

POLICY STUDY

CPI-X

A Novel Method to Decrease Spending and the National Debt

January 2024



By Darren Brady Nelson



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EXECUTIVE SUMMARY

U.S. federal spending is out of control, and has been for several decades. In 1970, the federal government's budget totaled \$232 billion. In 2024, federal spending will rise to \$7.9 trillion, an increase of 3,320 percent over the past 54 years. Even worse, federal spending is forecast to surge to \$12.95 trillion by 2038.

Decades of profligate spending has led to a perilous economic situation. As of 2023, the debt to GDP ratio is 119 percent, far higher than it was in 1970 at 34 percent. In 1970, the national debt stood at \$371 billion. Today, it exceeds \$33 trillion and is forecast to balloon to \$45 trillion by 2027. Moreover, annual deficits are estimated to surpass \$1.7 trillion for years to come and annual interest payments on the national debt will soon top \$1 trillion.

In 1970, the national debt stood at \$371 billion. Today, it exceeds \$33 trillion and is forecast to balloon to \$45 trillion by 2027.

In simple terms, the federal government's spending spree, which has increased substantially in recent years due to "emergencies" such as the 2008 financial crisis and the 2020 COVID-19 pandemic, is completely unsustainable and must be reversed before it is too late.

There is, however, a model that can rein in federal spending and solve this burgeoning crisis. It is the same model that governments have employed to ensure that public utilities don't gouge consumers.

Essentially, the solution would tether federal spending to the Consumer Price Index (CPI), with a wrinkle. It is called CPI-X (or "CPI minus X"). What works to keep publicly regulated utilities in check can also keep federal spending in check. This method is economically proven, objectively practical, and politically feasible.

In this paper, I will explain CPI-X and how it has been used without controversy to apply fiscal restraint to government-permitted monopolies or near-monopolies – such as public utilities (water, sewer, electricity, etc.) – in the United States, the United Kingdom, and Australia. I will also outline how CPI-X can be applied to something as complex and enormous as the federal budget of the U.S. government. Applying the CPI to federal spending is hardly a new concept. In fact, fiscal conservatives have proposed similar ideas, such as zero-baseline budgeting to impose common-sense fiscal restraints on federal spending. Unfortunately, all recent attempts to constrain federal spending have failed, as both Republicans and Democrats have continually called for bigger budgets without addressing the structural changes necessary to bring federal spending under control.

The version of CPI-X detailed in this paper provides a blueprint for fiscal-minded policy makers – whether in the federal government, state government, or at the local level – to apply sound and proven economic models using the CPI as a baseline, and achieving actual spending cuts via the "X" in the equation. The X-factors in CPI-X are derived from benchmarking

the spending of the U.S. federal government, states, and other countries along 10 basic policy areas.

CPI-X cuts would be revolutionary and are policy-based because federal agencies are not directly comparable nor sufficiently documented. Nevertheless, agency-based cuts are modeled in parallel. The period for cuts would cover the next three presidential terms and would bring federal spending back to 2008 levels. The cuts would begin in 2025 at \$7.4 trillion and finish in 2038 at \$3.7 trillion. That is a 50 percent cut, and the savings of \$75 trillion would result in complete debt retirement plus \$19,347 in annual relief for taxpayers.

Lastly, this paper outlines 10 policy recommendations. The first three are short-term and directly related to CPI-X. The rest outline the creation of three institutions, three reviews, and one cost-benefit analysis that provides support over the medium- to long-term.

Because overspending has been a bipartisan problem in Washington, DC for many decades, drastic action is needed to change the present path. Although some fiscal conservatives tout solutions like a Balanced

Budget Amendment as a cure-all for the constant increases in federal spending, this is a half-baked idea because it would also likely lead to steep tax increases in order to keep the federal government from accruing annual deficits. On the other hand, CPI-X addresses the problem directly by actually imposing extensive and long-overdue reductions in federal spending.

As this paper will detail, CPI-X is a sensible solution to decades of decadent federal spending that will deliver better fiscal management, an actual medium-term fiscal framework, and a less complex budgeting process. CPI-X also could, if strictly implemented over the long-term, completely eliminate the national debt in a timely manner while curbing inflation, spurring economic growth, and reducing taxes, thus reversing the U.S. government's exceedingly deteriorating fiscal situation.

As this paper will detail, CPI-X is a sensible solution to decades of decadent federal spending that will deliver better fiscal management, an actual medium-term fiscal framework, and a less complex budgeting process.



INTRODUCTION

In August 2023, the Committee on the Budget in the House of Representatives quoted Fitch Ratings regarding the recent credit downgrade of the U.S. government from AAA to AA+.

“The repeated debt-limit political standoffs and last-minute resolutions have eroded confidence in fiscal management. In addition, the government lacks a medium-term fiscal framework, unlike most peers, and has a complex budgeting process.”¹

From an economic perspective, reckless spending by the federal government is the primary driver of unsustainable deficits, an ever-increasing national debt, endless taxes, mounting red tape, and inflationary money printing. Combined, this reduces productive supply of goods and services, increases unproductive demand, and blurs the lines between the private and public sectors. This reckless spending also contributes to the divisive and escalating “culture wars.”

This paper is built on a sound foundation of an economic model using key inputs including historical and forecast spending statistics, disaggregated across 10 policy areas, prioritized in three tiers based on civic importance.

CPI-X is a rigorous and objective solution to not just slow the growth of spending, but to significantly cut it down to a manageable size over a reasonable timeframe.

In the early 1980s, CPI-X was utilized in the United Kingdom to better regulate “natural monopolies” – namely airports, water, electricity, and railways – during the era of privatization under Prime Minister Margaret Thatcher. Since then, it has been applied in Australia to regulate the pricing of public utilities. I was the first to apply the CPI-X model to the utmost monopoly: government, which was first outlined in the Maine Policy Budget in early 2023.²

This paper is built on a sound foundation of an economic model using key inputs including historical and forecast spending statistics, disaggregated across 10 policy areas, prioritized in three tiers based on civic importance. The key calculations are the X-factors, which are based on spending benchmarks from the U.S. federal and state governments and a sample of international peers. The key outputs are the comparisons between the unsustainable path of the status quo of unceasing spending growth versus the sustainable path derived from spending cuts based on CPI-X.

The paper addresses in detail the economic model, the ugly spending past, the “emergency” spending present, and the sustainable spending future, as well as 10 policy recommendations.

ECONOMIC MODEL

Economics

The microeconomics of why federal government spending matters, and why a CPI-X economic model is needed, is summarized in Exhibit 1 below.

- Taxes, in general, decrease private sector supply and put upward pressure on prices.
- Spending, in general, spurs higher taxes, crowds-out private sector supply, and puts further upward pressure on prices. Massive annual deficits and debt accumulation crowds out private sector lending, resulting in yet less supply and more upward price pressure.
- Governmental policy impacts the natural interaction of supply and demand in three ways: fiscal policy decreases efficient market

supply with inefficient statist supply; monetary policy increases inefficient market demand with inefficient statist demand; and regulatory policy does both—depending on the particular legislation, regulation, and/or judicial case.

The macroeconomic nature of this is summed up by Daniel J. Mitchell, a member of the Foundation for Economic Education’s faculty, in Exhibit 2.

“There is an upside-down-U-shaped relationship between the size of government [X axis] and economic performance [Y axis] known as the Rahn Curve. It is the common-sense notion that too much government spending is harmful to economic performance.”³

Exhibit 1. Government Micro Impacts

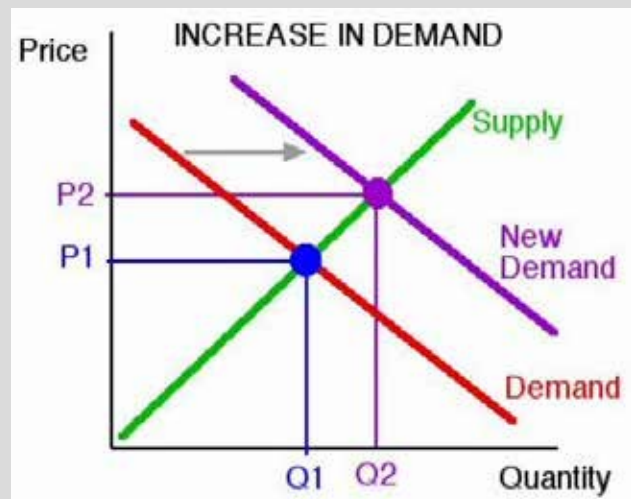
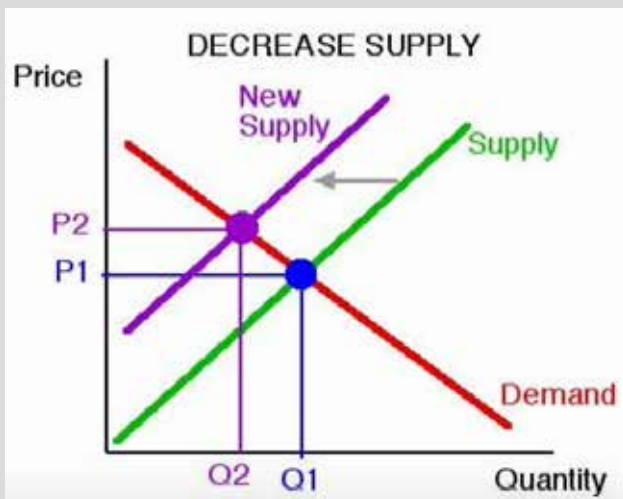
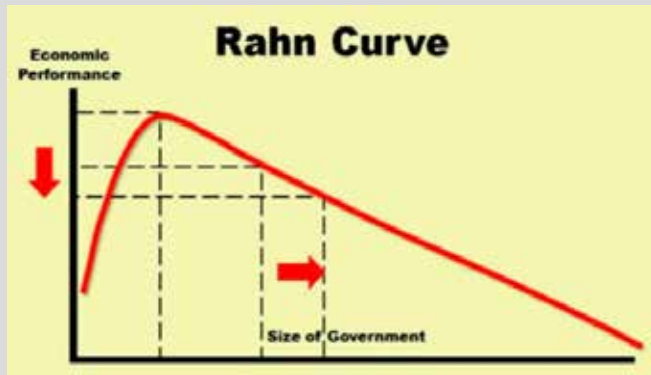


Exhibit 2. Government Macro Impacts



Given that the point of government is to govern, spending and regulating are the cause of—rather than the result of—taxes, borrowing, and money printing. According to the public choice theory, there is a government supply of, and a public demand for, spending and regulating. Spending is key, as regulation is not free.

CPI-X

The CPI-X approach to public utility regulation was developed by Professor Stephen Littlechild in the early 1980s.

[CPI-X is]: “[A] means of controlling the extent to which companies with monopoly power raise their prices. [It] prevents regulated companies from increasing their prices or revenue by more than general price inflation, less an X value determined by the regulator, over a specified period. The control protects consumers, by preventing companies with monopoly power from abusing that power through price increases.”⁴

[CPI-X involves]: “[S]etting a price-path (price-cap regulation) for a utility, allowing for changes in inflation (the *CPI-factor*) and expected efficiency improvements (the *X-factor*). The X-factor may incorporate other aspects in addition to the expected

improvement in efficiency, such as rewards for improvements in output quality, service levels or demand management actions.”⁵

My decades of experience in both economic policy and with CPI-X economic regulation strongly suggest three things:

- sustained monopoly power derives from government fiscal and regulatory interventions;
- sustained price inflation derives from government monetary intervention;
- thus, this form of price regulation applies more so to government than to the private sector.

Not only is CPI-X more applicable to government spending than public utility prices, it is significantly less complex to apply to government spending, and actually creates a sustainable path to spending restraint, as Exhibits 3 and 4 below demonstrate.

Exhibit 3. Government Budget Formula

$$\begin{aligned} \text{Budget (\$)} &= \\ \text{Revenues (\$)} - \text{Expenditures (\$)} &= \\ \text{Surpluses or Deficits (\$)} &= \\ \text{Funds or Debt (\$)} & \end{aligned}$$

Exhibit 4. Basic CPI-X Formula

$$\begin{aligned} \text{Actual Cuts (\$)} &= \\ \text{Government Spending (\$)} \times & \\ \text{CPI-X Multiplier (\%)} & \end{aligned}$$

Applying the Model to an Untrackable Leviathan

The U.S. federal government’s spending data are neither sufficiently adequate nor benchmarkable to be used as inputs for this CPI-X model, especially considering policy disaggregation. Concerningly, no single official list of agencies appears to exist at the U.S. federal government level. Worse still, there are multiple inconsistent lists across, and even within, U.S. government websites. For instance, the Bureau of the Fiscal Service lists 164 agencies;⁶ National Archives claims 435 but lists 430;⁷ Office of Personnel Management lists 646;⁸ Treasury lists 40 plus a 41st sundry category;⁹ USA.Gov lists 630;¹⁰ and USASpending lists 223 in a downloadable spreadsheet¹¹ and 114 on its website with a 115th sundry category for unreported data.¹²

Thus, historical spending data were sourced for central governments from the Organization for Economic Co-operation and Development (OECD)¹³ and for state governments from the United States

Census Bureau (USCB).¹⁴ Forecast spending and inflation data were sourced from the International Monetary Fund (IMF).¹⁵

The X-factors in CPI-X are derived from benchmarking the spending of the U.S. federal government, states, and other countries along policy lines. All 50 states were included, broken down into 22 “red” (Republican), 11 “blue” (Democrat), and 17 “purple” (closely contested, politically), including the fiscal best of each. The other countries, which include both federations and unitarians, were the European Union (EU), Australia, Switzerland, United Kingdom (UK), Israel, and Japan. This was guided by the Fraser Institute’s *Economic Freedom of the World* and *Economic Freedom of North America* annual reports.¹⁶

Spending data are broken down into policies as per Exhibit 5 below, 11 by OECD¹⁷ and 12 by USCB.¹⁸ There are data for the first 10 of OECD’s 11 policies. There are data for all of USCB’s 12 policies, which required some minor mapping to align with OECD’s 10 policies.

Exhibit 5. Ten Plus Policies

Classification of the Functions of Government (COFOC)		State Government Finances (SGF)	
1	General public services	1	Education
2	Defense	2	Public welfare
3	Public order and safety	3	Hospitals
4	Economic affairs	4	Health
5	Environmental protection	5	Highways
6	Housing and community amenities	6	Police protection
7	Health	7	Corrections
8	Recreation, culture, and religion	8	Natural resources
9	Education	9	Parks and recreation
10	Social protection	10	Governmental administration
11	Transportation	11	Interest on general debt
		12	Other and unallocable

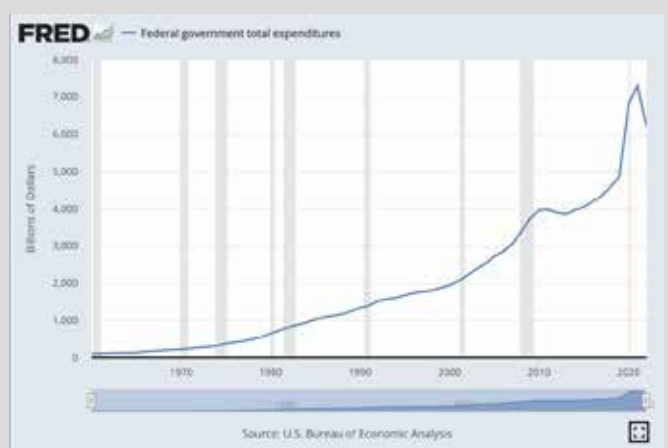
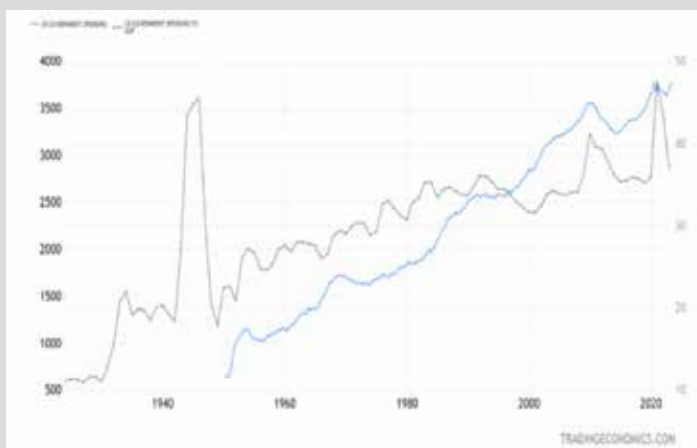
THE UGLY SPENDING PAST

The history of U.S. federal government spending, from the recent past to the present, has largely been one of never-ending and accelerating growth, going back to at least 1970. Two reliable sources for this are Trading Economics (TE) and Federal Reserve Economic Data (FRED). In the case of Exhibit 6 below, they both sourced their data from the Bureau of Economic Analysis (BEA), which notes on its website that, “Total spending by government is much larger than the spending included in GDP [Gross Domestic Product].”¹⁹ TE documents spending²⁰ compared to GDP.²¹ FRED documents total government spending amid a backdrop of technical recessions based on GDP in gray.²² The result is that onward-and-upward spending has its own momentum,

which appears especially in the twenty-first century to be mostly independent from the ups-and-downs of the economic cycle. This, in summary, is the ugly spending past.

The OECD, unlike the U.S. federal government, has historical spending data that go back to 1970 and is disaggregated into 10 policy areas. The U.S. government does have somewhat consistent data, but only at the total level going back to 2017.²³ However, this does not reflect total spending by specific policy area, as the state of Maine does, for instance. Exhibit 7 below presents OECD data for federal spending in U.S. dollars (\$), index change (100), and relative ratios (%).

Exhibit 6. Federal Spending Context



As Exhibit 7 shows, welfare and health are the two largest components of the 2021 total of \$7.48 trillion, at \$2.76 trillion, and \$1.83 trillion, respectively. The sharp and rapid increase in these policy areas is primarily due to the passage of the Affordable Care Act (Obamacare), vast Medicaid expansion, and the enlargement of several welfare programs in recent years.

Exhibit 8, on page 12, shows spending during the past 14 presidential terms in both U.S. dollars (\$) and percentage change (%). It clearly shows that federal overspending is a bipartisan problem, given that the two worst one-term spending presidents have been Donald Trump (R) and Joe Biden (D), with the two worst two-term spending presidents being George W. Bush (R) and Barack Obama (D). Of course, the federal government's response to the 2020 COVID-19 pandemic vastly increased spending, which began under the Trump administration and continued under the Biden administration. In total, the federal government spent \$7.1 trillion on stimulus payments and pandemic-related policies such as the Paycheck Protection Program.

Exhibit 7. Federal Spending History

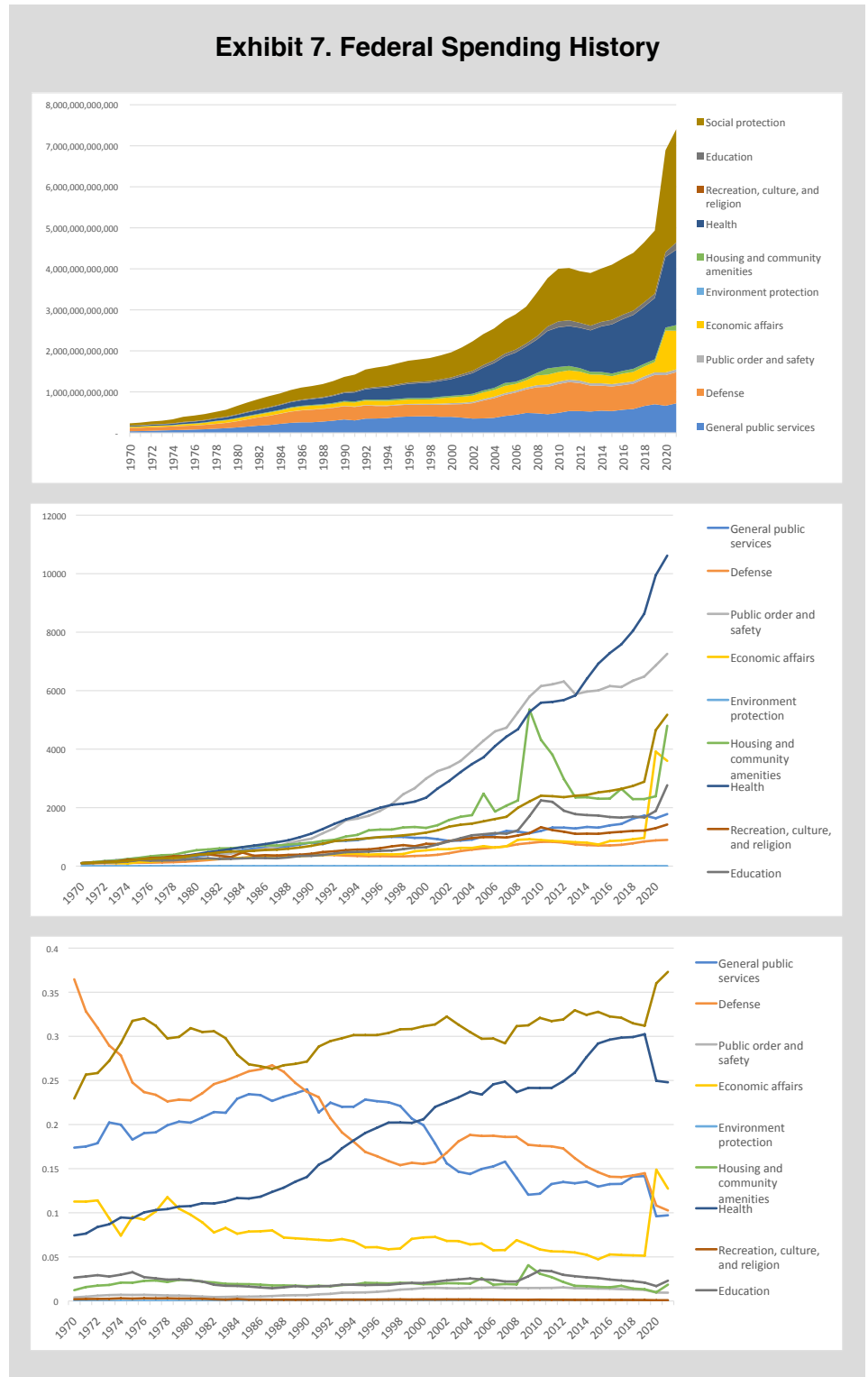


Exhibit 9 shows spending on the basis of a sample of 10 key federal government agencies in U.S. dollars (\$), index change (100), and relative ratios (%). Note that agencies were mapped to policies subjectively, as there is no official connection of these from either USASpending or the OECD.

As shown in Exhibit 9, the Department of Health and Human Services (HHS) and Department of Treasury are the two largest spenders in 2023 at \$2.1 trillion and \$1.4 trillion, respectively. The latter includes the Department of Treasury’s interest payments on the national debt, which reached \$726 billion in 2023. The next two biggest spenders are the Social Security Administration (SSA) and Department of Defense (DoD) at \$1.25 trillion and \$1.1 trillion, respectively. The two most significant components of total spending in 2023 are HHS at 28 percent and Treasury at 19 percent. The next two are SSA and DoD at 17 percent and 15 percent, respectively.

Exhibit 9. Federal Spending: Agencies

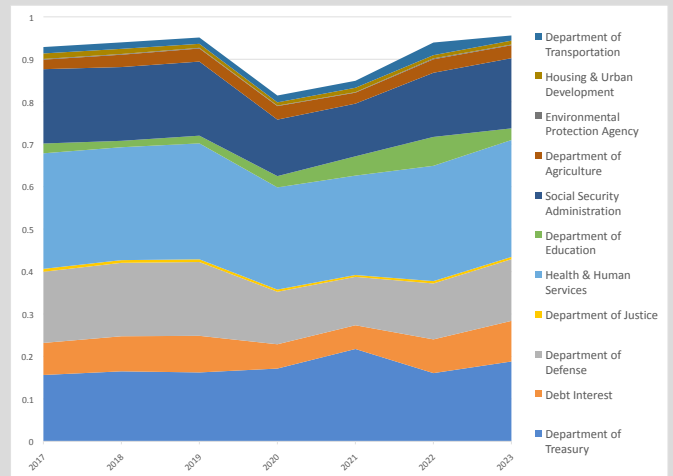
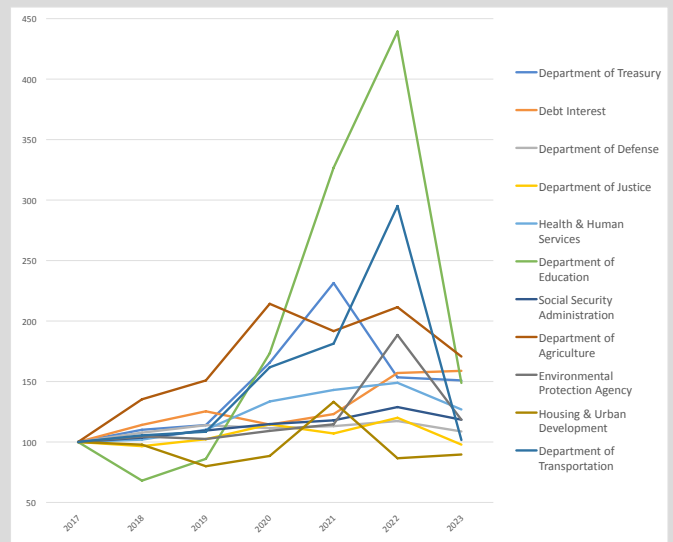
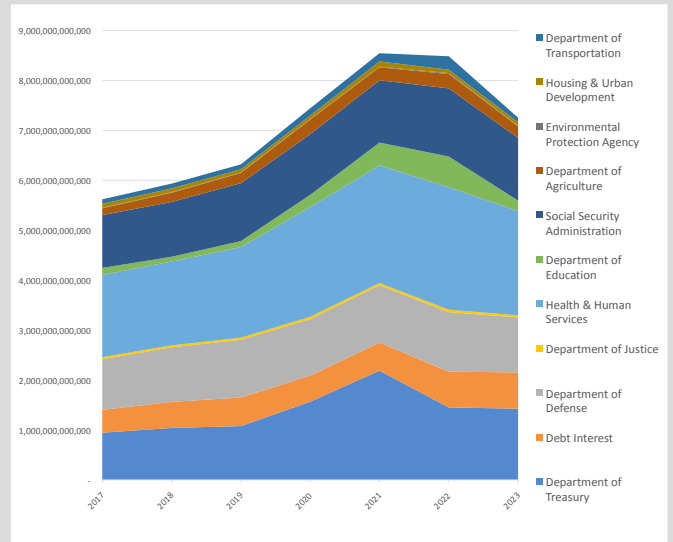


Exhibit 8. Federal Spending: Presidents

President	Currency (\$)	Two Terms
Nixon	\$1,058,311,750,000	
Ford	\$1,603,321,940,000	
Carter	\$2,474,431,120,000	
Reagan 1	\$3,722,995,590,000	\$8,423,567,490,000
Reagan 2	\$4,700,571,900,000	
Bush	\$5,923,870,180,000	
Clinton 1	\$6,878,484,720,000	
Clinton 2	\$7,762,743,260,000	
Bush 1	\$9,937,411,210,000	
Bush 2	\$13,161,467,110,000	
Obama 1	\$15,861,437,860,000	
Obama 2	\$16,749,841,820,000	
Trump	\$24,162,968,835,053	
Biden	\$31,174,682,860,122	

President	Change (%)	Two Terms
Nixon	27.5%	
Ford	55.7%	
Carter	99.7%	
Reagan 1	94.7%	
Reagan 2	69.1%	
Bush	98.8%	
Clinton 1	68.3%	
Clinton 2	111.9%	
Bush 1	222.3%	
Bush 2	380.8%	
Obama 1	-44.4%	121.2%
Obama 2	165.6%	
Trump	1186.7%	
Biden	2125.9%	

Federal Spending Compared to States and Other Countries

Now, we turn to looking at other countries and U.S. states as benchmarks for the U.S. federal government. Other countries serve this purpose well because they are a mix of political *allies* and economic *rivals*. U.S. states are a good comparison because they should be a mix of political *rivals* and economic *allies*. Exhibit 10 indicates that in 2021 welfare (\$865 billion) and education (\$779 billion) were the two largest individual components of the \$2.94 trillion total spent by the 50 states.

Exhibit 11, on page 14, compares federal to state spending from 1998 to 2021. This is presented in U.S. dollars (\$), percentage change (%), and relative ratios (%). The federal government spends much more than the states, about one-third to two-thirds more, while driving the major increases (e.g. 2008-09 and 2020) as well as the small decreases (e.g. 2011-13 and 2021). Note that percentage change decreases are not actual cuts but slower growth rates, as can be seen via the gray line that combines federal and state spending together.

Exhibit 12, on page 14, compares U.S. federal government spending to other countries from 2005 to 2021. This is presented in U.S. dollars (\$), index change (100), and percentage change (%). Other country currencies were converted based on the latest exchange rates²⁴ rather than historical ones,²⁵ as neither the size nor pattern materially changes under the latter, and is a far more complex method compared to the former simple one.

The U.S. government spent more in 2021 than the rest of the sample countries combined—at \$7.4 trillion versus \$5.67 trillion, respectively—with the EU accounting for \$3.34 trillion and non-EU for \$2.33 trillion. Non-U.S. federations accounted for \$1.8 trillion and non-U.S. unitarians for \$3.87 trillion. The U.S. government achieved actual back-to-back cuts in 2012-13. One-off cuts were achieved by the EU in 2012, Australia in 2021, Switzerland in 2008, Israel in 2014, and the United Kingdom (UK) in 2021. Japan had multiple cuts in 2006-07, 2010, 2012, 2014-17, and 2021. The United States and the EU slowed spending growth the least in 2021 at 7 percent and 8 percent, respectively.

Exhibit 10. State Spending Policies

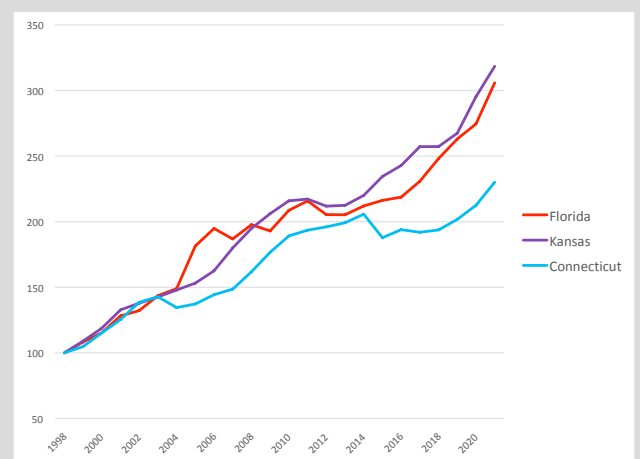
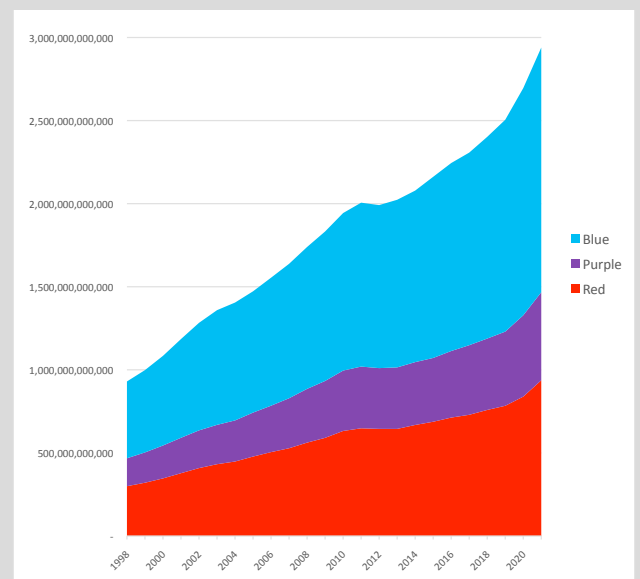
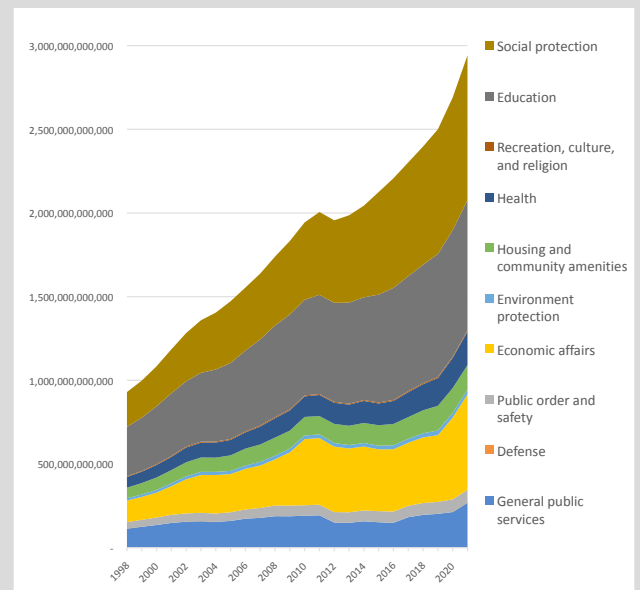


Exhibit 11. Federal & State Comparisons

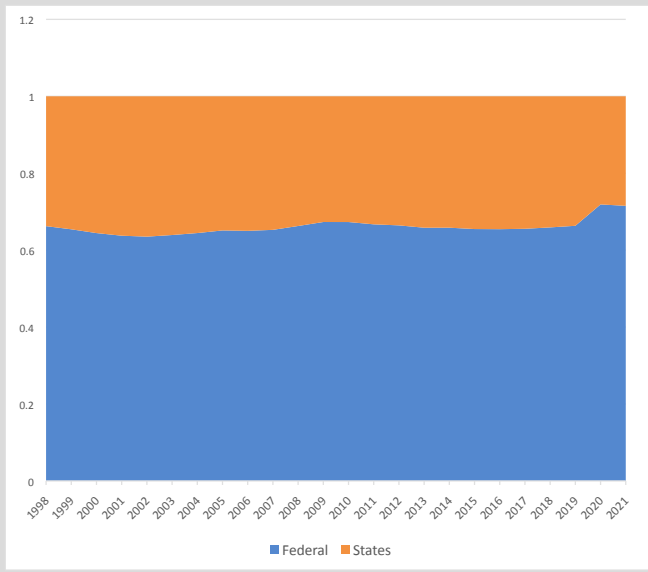
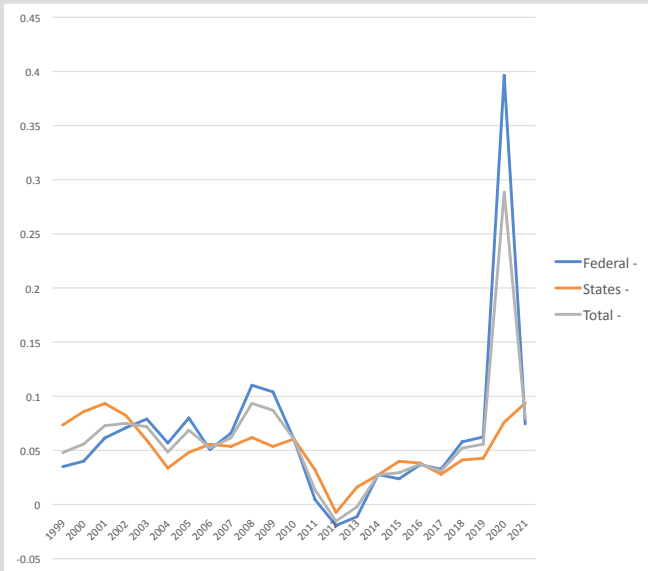
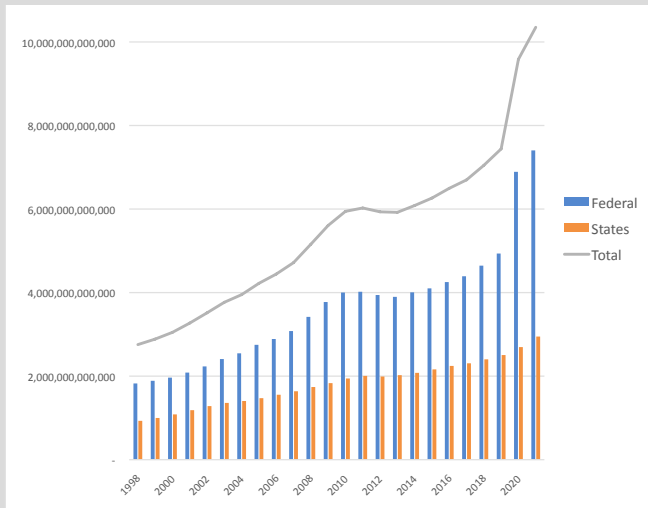
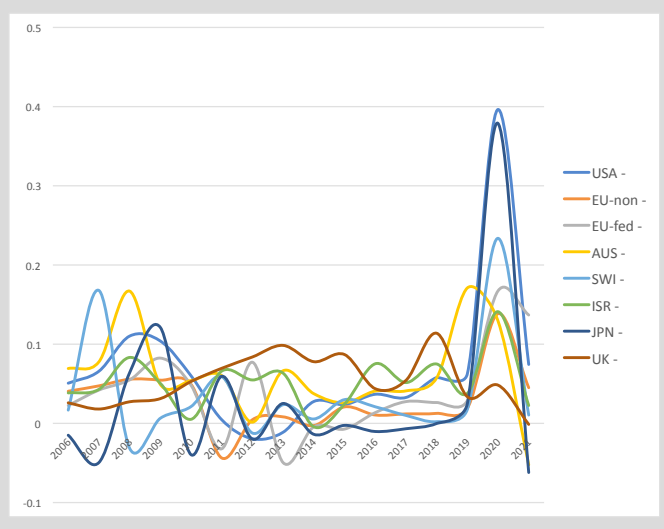
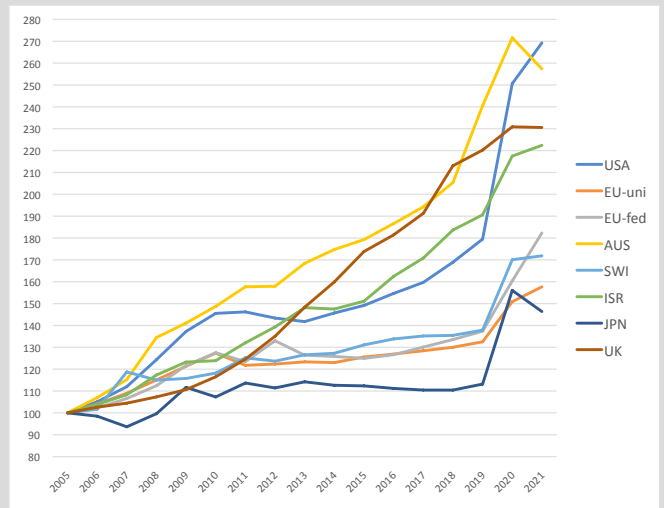
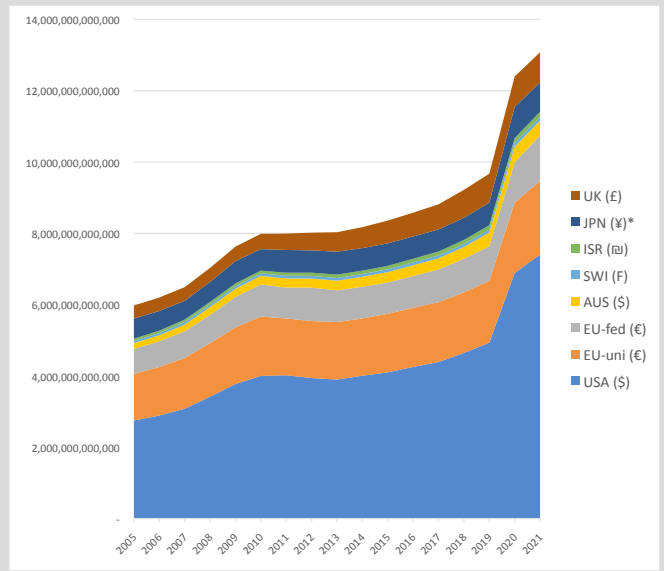


Exhibit 12. Federal & Country Comparisons



THE “EMERGENCY” SPENDING PRESENT



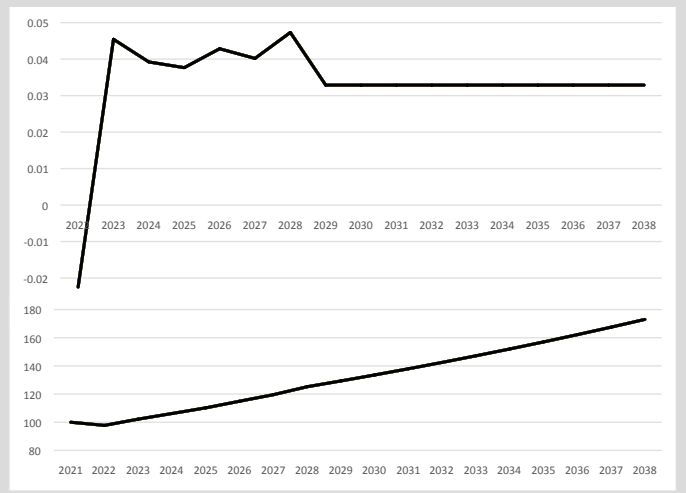
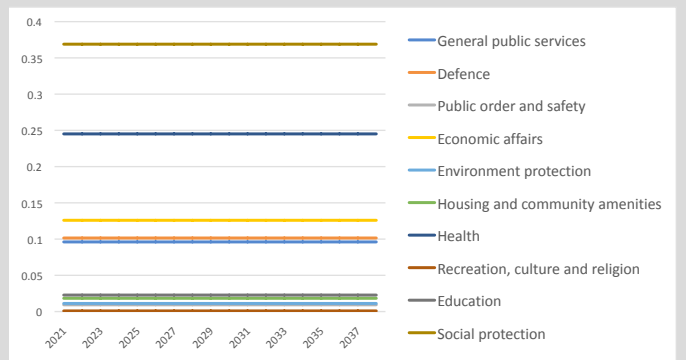
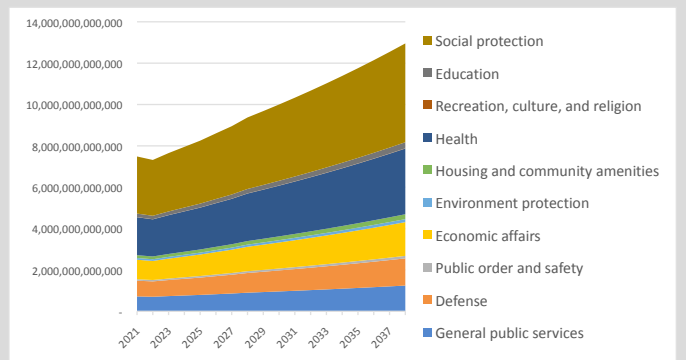
Exhibit 13 shows the status quo of continuing the present unsustainable path of federal spending. This is based on IMF forecasts applied to policies in U.S. dollars (\$) and relative ratios (%) as well as totals in percentage change (%) and index change (100). Note that the OECD has no data from the U.S. federal government on environment, thus, this had to be extrapolated with the help of IMF data.

As is shown, welfare and health are the two largest components of the 2038 total of \$12.95 trillion, at \$4.78 trillion and \$3.17 trillion, respectively, with defense fourth at \$1.31 trillion. Welfare and health represent 37 percent and 25 percent of the total, respectively, with defense accounting for 10 percent. The IMF’s forecast average growth rate from 2022 to 2038 is 3.3 percent for all policies and the total. Spending shrinks from 100 index points in 2021 to 98 in 2022 and then grows to 173 by 2038.

In Exhibit 13, the IMF forecasts are also applied to federal government agencies, including the 10 representative ones in U.S. dollars (\$), index change (100), and relative ratios (%).

Clearly, HHS and Treasury are the two largest spenders by 2038 at \$3.53 trillion and \$2.41 trillion, respectively, noting the latter includes interest payments on the national debt of \$1.23 trillion. The next two biggest spenders are SSA at \$2.12 trillion and DoD at \$1.86 trillion. The two most significant components of total U.S. government spending by 2038 are HHS at 27 percent and Treasury at 19 percent, noting the latter includes interest payments on the national debt at 9 percent. The next two are

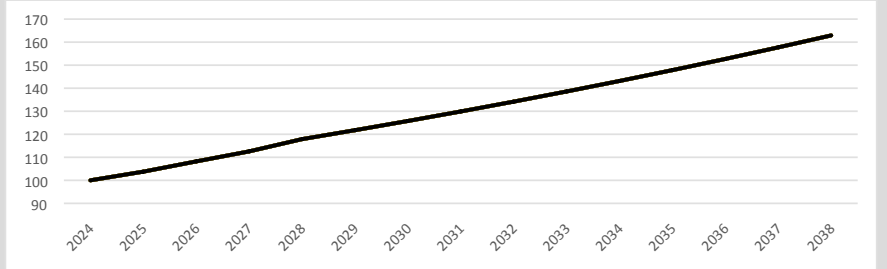
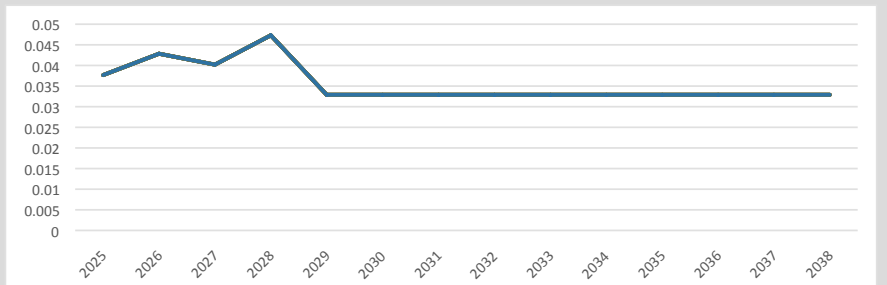
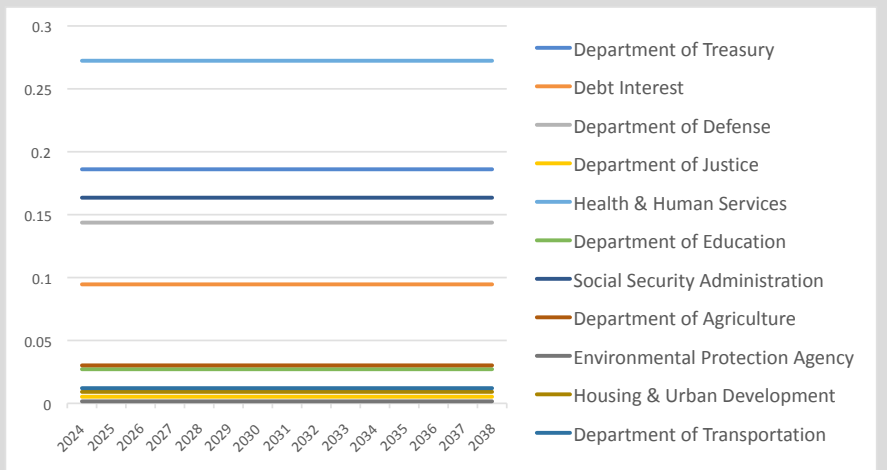
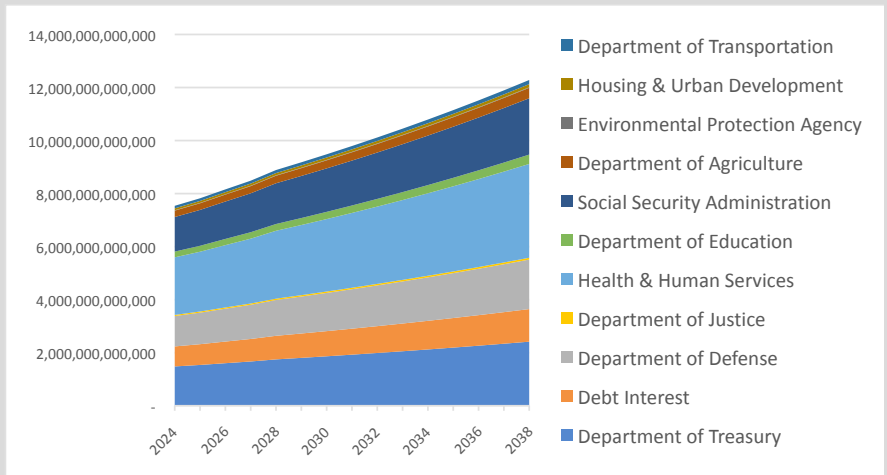
Exhibit 13. Federal Policies Growth



SSA at 16 percent and DoD at 14 percent. The IMF’s forecast average growth rate from 2024 to 2038 is 3.3 percent for these 10 agencies. Spending expands from 100 index points in 2024 to 163 by 2038.

It is very important to note that medium- to long-term spending in the historical past, and on the present path, are not driven by the circumstances of the times, as they can be in the short-term such as the financial crisis of 2008-10 and COVID-19 lockdowns of 2020-21. Short-term circumstances, or so-called emergencies, occasionally provide external incentives to increase federal spending. However, the U.S. federal government has been engaging in “emergency” spending for the better part of the entire 21st century.

Exhibit 14. Federal Agencies Growth



THE SUSTAINABLE SPENDING PRESENT

The two key components of CPI-X are Consumer Price Index and the X-factors. CPI is derived from historical and forecast inflation data, both from the IMF. The X-factors are gleaned from historical and forecast spending data from the OECD, the USCB, and the IMF. Exhibit 15 below is the reverse CPI-X formula, which is the reverse formula order, but in correct process order.

Exhibit 15. Reverse CPI-X Formula

$$\text{CPI-X Multiplier (\%)} \times \text{Government Spending (\$)} = \text{Actual Cuts (\$)}$$

Exhibit 16 below is the CPI-X multiplier formula, noting CPI-X can be positive or negative (but is negative in this case), as well as the multiplier based on that, noting that it is always positive and can be less than, equal to, or greater than 100 percent (but is less than in this case).

Exhibit 16. CPI-X Multiplier Formula

$$\begin{aligned} \pm\text{CPI-X (\%)} &= [+\text{CPI (\%)}] - [+\text{X (\%)}] \\ \text{Multiplier (\%)} &= 1 + [\pm\text{CPI-X (\%)}] \\ \text{Multiplier (\%)} &\leq \text{or } \geq 100\% \end{aligned}$$

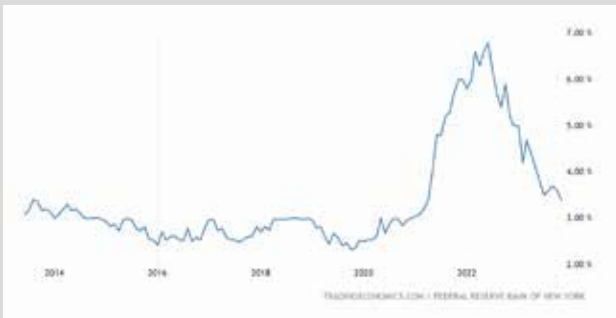
It is important to note that the process for deriving both CPI and the X-factors involves using minimum and maximum—and especially median and average—multiple times to better ensure that nearly all of the data come into play, but in a way that the data are smoothed for extremes, outliers, and noise.²⁶ Further note that far deeper, but perhaps far less politically acceptable cuts could be achieved by focusing only on median and especially minimum rather than a mix of these two along with maximum, not to mention sum, difference, and standard deviation.

CPI is the most used, but not the only, measure of inflation (I). More accurately, CPI is one measure of the price effects from the inflation cause of money supply (MS) greater than money demand (MD), i.e. $I = MS > MD$. Another frequently used inflation measure, and one used in the model along with CPI, is the Gross Domestic Product Deflator (GDPDEF). CPI and GDPDEF were both sourced from the IMF, with historical data from 1980 to 2022 and forecast data for 2023 to 2028.²⁷ The CPI was 4.7 percent, derived from a logical and rigorous process resulting in a minimum of 2.0 percent, a median of 5.6 percent, and maximum of 6.6 percent. These are indicated in Exhibit 17, on page 18, and are reasonably consistent with official CPI inflation expectations.²⁸

The X in CPI-X represents the X-factors. These come from the benchmarks of U.S. federal government historical spending itself, going back to 1970, along with that of the U.S. states and other countries, going back to 1998 and 2005, respectively. This actual spending, in currency-of-the-day such as U.S. dollars (\$), is extracted in terms of percentage year-to-

Exhibit 17. Consumer Price Index (CPI)

CPI	Minimum	Median	Maximum
Minimum	1.3%	4.2%	5.8%
Median	1.8%	5.3%	5.8%
Maximum	2.8%	7.3%	8.2%
Average	2.0%	5.6%	6.6%
		4.7%	



year change (%), on the basis of not just minimum, median, and maximum, but also difference, average, and standard deviation. The X-factors end up as absolute value percentages for all 10 policies, which can then be subtracted from the CPI percentage. This CPI-X percentage is finally subtracted from 100 percent to create the 10 CPI-X multipliers to be applied to federal spending every year from 2025 to 2038. Thus, for example, general public services for 2024 of \$764 billion is multiplied by 97.5 percent to become \$745 billion in 2025. This is repeated every

year after, resulting in \$533 billion by 2038. The X-factors and CPI-X multipliers are indicated below in Exhibit 18.

Note that the 10 policy areas are categorized into three tiers, based on prioritization of civic importance: Tier 1 being most important, Tier 2 being of moderate importance, and Tier 3 being least important. This is guided by decades of budget and economic policy experience across multiple states and countries as well as multiple sectors and industries, in addition to the timeless principle incorporated by America’s Founding Fathers of a limited federal government.

Exhibit 19, on page 19, demonstrates that all 10 policy areas will get a CPI-X cut, whether in Tier 1, Tier 2, or Tier 3. This is the basis for the sustainable spending future under CPI-X.

As Exhibit 19 shows, the biggest overall cuts in terms of U.S. dollars (\$) under CPI-X would be to welfare, health, and defense from \$2.93 trillion to \$1.6 trillion, \$1.94 trillion to \$648 billion, and \$807 billion to \$653 billion, respectively. Interestingly, in terms of relative ratios (%) to the total of 100 percent, welfare and defense *increase* from 37 percent to 44 percent and 10 percent to 18 percent, respectively, while health decreases from 25 percent to 18 percent. This makes for not only far better budget economics than is the norm in Washington, DC, but also far better budget politics.

Exhibit 18. CPI-X Factors & Multipliers

X-factors	Average	Federal	Countries	States
Total function	8.4%	14.6%	5.9%	4.5%
General public services	6.2%	6.6%	5.3%	6.7%
Defense	4.1%	4.9%	3.3%	-
Public order and safety	5.1%	7.2%	5.4%	2.7%
Economic affairs	46.5%	98.9%	30.4%	10.2%
Environment protection	32.9%	-	44.8%	21.1%
Housing and community amenities	25.7%	43.9%	28.5%	4.6%
Health	16.2%	8.3%	29.5%	10.9%
Recreation, culture, and religion	11.3%	10.6%	3.9%	19.4%
Education	6.9%	14.0%	4.4%	2.3%
Social protection	9.5%	19.6%	4.5%	4.6%

Tier	CPI	X	CPI-X	Multiplier
Tier 1				
General public services	4.7%	7.3%	-2.5%	97.5%
Defense	4.7%	6.2%	-1.5%	98.5%
Public order and safety	4.7%	6.7%	-2.0%	98.0%
Tier 2				
Health	4.7%	12.3%	-7.6%	92.4%
Education	4.7%	7.6%	-2.9%	97.1%
Social protection	4.7%	8.9%	-4.2%	95.8%
Tier 3				
Economic affairs	4.7%	27.4%	-22.7%	77.3%
Environment protection	4.7%	20.6%	-15.9%	84.1%
Housing and community amenities	4.7%	17.0%	-12.3%	87.7%
Recreation, culture, and religion	4.7%	9.8%	-5.1%	94.9%

Exhibit 20 shows what the CPI-X cuts look like for each of the three policy tiers separately, as compared to the status quo for each. Tier 1 policies are those most aligned with limited government whereas Tiers 2 and 3 are those most aligned with the welfare state and crony capitalism, respectively. The latter is cut the most.

Exhibit 19. Federal Policies Cut

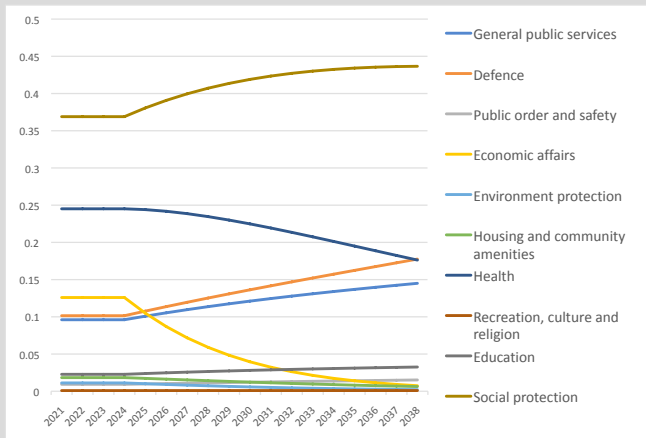
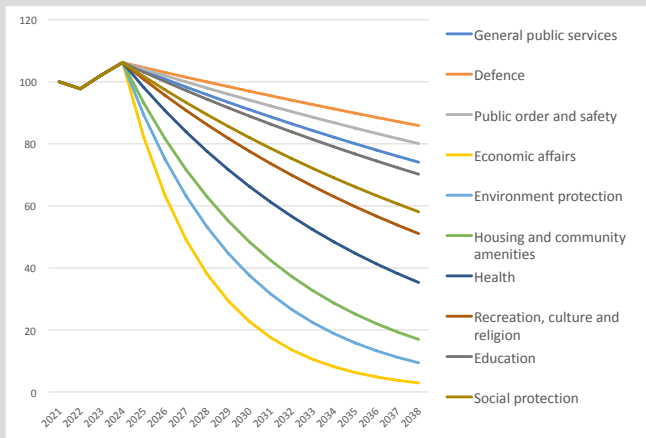
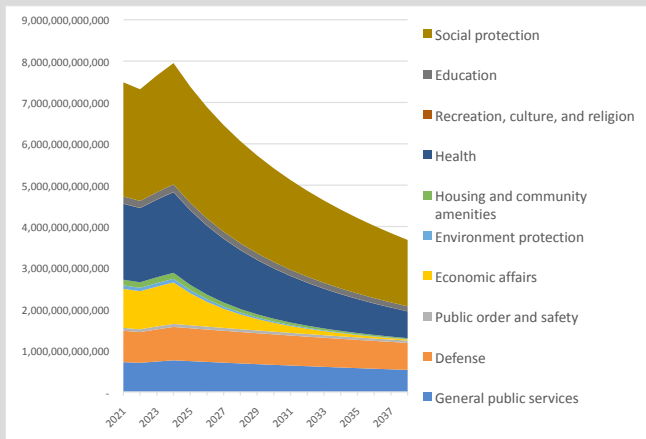


Exhibit 20.

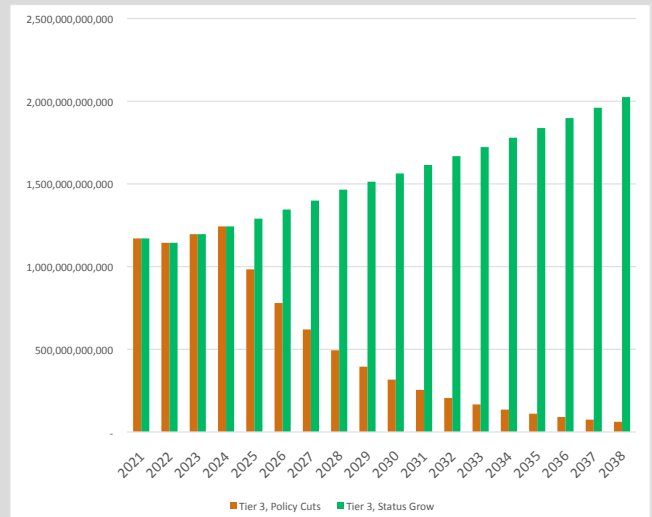
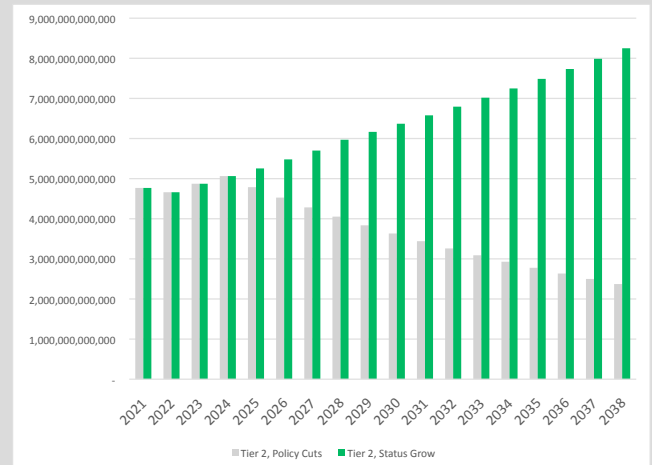
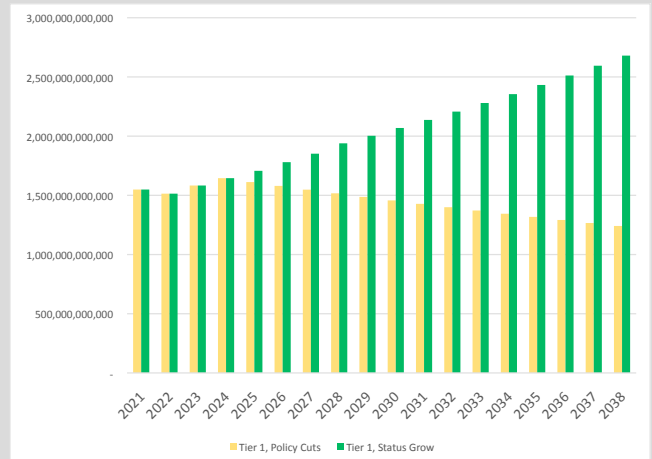


Exhibit 21 applies the CPI-X cuts to 10 key federal agencies representing each of the 10 OECD policy areas. This is parallel modeling to the core modeling, but a consistent one including using U.S. dollars (\$), index change (100), and relative ratios (%).

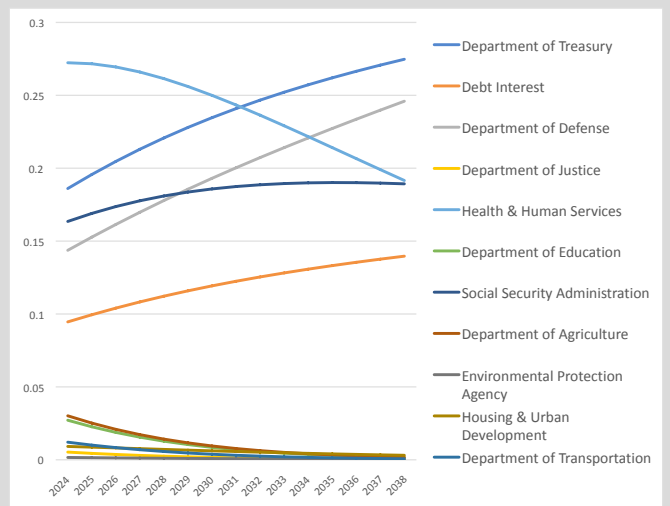
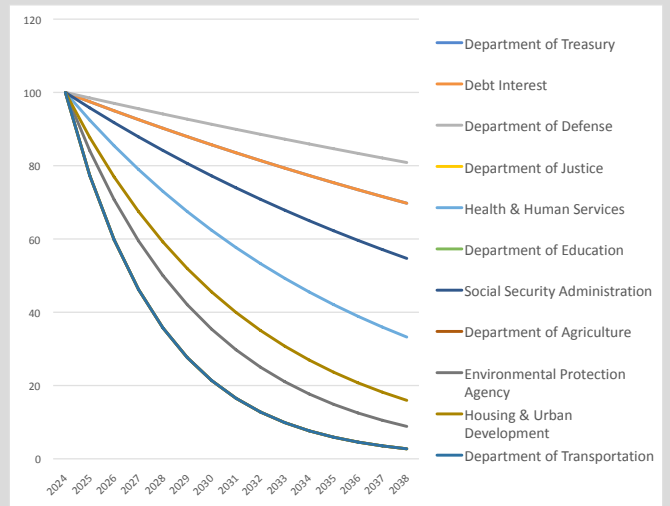
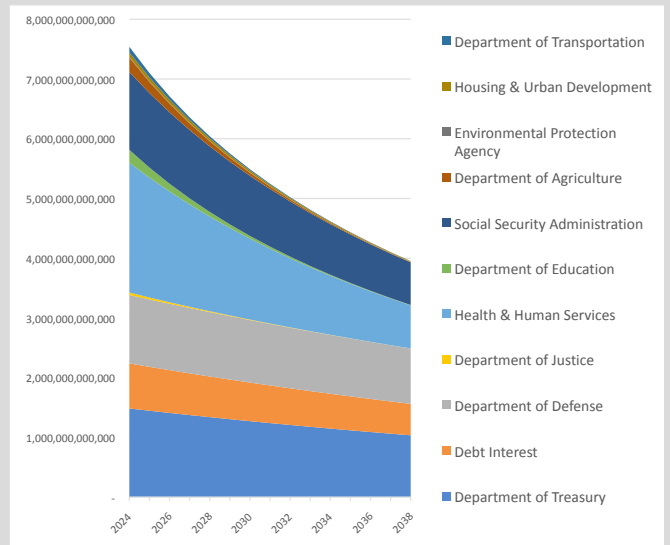
In terms of index change from 2024 to 2038, the two highest cuts would apply to the Department of Transportation and the Environmental Protection Agency from 100 down to 3 and 9, respectively. The two medium cuts would be imposed on SSA to 55 and HHS to 33. The two lowest cuts would be implemented within DoD and Treasury, to 81 and 70, respectively. In terms of dollars for the “big three” of HHS, SSA, and DoD, they shrink from \$2.17 trillion, \$1.3 trillion, and \$1.15 trillion down to \$722 billion, \$713 billion, and \$926 billion, respectively. The relative ratios, to the total of 100 percent, help bring the budget politics into focus. The easier selling points to Republicans and Democrats are that defense *increases* from 14 to 25 percent and SSA *increases* from 16 percent to 19 percent. On the other hand, perhaps the most politically difficult scenario involves HHS decreasing from 27 percent to 19 percent.

Exhibit 22, on page 21, outlines three spending options, along with two savings impacts from one versus another. The three options are the ugly historical past, the “emergency” spending present, and the sustainable spending future. These cuts are in actual nominal dollars, not in inflation-adjusted real dollars. The former generates actual dollar savings, which can be used to both pay down debt and pay back taxpayers. The latter could be through either, or a combination of, tax returns and tax cuts.

Note that CPI-X cuts would result in reducing federal spending to 2008 levels, before the financial crisis and COVID-19 pandemic massively increased “emergency” federal spending.

One of the key points from Exhibit 22 is the utter unsustainability of the U.S. federal government’s spending trajectory. The ugly spending past grew from \$3.42 trillion in 2008 to \$7.4 in 2021, a staggering 217 percent increase. The “emergency” spending present path is on pace to grow from

Exhibit 21. Federal Agency Cuts



\$7.32 trillion in 2022 to \$12.96 trillion in 2038, a 177 percent increase, which would result in a total expenditure of \$148 trillion over that period.

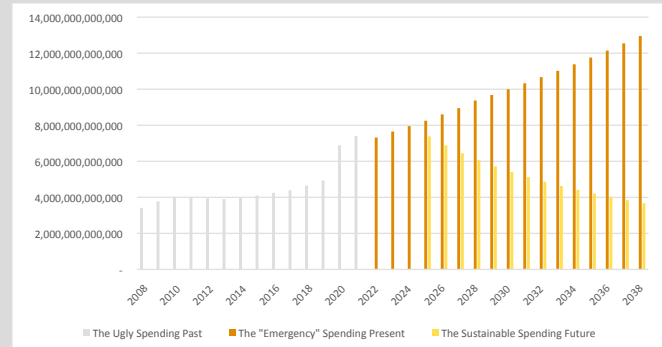
However, the sustainable spending future derived by CPI-X cuts would significantly reduce federal spending from \$7.38 trillion in 2025 down to \$3.67 trillion in 2038. That is a 50 percent cut, which adds up to \$73 trillion. The CPI-X savings are the difference between these two amounts, which is \$75 trillion.

These substantial cuts can and should be used in combination to pay down the national debt and pay back taxpayers. If only income taxpayers benefited from these cuts, assuming for simplicity no additional such taxpayers,²⁹ then each individual income taxpayer would gain \$34,011 per year from 2025 to 2038. If current debt was completely paid off, assuming for simplicity no additional debt is accumulated, then that would still allow for \$19,347 of income taxpayers’ relief. Of course, there are plenty of other federal taxpayers in need of relief, besides income-based ones, be they individuals, families, or businesses.

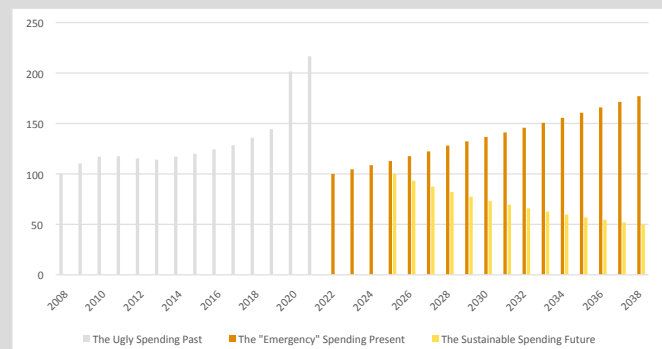
Note that if one had to choose between relief to debtholders or taxpayers, the latter should come first. The former includes foreign governments, including economic rivals and political enemies, and heavily relies on Quantitative Easing (QE) and Modern Monetary Theory (MMT). QE and MMT, as utilized by the U.S. Treasury and Federal Reserve, are heavily incentivized by the U.S. dollar’s status as the world’s reserve currency. This allows the U.S. federal government to “share the pain” of its money-and-credit inflation with governments, investors, and consumers around the world. Spending far less over time will greatly incentivize better fiscal policy regarding debt and taxes, but also better monetary policy that reduces money-related inflation causes and thus price-related inflation effects. A vast decrease in the federal government’s budget would also result in better regulatory policy, as less spending means fewer bureaucrats to issue burdensome and often superfluous regulations. That will greatly reduce red tape and onerous rules and

regulations for businesses and households. It is those regulations—which are regularly enforced by bureaucrats with the aid of federal spending—that pose the far greater problem than regulations that simply sit on the books.

Exhibit 22.



IMPACTS	CPI-X Savings		Status Grow	CPI-X Cuts
	DIFF = Grow - Cuts	SUM = 2024 to 2038	SUM = 2024 to 2038	SUM = 2024 to 2038
General public services	\$5,320,436,943,579	\$14,187,103,678,249	\$8,866,666,734,670	
Defense	\$4,883,983,617,102	\$14,986,600,262,994	\$10,102,616,645,892	
Public order and safety	\$481,021,017,182	\$1,375,219,628,861	\$894,198,611,680	
Economic affairs	\$15,276,572,473,126	\$18,596,151,424,374	\$3,319,578,951,247	
Environment protection	\$1,223,783,011,211	\$1,652,708,506,279	\$428,925,495,068	
Housing and community amenities	\$1,830,204,677,336	\$2,703,785,085,486	\$873,580,408,150	
Health	\$20,299,373,432,281	\$36,195,874,614,833	\$15,896,501,182,553	
Recreation, culture, and religion	\$62,200,148,609	\$129,753,459,166	\$67,553,310,557	
Education	\$1,316,800,029,703	\$3,361,622,344,141	\$2,044,822,314,436	
Social protection	\$24,298,893,301,115	\$54,476,836,991,901	\$30,177,943,690,788	
Total Expenditure	\$74,993,268,454,034	\$147,463,655,799,075	\$72,672,387,345,041	
Total savings for period of 2025 to 2038 =		\$74,993,268,454,034	Federal gov't debt = \$32,332,274,000,000	
Income taxpayers in 2020 =		157,500,000	Savings less debt = \$42,660,994,454,034	
Savings per income taxpayer per period =		\$476,148	57%	\$270,863
Period years count for 2025 to 2038 =		14	= Percentage (Right / Left)	
Savings per income taxpayer per year =		\$34,011	57%	\$19,347



POLICY RECOMMENDATIONS



CPI-X

Key recommendations include:

- **1. CPI-X Budget Commitment** must be sought and made by as many election campaigns as possible, perhaps in a similar fashion to the Americans for Tax Reform (ATR) Taxpayer Protection Pledge.³⁰ Republicans, Independents, and Democrats should all be encouraged to sign this commitment. Even the latter is plausible because of the objective, mechanical, and reasonable nature of CPI-X, as well as that the biggest cuts will be for politically unpopular cronyism and corporate welfare, as opposed to individual and family welfare. Moreover, the cuts are on a policy level basis, thus giving plenty of flexibility to agencies, in the short-term, to cut the low-hanging fruit of waste, duplication, and surplus assets. After that, in the medium-term, cuts would be applied to the mid-hanging fruit of contractors, partisans, and hostiles. Finally, in the long-term, cuts come to the high-hanging fruit of life-long bureaucrats through voluntary and performance-based redundancies as well as the termination of the tenure system.
- **2. CPI-X Budget Plan** must be ordered and completed by mid-2025. Such a plan needs to have the blessing of the newly elected president, as well as members of the House and Senate. Preferably, this would occur through a new style of joint committees including representatives from all three branches of the federal government. It should be fleshed out in partnership with and between the Congressional Budget Office (CBO) as well as the Office of Management and Budget (OMB). This fleshing

out must include: an audit of agencies that unequivocally defines, counts, and lists them all; explicitly maps these agencies to the 10 policies (or 11 with Transportation); and, thus, applies the 10 X-factors and CPI-X multipliers that will drive the agency-level cuts. CBO and OMB should also provide supporting analysis and suggestions regarding cuts to specific programs and activities, which are the next two levels of spending below agencies. Crucially, the plan should promote that the cuts from this paper and model are the floor, and that the ceiling of much larger cuts would be based on minimum-based benchmarked X-factors only.

- **3. CPI-X Budget Law** must be written and enacted in early 2025. Besides enshrining the CPI-X cuts and process into law, the other aim for a new law should be that it cannot be easily repealed, amended, or circumvented from 2025 to 2038. Perhaps that may require some sort of supermajority measures,³¹ along with other guardrails. The cuts are the primary purpose of such a law, followed closely by the secondary purpose of process. The new CPI-X process should entail far less political theater of debt-limit standoffs, omnibus spending bills, continuing resolutions, and government shutdowns. The process will focus on agencies proposing the internal programs and activities that will be cut the upcoming year to meet their relevant policy-level X-factor. Agencies should have the flexibility, subject to the relevant cabinet secretary under the president, to propose who, what, when, where, why, and how much to cut spending. The law should also align and limit a president's cabinet to the 10 CPI-X policies (or 11, including Transportation), while also aligning and limiting agencies to these 10

(or 11). Decentralization and competition are generally better for markets, as well as between the three branches and levels (e.g. international, state, and local) of government, but not within the federal government itself because of heavy public choice theory-related incentives.

above competition payments. Thus, the sowing of AU \$5.5 billion in taxpayer payments during the decade of 1995 to 2005 conservatively reaped more than AU \$1.0 trillion in additional productivity benefits for families and businesses from reduced prices in the electricity, gas, ports, rail freight, telecommunications, urban transport, and urban water sectors.³²

Institutions

One of the key lessons from this paper is the need for new and better budget-related institutions.

- **4. American Value Reviewer** is needed based on the Australian Office of Impact Analysis (OIA), previously called the Office of Best Practice Regulation (OBPR). The prime focus, like Australia's OIA, would be in undertaking, overseeing, and judging cost benefit analyses (CBA) of the fiscal, regulatory, and monetary policies for all three branches of legislative, executive, and judicial (subject to constitutional scrutiny and administrative bylaws). Note that fiscal revenues are a prime legislative branch responsibility, regulatory expenditures are a prime executive branch responsibility (which includes the entire bureaucracy and not just regulators), and monetary funds come into play because of deficits, debt, and money printing. A major judicial branch responsibility concerns public and private sector disputes and interpretations regarding these three policy areas.
- **5. American Competition Reviewer** is needed based on the Australian National Competition Council (NCC) that administered Australia's National Competition Policy (NCP). Australia's NCP, administered by the NCC, was an extremely effective set of reforms enacted during the mid-1990s to mid-2000s. Policymakers implemented NCP through three agreements between the federal and state governments. Annual performance-based payments were provided to the states for nine years, some of which the state of Queensland then passed on to local governments for five years to incentivize NCP reforms at that level. The NCC was established to assess progress and make payments on an annual basis. CBAs were embedded in every aspect of NCP, including in three major assessments of the economic impacts in 1995, 1999, and 2005. The 2005 assessment found there was a massive net-benefit (benefits over costs) from NCP, i.e. competition performance

- **6. American Productivity Reviewer** is needed based on the Australian Productivity Commission (PC), perhaps the most freedom-friendly and economically rigorous government agency on the planet. The PC has been instrumental in helping to turn the Australian economy around from one of the worst-performing in the early 1980s to one of the best-performing by the early 2000s through reforms (under both Labor left and Liberal right federal and state governments) that have decreased the uncompetitive, semi-accountable, and inefficient public sector in favor of the private sector. These reforms took place in: trade and finance; labor and unions; tax and expenditures; welfare and entitlements; pensions and retirement; and infrastructure and utilities. The latter was a big part of NCP.

Reviews

The other key lesson from this paper is the need for serious and deep reviews.

- **7. American Bureaucracy Review** is needed to examine the efficiency, effectiveness, and ethics of the thousands of agencies at the federal level. The first step should be an official audit and accurate count that defines what an agency is and then arrives at a single transparent number of them.
- **8. American Cronyism Review** is needed to study the efficiency, effectiveness, and ethics of administering so many policy areas, which also do not align with those around the country or the world. This should incorporate a Red Team vs. Blue Team approach so that liberty has a place at the table.
- **9. American Interventions Review** is needed to survey the scale and scope of the federal government's (intended and unintended,

ongoing and growing) interventions into the “life, liberty and the pursuit of happiness” of American families, businesses, and civil society that should finally put on the table reforms to such sacred cows as bureaucrat lifetime tenure, withholding-style taxation, federal monetary dependence, and the unsustainable social welfare system that could be reformed into superannuation.

Cost Benefit Analyses

10. Cost Benefit Analyses (CBAs) are needed throughout the federal government budget process. The key steps of a sound CBA follow.³³

- **Identifying and Quantifying:**
 - non-money impacts or quantities (Q) of the policy or investment project (e.g. outputs/outcomes achieved);
 - money values or prices (\$P) of the benefits and costs (e.g. social = external + private);
 - risk and uncertainty (RU) directly into impacts or values, or indirectly into the discount rate(%);
 - inflation (I) directly into values, or indirectly into the discount rate (%);
- **Calculating and Comparing:**
 - aggregate benefits (\$B) less aggregate costs (\$C) – i.e. net benefits or costs ($\$NBC = \$B - \$C$);
 - discounted net benefits or costs (\$DNBC), at one or more discount rates (DR%);
 - decision criteria (DC) such as NPV of project X > \$0 &/or NPV of project X > NPV of project Y;
 - distributions of \$B, \$C, and \$DNBC (e.g. at least, those with CBA standing);
 - sensitivities of DR and I, as well as the key Ps, Qs, and RUs (e.g. at least: best-case, worst-case, and most-likely-case).
- **Defining and Deciding:**
 - the goal/s of the situation or action (X) of concern (e.g. outputs/outcomes sought from policy or investment project);
 - on none, one, or more counter-factual alternative/s (Y) to the policy or investment project;
 - from who’s viewpoint/s will benefits and costs be analyzed (i.e. standing);
 - on one or more CBA success decision criteria such as net present value (NPV), benefit cost ratio (BCR), internal rate of return (IRR), and/or social return on investment (SROI);



CONCLUSION

On August 1, 2023, The House Budget Committee quoted a sobering warning from Fitch as follows.

“Debt held by the public grew from 39% of GDP in 2008 to over 100% today. Over the next 30 years, debt is projected to increase to 181% of GDP under current law, driven by increased mandatory/entitlement spending, interest expenses, and health care costs.”

“If Congress doesn’t put forth a plan to address our deteriorating fiscal situation, we will be downgraded again. If policy makers don’t change course, we will undermine the reserve currency of the U.S. dollar—a catastrophic and potentially irreparable scenario.”³⁴

Specific and significant areas of federal government spending, like welfare, debt, and health, are definitely a problem. But the underlying problem is spending across the board and over much longer periods of time than just under the current presidential administration. Cuts in overall federal spending, whether actual or relative, have been few and far between. The Mises Institute recently hit the nail on the head, stating in September 2023:

“When the economy grows and there is almost full employment, governments announce more spending because it is time to borrow. When the economy is in recession, governments say that they need to spend even more to save the economy.”³⁵

Daniel J. Mitchell noted in 2015:

“Some government spending presumably enables growth by creating the conditions (such as rule of law and property rights) for commerce. But as politicians

learn to buy votes and enhance their power by engaging in redistribution, then government spending is associated with weaker economic performance because of perverse incentives and widespread misallocation of resources.”³⁶

Serious government spending reforms have been attempted in the United States. However, these have almost exclusively occurred at the state, not federal, level. As Mitchell explains:

“Almost every state has some sort of balanced budget rule, yet that does not stop high taxes and excessive spending. Such rules are not associated with fiscal restraint. If anything, politicians use the requirement as an excuse to raise taxes.”

“Colorado’s Taxpayer Bill of Rights (TABOR) is the best-known spending cap, though technically it caps tax revenue rather than spending growth, so that it cannot grow faster than population plus inflation. One of the most effective features of TABOR is that surplus revenues automatically are rebated to taxpayers.”³⁷

Something needs to change, and that something is CPI-X. It ticks all the policy boxes of effectiveness, efficiency, and impartiality. More specifically, it ticks the Fitch boxes on better “fiscal management,” an actual “medium-term fiscal framework,” and “like most peers” a far less “complex budgeting process” thus reversing “the deteriorating fiscal situation.” It also ticks the Mitchell boxes by finally addressing the fact that “too much government is harmful to economic performance” and restores “the common-sense notion that some government is helpful for prosperous markets.”

Endnotes

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