CONFRONTING OUR DEBT CRISIS

A GUIDE TO CUTTING FEDERAL SPENDING

ADVANCING AMERICAN FREEDOM | JULY 31, 2024

This week, the national debt owed by the United States surpassed $35 trillion. That means every American's share of the national debt is now $104,000. The net interest on our debt – the continued cost of our irresponsible spending decisions – alone is expected to approach $900 billion.

The United States is on course for a sovereign debt crisis. Growing debt will fuel more inflation, dependence on our adversaries, high interest rates, and indiscriminate cuts to programs. By 2034, interest on our debt alone will account for roughly one-sixth of all federal spending.

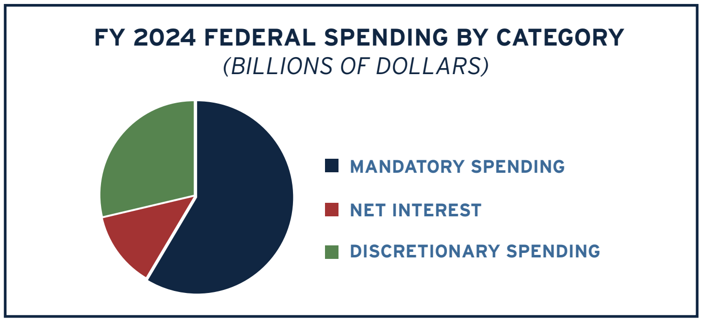
After decades of ignoring the significance of profligate federal spending, the consequences are finally starting to catch up to us. As has been the case, the problem is not a lack of revenue, but rather a lack of willingness to make hard choices to rein in spending and have the courage to say 'no' to wasteful programs.

Federal revenue has experienced strong growth since the Tax Cuts and Jobs Act of 2017 – even outperforming estimates by government scorekeepers – but spending continues to grow at a faster pace. A sustainable federal budget is impossible to achieve without addressing the root cause of our spiraling debt and deficit: unchecked spending.

America faces a bleak future as interest payments crowd out spending on basic government functions, our economy stagnates under the drag of an unsustainable burden, and we're put at a strategic disadvantage internationally. Those problems will only compound on themselves the longer we fail to address the drivers of our debt and cut spending, including mandatory, discretionary, and tax expenditures.

FEDERAL SPENDING BY MAJOR CATEGORY[1]

FY 2024 FEDERAL SPENDING BY CATEGORY *(BILLIONS OF DOLLARS)*	
MANDATORY SPENDING	4,121
NET INTEREST	892
DISCRETIONARY SPENDING	1,791
TOTAL	**6,804**



Our leaders must take action to safeguard the American Dream. The looming fiscal decisions facing Congress presents an opportunity to reduce or eliminate spending on unnecessary government programs. To help Congress make those reforms, the following is a living tracker of spending cuts that could save America.

[1] *An Update to the Budget and Economic Outlook: 2024 to 2034, June 18, 2024. https://www.cbo.gov/publication/60039*

I. REDUCING MANDATORY SPENDING

The vast majority of federal government spending is on autopilot. That means the government distributes 60% of its spending from the Treasury without any direct annual approval from Congress or the President. This money has been promised to programs or individuals by legislation already signed into law. Mandatory spending is disbursed without needing further approval.

Mandatory spending is the biggest driver of the national debt because there is no restriction on the unchecked growth of these programs. This funding category includes the biggest government programs like Medicare, Medicaid, Obamacare, Social Security, Supplemental Nutrition Assistance Program, Federal civilian retirement, and unemployment compensation.

If nothing is done to save these programs from insolvency, they will face automatic cuts soon. Social Security will have to implement a 21% cut in promised benefits starting in 2033. When the Medicare Trust Fund expires in 2036, seniors depending on the program will be subject to an immediate 11% cut in benefits.

Because mandatory spending is not subject to annual review, it often includes rampant waste, fraud, and abuse. Many of these programs also benefit the wealthy or people who can work and do not need government assistance. Any conservative who ignores these items on autopilot simply isn't serious about addressing the debt or protecting safety net programs.

There are literally hundreds of policy options to reduce mandatory spending in responsible ways that will not put vulnerable Americans at risk. Democrats will try to demagogue the issue of mandatory spending, but there are ways to curb the national debt while protecting the truly needy.

Below is a non-exhaustive list of options.

- ***Apply Better Work Requirements:*** Many mandatory programs do not require work-capable individuals without dependents to look for a job as a prerequisite to receive benefits. These work requirements should be widely applied. Adding targeted requirements to Medicaid, for instance, would reduce spending on work-capable adults by $135 billion.

- ***Stop Waste & Overpayments:*** Reports show that private companies pocketed over $50 billion in Medicare overpayments since 2021, which is in addition to $256 billion the government erroneously paid out for mandatory programs in 2024. Ending false payments is easy savings.

- ***Let ACA Subsidies Expire for Wealthy:*** The Inflation Reduction Act of 2022 (IRA) extended COVID-era Obamacare subsidies for people with incomes over 400% of the federal poverty line. The policy also created a 100% subsidy for some ACA recipients which is a huge source of fraud. Congress must let this policy end and reject any further expansion of ACA subsidies to the rich.

- ***Stop Student Loan Cancellation:*** In 2024, the Biden Administration released a revamped plan to eliminate student loan payments. This policy could add up to $1 trillion to the national debt by providing taxpayer benefits to mostly rich individuals. Ending this will save at least $870 billion.

- ***Repeal the IRA:*** The ironically named Inflation Reduction Act is wildly over-budget. Democrats in Congress first said that the IRA would cost $430 billion, including hundreds of billions of new mandatory spending. Today, the IRA is predicted to cost closer to $1 trillion over 10 years, according to the Treasury Department. The entirety of this disastrous bill must be repealed.

- ***Reduce Agricultural Subsidies:*** Congress is poised to pass another bloated Farm Bill that contains taxpayer subsidies for wealthy companies in America. Instead of subsidizing rich, large-scale farms, we should reduce regulations and green mandates to allow all American farmers to compete.

- ***Establish a Congressional Fiscal Commission:*** Congresses should continue with plans to create a new commission with fast-track legislative authority to cut spending, not raise taxes.

- ***Means Test COLAs:*** Social Security and other benefits programs are subject to annual increases that are growing with inflation. But not every American needs an annual bump. We should freeze cost of living increases to anyone making over $1 million and adjust that threshold to inflation.

- ***Site-Neutral Payments:*** Allow site-neutral payments for Medicare treatment and incentivize site-neutral payment in private markets. This policy of equalizing payments regardless of treatment facilities is estimated to save $94 billion according to Congress.

- ***Stop Any Means-Tested Benefits for Illegal Immigrants:*** Those who enter our country illegally are generally prohibited from receiving means tested benefits like SNAP or Social Security. In order to ensure that states follow these laws as well, Congress should cut funding for state and local governments that allow mandatory federal spending to flow to illegal immigrants.

- ***End Automatic Eligibility:*** The government is draining mandatory programs by adding people when they don't even apply. The USDA's plan to end categorical eligibility should be reinstated.

- ***Eliminate the CCC:*** The Commodity Credit Corporation (CCC) provides up to $30 billion in mandatory funding for agriculture "income support." It is little more than a White House slush fund.

II. ELIMINATING TAX EXPENDITURES

Often overlooked in discussions about the federal budget are tax expenditures. These expenses are defined by the Congressional Budget Act of 1974 as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

Special federal tax breaks operate similarly to mandatory spending programs. After Congress passes the initial law to create the tax expenditure, it can exist forever. The federal benefit is given out to individuals, businesses, and local governments automatically, unless Congress actively changes the tax law.

As the Government Accountability Office noted:

> *However, unlike federal discretionary spending, tax expenditures do not compete with other priorities in the annual appropriations process, and many are not subject to congressional reauthorization. Instead, many tax expenditures operate like mandatory spending programs (such as Medicare), with eligibility rules and formulas that provide benefits to those who wish to participate.*

For example, the Inflation Reduction Act (IRA) – a major Democratic policy priority – provides clean energy subsidies that were originally estimated to cost $391 billion. Because many of those provisions are uncapped, however, later cost estimates for those provisions range anywhere from $780 billion to $1.2 trillion.

Not only are these tax provisions costly to taxpayers, but they distort the tax code by picking winners and losers based on behavior or characteristic. The tax code should seek to treat like activities uniformly.

Nowhere is this discrepancy more apparent than in the deduction for state and local taxes (SALT), which allows residents of high-tax states to write off the first $10,000 of state and local taxes paid from their federal taxable income and in turn incentivizes those states to keep their own taxes high. Getting rid of the SALT deduction is estimated to bring in more than $2 trillion over 10 years.

Below is an outline of some of the largest corporate tax expenditures and the first that should go.

- ***Energy Production Credit:*** For green energy facilities that began construction in 2017 onward, the energy production credit awards a percentage of the credit depending on the year the project broke ground, with additional carveouts for meeting prevailing wage and apprenticeship requirements. Over ten years, this is expected to cost $263 billion.

- ***Energy Investment Credit:*** Similar to the production credit in rewarding green energy facilities, this credit rewards the investment side with a potential phaseout beginning in 2034 depending on greenhouse gas emissions from the production of electricity. Over ten years, this is expected to cost $135 billion.

- ***Clean Fuel Production Credit:*** The clean fuel production credit offers a sliding scale credit for qualifying transportation fuel, with larger credits available to lower emission fuels. Over ten years, this is expected to cost $16 billion.

- ***Clean Hydrogen Production Credit:*** Clean hydrogen produced at a qualified facility in service before December 31, 2033, qualifies for this production credit. Over ten years, this is expected to cost $44 billion.

- ***Tax Credits for Clean Vehicles:*** Also known as the electric vehicle tax credit, this tax giveaway incentivizes the purchase of qualifying electric or fuel cell vehicles, which are primarily owned by wealthier Americans. Over ten years, this is expected to cost $112 billion.

- ***Advanced Manufacturing Production Credit:*** Targeting the production of specified eligible items, such as solar and wind energy components sold after 2022, this credit has a phaseout from 2030 to 2032. Over ten years, this is expected to cost $42 billion.

- ***Credit For Low-Income Housing Investments:*** This credit incentivizes investments in particular low-income housing projects. Over ten years, this is expected to cost $135 billion.

- ***Advanced Manufacturing Investment Credit:*** Investments in semiconductor manufacturing equipment for qualified facilities that begin construction by December 31, 2025, are eligible for this credit. Over ten years, this is expected to cost $25 billion.

EXAMPLES OF LARGE COPORATE TAX EXPENDITURES

CORPORATE INCOME TAX EXPENDITURE	COST FOR FISCAL YEARS 2024-2033
ENERGY PRODUCTION CREDIT	$262.78 BILLION
ENERGY INVESTMENT CREDIT	$135.47 BILLION
CLEAN FUEL PRODUCTION CREDIT	$15.65 BILLION
CLEAN HYDROGEN PRODUCTION CREDIT	$43.71 BILLION
TAX CREDIT FOR CLEAN VEHICLES	$112.02 BILLION
ADVANCED MANUFACTURING PRODUCTION CREDIT	$42.12 BILLION
CREDIT FOR LOW-INCOME HOUSING INVESTMENTS	$135.28 BILLION
ADVANCED MANUFACTURING INVESTMENT CREDIT	$24.51 BILLION

III. DISCRETIONARY SPENDING REFORMS AND CUTS

Discretionary spending is the part of the budget controlled directly by Congress through the annual appropriations process. While the founders of our country assuredly expected that all government spending would be budgeted by Congress every year, the amount of discretionary spending directly subject to Congressional appropriation has shrunk to 26% of all spending.

Even though this discretionary spending is significantly smaller than mandatory spending, it still totaled $1.7 trillion in 2023. As such, the federal government's discretionary spending budget is the same size as the entire domestic economy of Australia or Mexico and more than the GDP of Spain.

The discretionary category of government includes funding for all 12 congressional appropriations bills, nearly every federal agency, thousands of earmarks, and some of the federal government's most wasteful projects. There is no shortage of targets for cuts.

Since Congress must approve spending for discretionary programs, this should be low-hanging fruit. Lawmakers should use the appropriations process to end wasteful agency spending, reform the process, and slash ineffective or politicized programs. Below are suggestions on where to start.

- ***Freeze Non-Defense Spending:*** Non-defense spending grew from $518 billion in 2017 to $765 billion in 2023. That represents a 48% increase in six years. Freezing topline non-defense spending between 2025 - 2030 would force Congress to prioritize spending and save $246 billion.

- ***End Shutdown Theatrics:*** Shutdown threats have been repeatedly used to force Republicans into bad deals. End the gamesmanship around government shutdowns by automatically continuing federal spending when spending cliffs occur, minus 1% of last year's funding levels.

- ***End Earmarks:*** Congressional earmarks are back. In 2024 millions were earmarked for wasteful congressional spending like Thanksgiving parades, environmental justice centers, and sidewalks in parks. Earmarks only circumvent the normal process and must be banned.

- ***Rescind IRS Funding:*** The IRA included $80 billion to hire an army of new Internal Revenue Service (IRS) agents. Congress has rescinded $20 billion of that money. They must eliminate the rest.

- ***Rescind COVID Money:*** According to the government tracking, there is still $240 billion in COVID spending that has not yet left the Treasury. That money should be permanently cut immediately.

- ***Rescind Amtrak Windfall:*** In 2022, President Biden gave $66 billion to one of his pet projects – Amtrak. This money is in addition to their normal government subsidy and should be taken back.

- ***Defund DEI:*** Pass legislation to prohibit federal funding for programs that are only designed to promote diversity, equity, and inclusion programs in the government or the private sector.

- ***Cut Politicized Agencies:*** In recent years, agencies like the Federal Trade Commission (FTC) and Department of Justice (DOJ) have been partially transformed into liberal political activist arms of the Democratic Party. Congress should temporarily limit funding for agencies pursuing a political agenda like the FTC.

- ***Relocated Environmental Enforcement:*** Eliminate the Environmental Protection Agency and shift its authorities to other relevant agencies, saving more than $250 billion over ten years.

- ***Zero Out Programs:*** Many discretionary programs are wasteful, duplicative, or unnecessary and should be eliminated. Below is a non-exhaustive list to give Congress a head start.

    - *Overseas Private Investment Corporation*
    - *Consumer Financial Protection Bureau*
    - *Advanced Technology Vehicles Manufacturing Loan Program*
    - *HOME Investment Partnerships Program*
    - *Community Development Block Grant Program*
    - *Export-Import Bank*
    - *National Endowment for the Arts*
    - *Essential Air Services*
    - *Davis-Bacon Requirements for Federal Projects*
    - *21st Century Community Learning Centers*
    - *State Criminal Alien Assistance Program*
    - *Appalachian Regional Commission*
    - *Delta Regional Authority*
    - *Denali Commission*

CONCLUSION

Politicians often talk about the national debt. When it comes to outlining specific spending reductions, however, our leaders have failed. The fear of taking away a government program has paralyzed lawmakers and driven America to the edge of fiscal ruin.

Americans are now experiencing the painful consequences of Congressional inaction on spending reform. Spending-driven inflation is up by nearly 20% since President Biden took office. The government tries to address that inflation by raising interest rates, which in turn increases the cost of servicing American debt. The cycle will continue until we are in a fiscal death spiral.

Advancing American Freedom believes it is critical to name and explain specific spending cuts. We will continue to lead the way by identifying credible ways to reduce U.S. debt. The next step is for politicians to match their actions with their rhetoric. 2025 will provide a golden opportunity.