the direct actions of families, employers, and nonprofits, but on the actions of their elected representatives in Congress. This unsustainable fiscal trajectory ought to change soon before the costs of a fiscal crisis and resulting economic crisis further threaten our prosperity.

Irresponsible spending of taxpayer dollars leads to crowding out of private sector activity through higher taxes, higher inflation, higher interest rates, and changes in other harmful mechanisms that redistribute income from the private sector to government, inevitably leading to lower standards of living ([Alesina & Ardagna, 2009](#); Merrifield & Poulson, 2020; [Mulligan, 2010](#); and [Taylor, 2019](#)). Antoni (2020) finds that for every 1% increase in the federal deficit as a share of GDP, there is an associated increase of 0.96% in future short-term interest rates and of about 0.7% in longer-term rates. Those increases in the cost of borrowing in the private sector contribute to reduced business investment, resulting in lower economic growth, lower real wages, and fewer jobs available. Based on these estimates, the record high of a \$3.1 trillion federal budget

deficit in FY21—though that will likely be exceeded in FY22 without substantial spending restraint—would ordinarily increase future interest rates by more than 9 percentage points. Based on the sensitivity of the budget to economic assumptions in President Trump's FY21 budget ([Office of Management and Budget, 2020a, p. 17](#)), it was estimated that each 1 percentage point increase in interest rates contributed to \$43.8 billion in increased tax receipts and \$1.9 trillion in increased outlays over the 10-year period

from 2021 to 2030, thereby dramatically increasing the budget deficit. However, the Federal Reserve's aggressive expansion of its balance sheet has kept interest rates artificially low and has distorted economic activity. That contributes to reduced borrowing costs for the federal government, but the cost to taxpayers is not reduced as it is transposed from increased taxes to increased inflation, a consequence of the Federal Reserve's expansion of the money supply. Thus, Americans still pay for government deficits, whether through less spending, higher taxes, or increased inflation.

As an example, the last U.S. economic expansion from June 2009 to February 2020 had an average annualized growth rate in real GDP of 2.5% and real private sector GDP of 2.6%. The latter excludes the measure of real government consumption and gross investment in the national income accounting calculation for real GDP, as it can crowd out activity in the private sector. Considering the expansion period during the Obama administration from the third quarter of 2009 to the fourth quarter of 2016 and during the Trump administration from the first quarter of 2017 to the fourth quarter of 2019 sheds some light on this. During the Obama years of the expansion, real GDP grew at an annualized average rate of 2.3% while the private sector GDP grew at a 3% pace. The Trump years during the expansion had a 2.5% growth in real GDP and 2.6% increase in private sector GDP. A reason for the difference is government spending increased at a 1.9% pace during the Trump years and declined at a 0.6% pace during the Obama years, primarily from the expenditure limitations in the Budget Control Act of 2011, which helped reduce crowding out of private sector resources.

Need for a Fiscal Rule

Providing a fiscal rule that is a limit on government spending in law is ideal but may not be politically feasible for some time. However, we can provide a benchmark for Americans to use as a guide to judge spending growth and to help them hold their elected officials accountable so that spending stays within the average taxpayer's ability to pay. Based on the fiscal problems facing the U.S., as discussed above, the federal government needs an annual budget benchmark. We offer such a benchmark in the form of the Responsible American Budget (RAB). The RAB provides a maximum threshold to freeze real (inflation-adjusted) per-capita spending, which is simply a limit based on population growth plus inflation (hereafter referred to as "pop+inf")—a reasonable measure of the average taxpayer's ability to pay for government spending. The RAB follows the Foundation's Conservative Texas Budget ([Ginn et al., 2020b](#)).

The RAB provides a tangible budget number to help highlight the challenges of excessive spending whereby a budgeted amount above this figure would not be responsible. It will also allow Americans to understand the idea of a rule and promote it so that there is a movement toward improving our federal budget picture until this rule can be passed into law. The benefits of such an approach at the state level show that having a tangible maximum budget threshold at the federal level could help address our growing fiscal crisis. This crisis is driven by excessive government spending, so effectively restraining it will help keep taxes lower, prioritize reforms of mandatory programs, and eliminate unnecessary spending while strengthening federalism by reducing the intrusion of state government activity. Ultimately, this will benefit America but, better yet, will let Americans prosper.

Primer on Fiscal Rules

The International Monetary Fund ([2017](#)) defines a fiscal rule as a rule that "imposes a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates." Put simply, a fiscal rule limits the growth of the budget based on a statistical measure over time. There is no such fiscal rule currently imposed at the federal level. Fiscal rules are wide-ranging and explicit across nearly 100 countries globally and across every U.S. state except Vermont. Fiscal rules often include requirements on spending, revenue, debt, or a balanced budget. Each of these requirements should be considered to rein in the ensuing federal fiscal crisis. Ultimately, rules would be best enforced if Congress passed legislation to require them so that these responsible fiscal measures would have the force of law. Until that happens, it is informative to set a comparison benchmark for limiting federal spending growth that Congress, policy leaders, and concerned Americans can use to gauge and constructively help stop excessive spending. Specifically, an effective spending limit will freeze real (inflation-adjusted) per-capita federal spending.

For example, in 2020, President Trump explicitly noted in his FY21 budget the need for a fiscal rule, which I worked diligently to have included:

In addition to the Administration's policies, a fiscal rule, or benchmark, that limits total Federal spending to an amount representing affordability would embody fiscal responsibility and bring transparency to reasonable limits on the growth of spending. Such a fiscal rule would provide a benchmark with which to evaluate future Federal spending paths and is a helpful tool to objectively limit the growth of spending to a more reasonable and sustainable level. ([Office of Management and Budget, 2020b, p. 121](#))

This would be a valuable step in the right direction as to make it a reality.

How Has the Debt Ceiling Worked to Restrain Spending?

The national debt ceiling, which is a maximum determined amount for the national debt, has been codified in U.S. law since World War I and requires Congress to pass a budget, then vote a second time to approve the borrowing for that budget. Between 1985 and 2014, the debt limit was increased around 20 times, and debt-limit increases were paired with legislation that included budget controls 7 times. During this period, on three occasions—in 1995, 2011, and 2013—negotiations involving federal debt limit increases indirectly influenced economic activity by increasing uncertainty about the fiscal situation. These events were resolved without a default of our national debt, which would have had a large negative effect on economic activity, a painful lesson that is still being learned in Greece but could be our fate soon if nothing is done to restrain excessive spending.

Government spending and national debt are growing at an unsustainable pace. In the fourth quarter of 2020, gross (total) federal debt, which includes intragovernmental holdings,¹ was 129.1% of GDP ([Fed FRED, n.d.-a](#)), meaning that our gross federal debt well exceeds the size of our entire economy. Meanwhile, the federal debt held by the public² was already at 100.7% of GDP ([Fed FRED, n.d.-b](#)). To put this into perspective, Greece's debt was 103.1% of GDP in 2007 at the eve of the financial crisis and then increased by 70% to 175.2% of GDP in a mere 4 years thereby triggering a debt crisis. Unfortunately, Greece's debt-to-GDP plateaued for nearly a decade even with crushing tax hikes and austerity measures forced upon them by the European Central Bank as the tax hikes stymied economic growth. Greece's debt-to-GDP increased dramatically in 2020 to 205.6% of GDP ([Trading Economics, n.d.](#)). While there is no consensus on what level of debt or its share of GDP is ultimately unsustainable, there is a general consensus that higher debt contributes to slower economic growth because it is crowding out the private sector as spending redistribution, borrowing costs, and inflation increase and distort economic activity—and a debt crisis can happen quickly as was the case in Greece ([Reinhardt & Rogoff, 2010](#); [Herndon et al., 2013](#)).

The large negative effect on economic activity due to a default of their national debt has been a painful lesson for Greece but could be our fate if nothing is done to restrain excessive spending.

Reducing the trend of American budget deficits and debt by limiting government spending and growing the economy should be a top priority for Congress. The path forward to avoid these economic costs is to restrain government spending to no more than the average taxpayer's ability to pay, as reasonably measured by $\text{pop} + \text{inf}$. This would create a real type of debt ceiling, as opposed to the current system in which Congress simply, easily, and continuously votes to raise the borrowing limit from too much government spending. If there is no interest in limiting government spending, then such a flexible debt ceiling is likely not an appropriate tool for deficit reduction. What is needed most is government spending restraint, including on discretionary outlays, such as outlays for transportation and education ([Congressional Budget Office, 2021a](#)). This spending category represents a smaller part of the budget but must have limited growth or even be cut to prove limiting spending works before spending restraint is seen as a viable

option for larger programs in mandatory outlays ([Congressional Budget Office, 2021b](#)). At the same time, mandatory outlays such as those on Social Security, Medicare, and Medicaid should be reformed, which will bend the spending cost curve such that deficits end and the national debt and service on that debt can be lowered over time along with people's dependency on government. By following this path, the debt ceiling can act as a guide to how much taxpayer money the federal government can

spend without having to excessively raise that debt ceiling to match increased expenditures. Having a debt ceiling can be a useful instrument to demand spending restraint and program reforms so that America can avoid a debt crisis that has burdened other countries. However, the evidence shows it has limited capacity to be an effective tool, which is why a fiscal rule limiting spending is a better approach.

Examples of Fiscal Rules and Their Effectiveness

There are many types of fiscal rules globally, some effective, others less so ([Boccia, 2018](#); [de Rugy & Salmon, 2019](#); [International Monetary Fund, 2017](#); [Ginn et al., 2020a](#); [Merrifield & Poulson, 2020](#)). The fiscal rules that have been considered most effective are spending limits in law that have contributed to less economic volatility, smaller budget deficits, and more economic freedom. Spending limits that

¹ "Intragovernmental Holdings are Government Account Series securities held by Government trust funds, revolving funds, and special funds; and Federal Financing Bank securities. A small amount of marketable securities are held by government accounts" ([U.S. Treasury, n.d.](#)).

² "The Debt Held by the Public is all federal debt held by individuals, corporations, state or local governments, Federal Reserve Banks, foreign governments, and other entities outside the United States Government less Federal Financing Bank securities" ([U.S. Treasury, n.d.](#)).

have generally followed these criteria have been imposed in Hong Kong, Switzerland, Germany, Colorado, and Texas.

Hong Kong's constitutional requirement to achieve fiscal balance by holding government spending growth within the growth of its economy has kept spending as a share of GDP lower than expected, mostly below 20% since the 1990s. Switzerland's "debt brake" passed by referendum in 2001 and was implemented in 2003. A constitutional fiscal spending rule operationally limited spending growth to pop+inf. This rule has nearly halved annual spending growth since being implemented, bringing the debt-to-GDP ratio down by one third to around 40% of GDP. Facing massive budget deficits, Germany approved a constitutional amendment in 2009 that set a fiscal rule like Switzerland's "debt brake," resulting in its debt-to-GDP ratio falling by one fourth to around 60% of GDP. Colorado had similar results with its 1992 constitutional amendment—known as the Taxpayer's Bill of Rights (TABOR)—that held government spending growth to within pop+inf over time (Merrifield & Poulson, 2020).

Although Texas has a constitutional spending limit that restricts growth in spending to that of the state's economy, the growth rate is defined in statute as that of personal income, which tends to be volatile and to grow faster than pop+inf (Ginn et al., 2020a). Despite not having changed its growth rate in statute, Texas's total appropriations growth in the three budgets since 2015 (i.e., 2015, 2017, and 2019) has been held, on average, below an unofficial limit of pop+inf. In addition, the Legislative Budget Board, which determines the state's spending limit growth rate each session, has chosen one based on the slightly higher metric of population growth times inflation for three straight legislative sessions, including the current one in 2021, instead of personal income growth. By using the unofficial limit of pop+inf supported by a coalition of lawmakers and external stakeholders, there has been effective pressure on the Legislature to not increase the budget by more than pop+inf. This has contributed to greater prosperity in the form of increased economic freedom, job creation, and real incomes (Ginn, 2018; Ginn, 2021).

A benchmark with which to evaluate future federal spending paths is a helpful tool to objectively limit the growth of spending to a more reasonable and sustainable level. More disciplined, effective spending will allow for a higher quality of services provided to American citizens at lower cost through less bureaucratic bloat and waste, creating additional opportunities and a higher quality of life.

**Our gross federal debt
well exceeds the size of
our entire economy.**

U.S. Attempts at Deficit Reduction in the 1980s and 1990s

The United States passed the Balanced Budget and Emergency Deficit Control Act of 1985, known as the Gramm-Rudman-Hollings Act (GRH), to reduce and eventually eliminate the deficit over a 6-year period. The major tool that GRH used to enforce deficit reduction was a sequester order, which required the president to cancel spending by executive order, which was evenly split between defense and non-defense spending. All programs not specifically exempted were to be reduced by a uniform percentage necessary to hit the deficit reduction target. This required reduction was to be suspended in the case of an economic slowdown. The Supreme Court invalidated this presidential power in *Bowsher v. Synar* (1986), meaning that this automatic mechanism for spending cuts was no longer available.

Continued failure to restrain spending to meet deficit targets led to the Budget Enforcement Act of 1990. The Budget Enforcement Act modified the GRH approach to focus on discretionary spending limits and a pay-as-you-go procedure. For example, the GRH deficit target for FY1991

was \$64 billion, while the projected deficit was nearly \$150 billion (Doyle & McCaffery, 1991). There were three independent spending limits, one for each of defense, international, and domestic spending. The Omnibus Reconciliation Act of 1993 and the Budget Enforcement Act of 1997 extended these caps. The pay-as-you-go procedures were eliminated in 2002 by the G. W. Bush administration, ending a brief period of budget surplus.

Measures to Consider in a Fiscal Rule

Something must be done to avoid a fiscal crisis of excessive government spending, massive deficits, and ballooning interest payments. Such a crisis would reduce economic prosperity and threaten key budget priorities. Imposing a fiscal rule would help put the federal budget on a responsible path and the nation on a sustainable path of economic prosperity. A fiscal rule imposes a spending target that requires Congress to practice fiscal restraint. While a rule can exclude one-time funding for emergencies or wars, so that the additional funding does not remain in the baseline budget, it should cover the entire budget so that reasons to get around the rule are few if any.

Using Pop+Inf to Limit Growth in Spending

Given that additional government spending and associated taxation reduce taxpayers' choices for how to spend their hard-earned money, a benchmark fiscal guideline should reflect the average taxpayer's ability to pay for government spending. Although several fiscal rules could provide a reasonable path to prevent the ensuing fiscal crisis, research

into what worked well for other governments indicates that the optimal fiscal rule limits federal spending growth to no more than the sum of the growth rate in population and the inflation rate of a general price level (pop+inf). This benchmark, at most, keeps real per-capita spending constant, preventing the burden of an ever-increasing government and letting real wage gains strengthen the private economy ([Ginn et al., 2020a](#); Merrifield & Poulson, 2020).

By capping the growth of total spending, this stable metric assists taxpayers in budgeting for taxes and investments and provides a consistent benchmark for Congress to use when appropriating from one fiscal year to the next. Some categories of spending may increase faster than this benchmark and others, slower, but total spending must adhere to the metric. This incentivizes carefully choosing priorities that can reduce wasteful and unnecessary spending driven by political purposes and can help reform programs to increase personal responsibility, thereby reducing dependence on government. Moreover, this benchmark would also help keep taxes and costly deficits lower than otherwise, supporting Americans with more freedom and prosperity.

The two measures of population growth and inflation influence the economy. Specifically, if the budget growth is held to these measures, then the growth stays within the average taxpayer's ability to pay for it as more people pay taxes, and wages are historically correlated to inflation. Capping the total budget provides more flexibility for Congress to appropriately fund different spending categories instead of limiting spending of each category to that population served and costs of representative goods and services, which are primarily government-driven and difficult to calculate. Moreover, research finds that a limit on appropriations similar to the one outlined in the Foundation's Conservative Texas Budget could lead to tax relief and accelerated economic growth ([Merrifield & Poulson, 2014](#)). Also, adding population growth and inflation helps account for economies of scale whereby the average cost of providing many government provisions and private sector goods and services tend to decline over time.

Alternative Measures to Pop+Inf

Another measure often used by U.S. states is personal income growth, which can be represented in the functional form of population growth plus inflation plus productivity growth. If the private sector's productivity growth is used in the calculation from the taxpayers' perspective, then a more productive private sector would suggest an increase in government spending. However, this indicates that the marginal return per dollar would be greater in the private sector, so more dollars should remain there instead of being taxed away to pay for higher government spending. Conversely, a less productive private sector would signal

that the growth of spending should decline. Both scenarios would suggest that productivity growth then is either zero or negative, so removing this variable leaves pop+inf. On the other hand, if the productivity growth of government is considered in this calculation, then that metric would be difficult to measure and likely be zero over time with the understanding that each dollar spent by government is from the private sector. Therefore, pop+inf is a reasonable metric to use as a maximum for the growth of government to remain within taxpayers' ability to fund it ([Ginn et al., 2020a](#)).

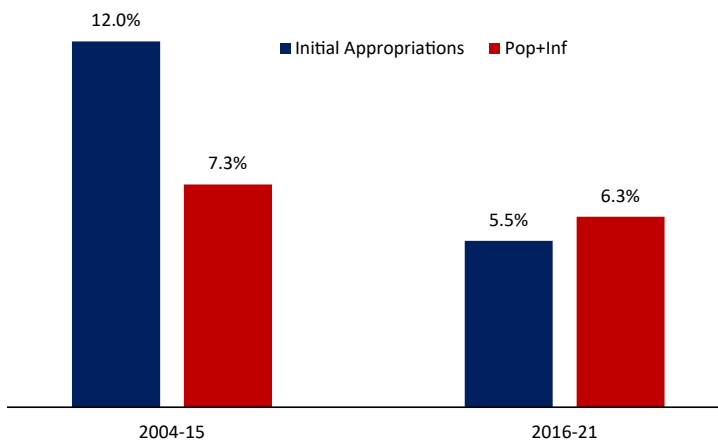
Another alternative benchmark is growing spending by a variant of gross domestic product (GDP). One prominent example is the Maximizing America's Prosperity (MAP) Act reintroduced in 2021 by Sen. Mike Braun (R-IN; [2021](#)) and Rep. Kevin Brady (R-TX; [n.d.](#)), which would limit non-interest spending such that it would fall to 17.5% of potential GDP over time. Potential GDP is a theoretical construct that is essentially a best guess of what the economic output potential is for an entity if all resources are used optimally ([Gavin, 2012](#)). This share of spending to potential GDP would more closely match tax receipts share of GDP, thereby potentially balancing the budget more often. This is a step in the right direction, and the Foundation and two dozen groups supported it ([Anderson, 2021](#)). However, the MAP Act's use of potential GDP as the metric is problematic. First, it does not reflect the average taxpayer's ability to pay for spending. Second, it is a highly subjective measure based on whatever its estimator believes about the underlying fundamentals of the economy. Third, it is more volatile and typically grows faster than pop+inf. Lastly—but this is not an exhaustive list of concerns—the assumption that government spending should match a share of the economy is questionable at best as this has a large tradeoff: the crowding out effect of 17.5% of the economy and even more of the private sector's output alone. These concerns are remedied with the use of pop+inf as noted above.

Federalism Provides the Solution: *The Foundation's Conservative Texas Budget*

Texas's real biennial state spending per capita was up 16.5% from 2004 to 2019. Because Texas has a state balanced budget requirement in its constitution, this translates to Texans paying \$33 billion more in taxes today than they would have paid if the budget had simply matched pop+inf plus inflation over time ([Ginn et al., 2020a](#)). This excess spending created the need for a maximum threshold developed by the Foundation in 2014, called the Conservative Texas Budget (CTB; [Ginn et al., 2020b](#)). The CTB set this maximum threshold on total appropriations based on the growth in actual pop+inf in the past 2 fiscal years. By using this macro approach to the budget, it allows for the

Figure 3

Texas's Budget Growth Has Slowed Since Creation of the CTB in 2015



Note. Taken from *2022-23 Conservative Texas Budget* by V. Ginn, R. Bordelon, and T. Heflin, Texas Public Policy Foundation, 2020, (<https://www.texaspolicy.com/2022-23-conservative-texas-budget/>).

less than half of what it had been in the prior five budgets and was almost a full percentage point below pop+inf.

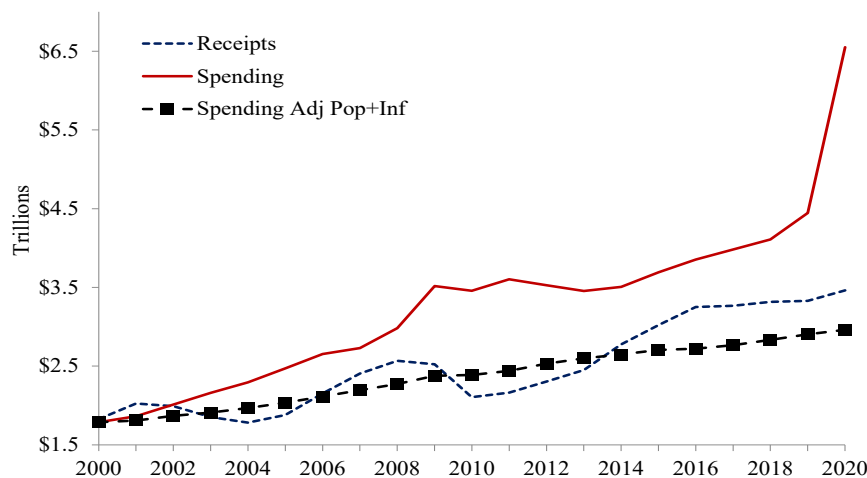
More work remains to be done in Texas because of the compounding effect of excessive government spending before these latest budgets, but the CTB has helped redefine the narrative on limiting spending to create a better economic environment for people to thrive ([Ginn, 2018](#)). There is increased competition for limiting government spending in this way, a beneficial product of federalism, as the Conservative Texas Budget approach is now being used by think tanks in Montana, Iowa, and Alaska ([Cotton, 2020](#); [Hendrickson & Ginn, 2021](#); [Ginn & Townsend, 2021](#)). Given the success of these efforts in Texas, the federal government should take note and use our system of federalism as the founding fathers desired and practice the same sound budgeting approach.

Federal Fiscal Policy Compared With Pop+Inf

How does the federal budget compare with pop+inf over time? **Figure 4** shows how tax receipts and federal spending compare with spending adjusted for only pop+inf since 2000.

Figure 4

Federal Fiscal Policy Since 2000



Note. Data from *Historical Tables*, Office of Management and Budget, n.d. (<https://trumpwhitehouse.archives.gov/omb/historical-tables/>), *Budget and Economic Data*, Congressional Budget Office, n.d. (<https://www.cbo.gov/data/budget-economic-data>), and author's calculations.

budget to be restrained by a top-down approach rather than micromanaging the budget decisions by appropriators. This also pressures appropriators to practice priority-based and zero-based budgeting to achieve the top-line number. This effort helped create a historic situation in Texas. The growth of initial appropriations was below, on average, pop+inf for three straight budgets passed in 2015, 2017, and 2019. Specifically, since its inception in 2015, the CTB has helped provide a tangible limitation on the budget that contributed to the public and legislators taking interest in holding the budget below the average taxpayer's ability to pay for it.

Figure 3 shows that the average growth of the budget was

In this analysis, I used the U.S. Census Bureau's measure of chained consumer price index (C-CPI-U) because it is a relatively good measure of general price inflation and it better accounts for the substitutability of the basket of goods a typical household purchases over time ([Fed FRED, n.d.-c](#)). Given that C-CPI-U has only been available since 2000, this creates a limitation going further back, which could be a reason to use something like the CPI or the personal consumption expenditures (PCE) index. However, this metric would be used going forward and would be consistent with what Congress chose for inflation indexing of individual income tax brackets in the U.S. Tax Code in the Tax Cuts and Jobs Act of 2017.

Figure 4 shows that, since 2000, federal spending is up 266.2% compared with only a compounded increase in population growth plus inflation of 65.5%, which translates into excess spending of 121.2%. This necessitated higher taxation of \$3.6 trillion in total or \$10,878 per capita (\$43,511 for an average family of four). Although these taxes have not been directly levied yet, spending is taxation either today, in the future, or in the form of less purchasing power. In addition, if spending had matched population growth plus inflation, the actual national debt increase of \$16.2 trillion during that period would instead have been a national debt decrease (surplus) of \$2.6 trillion

as tax receipts would have exceeded that level of spending in 14 of the 21 years. This means that the federal government could have been living well within the average taxpayer's ability to pay for it and potentially have funds to either pay down the national debt or provide substantial tax relief.

Calculation of the 2022 Responsible American Budget

The 2022 RAB can be calculated using available 2020 data when the budget is developed:

- *Population growth.* Use historical annual data for the U.S. population from the Census Bureau representing all ages and the armed forces overseas for a population growth rate of 0.49% ([Fed FRED, n.d.-d](#)).
- *Price inflation.* Use historical annual data for the chained consumer price index (C-CPI-U) for all items typically purchased by urban consumers from the Bureau of Labor Statistics for an inflation rate of 0.88% ([Fed FRED n.d.-c](#)).
- *Pop+Inf.* Summing the population growth and inflation rates in 2020, we calculate an initial appropriations growth limit of 1.37% for 2022.

This limit represents the maximum amount of the total federal budget for Congress to appropriate through FY22. Note that Congress should appropriate less than this amount or even cut appropriations given past excesses while ensuring payment of basic government goods and services and providing tax relief. In addition, the RAB would exclude extraordinary one-time appropriations, such as COVID-related expenditures or wars, as those should not be added to the baseline budget so that the base is not inflated thereby excessively growing government over time. While the RAB would exclude those extraordinary expenditures in one fiscal year, it would catch them in the following year if they became ongoing expenses. Moreover, even though it should not be an issue at the federal level, the RAB would not include tax relief as those funds are not going to grow government. The RAB makes no assumptions on how appropriations are distributed; for example, appropriations could equal expected growth in mandatory outlays while cutting discretionary outlays so that total appropriations grow by less than pop+inf. In comparison, spending grew by 3.3% in 2017, 3.2% in 2018, and an estimated 8.2% in 2019, exceeding pop+inf—evidence of Congress's excess spending.

The RAB's spending restraint and its fiscal benefits would allow for a more inclusive institutional framework that supports more freedom for people to choose their destiny and more opportunities to flourish ([Ginn, 2018](#)). The RAB could lead to better prioritization of taxpayer dollars, lower expected future tax rates, and thus more growth-enhancing

Figure 5

FY22 Responsible American Budget

Total Appropriations	
FY21 Base	\$4.82 Trillion
FY22 Limit	\$4.88 Trillion
Change	\$66.0 Billion
Pop+Inf Increase	1.37%



investment, resulting in higher economic growth, incomes, and a dynamic increase in tax receipts, lowering annual deficits and accumulated debt over time ([Alesina & de Rugy, 2013](#)). In addition, improving the fiscal situation of the country by reining in excessive government spending—the main cause of fiscal insanity—and bringing down the budget deficit could help with what is called the “twin deficit” of simultaneously having a budget deficit and a trade deficit. Specifically, sound fiscal policy that would limit spending to pop+inf would help reduce the issuance of Treasury securities, lessen the power of the Federal Reserve's influence in the economy, lower interest rates, reduce interest payments, lessen artificially appreciating the value of the U.S. dollar, making it cheaper for foreigners to purchase our goods, and potentially reduce the trade deficit.

Conclusion

Congress should consider doing what has worked well in other countries and in states like Texas and promote its own spending limit based on pop+inf each year—a maximum budget threshold referenced in this paper as the Responsible American Budget. Considering that high taxes and debt are always and everywhere a government spending phenomenon, this proposal is a valuable step toward limiting the footprint of government, allowing Americans more opportunities to flourish. The time is now to restore fiscal responsibility in D.C. by using the RAB so that we benefit from an improved fiscal situation to better let people prosper. ★

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