POLICY BRIEF

Federal Budget Deficits and the Iron Law of Federal Revenue

THE HEARTLAND INSTITUTE

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Executive Summary

- Federal tax revenue has historically hovered within 1 or 2 percentage points of 17.4 percent of GDP since World War II, no matter what the tax rates have been and what is taxed.
- There is a natural limit on what the U.S. government can take away from the American people each year, and nothing the government has tried over the past eight decades has ever been able to change that.
- The pursuit of ever-higher “taxes” through higher tax rates and/or taxes on more things fails because raising tax rates and raising tax revenues are two different things. Raising taxes on an activity reduces the amount of that activity.
- The inability to achieve a rapid rise in revenues means effective reform will require major spending cuts.
- It is possible to increase tax revenues over the long term by increasing the tax base. The only way to expand the nation’s tax base is through economic growth.
- Cutting tax rates and regulations expands the economic pie from which the federal government claims its share, as demonstrated by the Kennedy, Reagan, and Trump tax (rate) cuts.

Introduction

Since the end of World War II, the federal government has never been able to increase tax revenues above a certain, specific level for any length of time by increasing tax rates. There is a natural limit on what the U.S. government can take away from the American people each year, and nothing the government has tried over the past eight decades has ever been able to change that.

Any attempt to deal with ongoing federal budget deficits and an excess accumulation of debt obligations must accept that reality. No amount of tax rate hikes and new taxes will raise any appreciable amount of additional federal revenue. The tax side cannot solve our persistent deficit problem.

Only economic growth will do that, this paper argues, and its impact will be cumulative, over a period of years, and initially limited on an annual basis. There is no way to raise federal revenue rapidly at present. With the budget deficit currently so high and headed higher, the inability to achieve a rapid rise in revenues means all the reforms will have to be on the spending side—unless the government chooses the catastrophic course of devaluation of its debt through monetary inflation. There is no other option. Until policymakers and the public accept that reality, there can be no serious progress toward reduction of the rising federal deficits and national debt.

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Federal Deficit and Debt Trends

The U.S. federal government budget has been on a new and alarming trajectory since the onset of the COVID-19 lockdowns in 2020. The revenue and spending trends changed significantly at that point, raising annual federal spending by approximately $2 trillion, a one-third increase. That is an unprecedented rise in spending during a period without a war or economic depression.

In the fourth quarter of Fiscal Year (FY) 2019, the federal government spent at an annual rate of approximately $4.8 trillion. In the fourth quarter of 2023, government spending reached an annual rate of about $6.4 trillion, a 33.3 percent increase over four years. In fiscal year 2023, the federal government spent 38 percent more than it took in in taxes, a deficit of $1.7 trillion.[1] The national debt at the end of FY 2023 was $33.2 trillion, an increase of $6.2 trillion, or 23 percent, since 2019. That was 95.4 percent of national gross domestic product (GDP). The average for the 10 years before the pandemic was 71.0 percent.[2]

Federal government revenue was $4.47 trillion in FY 2023, up 7.7 percent from the $4.15 trillion of FY 2019. The peak revenue year was 2022, at $5.29 trillion. This $820 billion decrease in only one year, a 15.5 percent drop in federal revenue, reflects a historical truth about tax rates and revenues, which we will explore in this paper and which determines that there is only one way to reduce budget deficits and put the national government on a sound fiscal course.

Projections of upcoming deficits and accumulation of debt under current federal fiscal policies are dire. The Congressional Budget Office (CBO) forecasts federal debt under current obligations will rise to $46.4 trillion in 2033,[3] less than a decade from now.

Deficits

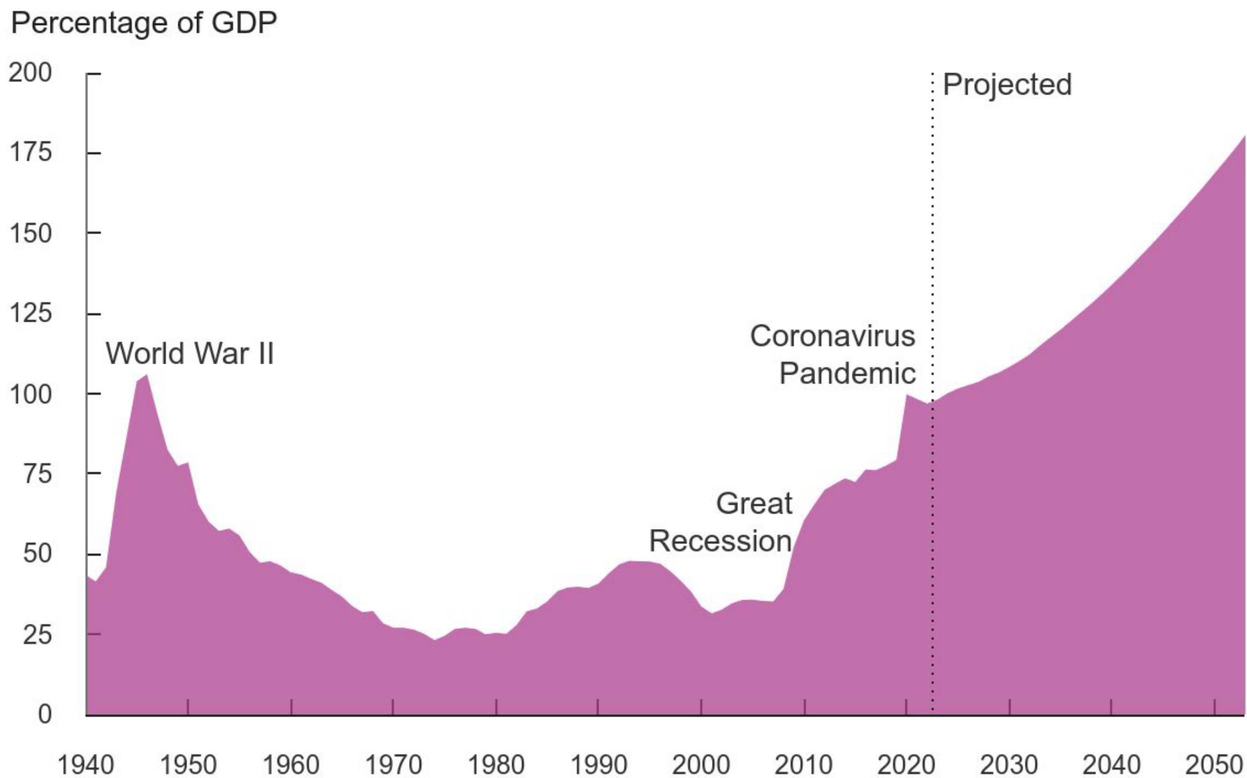
In CBO's projections, the deficit equals 5.8 percent of gross domestic product (GDP) in 2023, declines to 5.0 percent by 2027, and then grows in every year, reaching 10 percent of GDP in 2053. Over the past century, that level has been exceeded only during World War II and the coronavirus pandemic. The increase in the total deficit results from faster growth in spending than in revenues. The primary deficit, which excludes interest costs, equals 3.3 percent of GDP in both 2023 and 2053, but the total deficit is boosted by rising interest costs.

Debt

By the end of 2023, federal debt held by the public equaled 98 percent of GDP. Debt then rises in relation to GDP: It surpasses its historical high in 2029, when it reaches 107 percent of GDP, and climbs to 181 percent of GDP by 2053. Such high and rising debt would slow economic growth, push up interest payments to foreign holders of U.S. debt, and pose significant risks to the fiscal and economic outlook; it could also cause lawmakers to feel more constrained in their policy choices.

The CBO's chart of federal debt as a percentage of GDP shows the historically unprecedented nature of the current fiscal situation and highlights the fact that the present problem is a long-term, ingrained result of policies instituted at the end of George W. Bush's presidency and intensified during Barack Obama's presidency, all in the wake of the Great Recession of 2008 (see fig. 1).

Figure 1: Federal Debt Held by the Public



Source: Congressional Budget Office

Note that these projections assume an implausible rise in federal revenues as a percentage of GDP from the historical average of 17.4 percent in 1973 to 2022 to more than 18 percent starting in 2027 and rising from there. We will examine that assumption below.

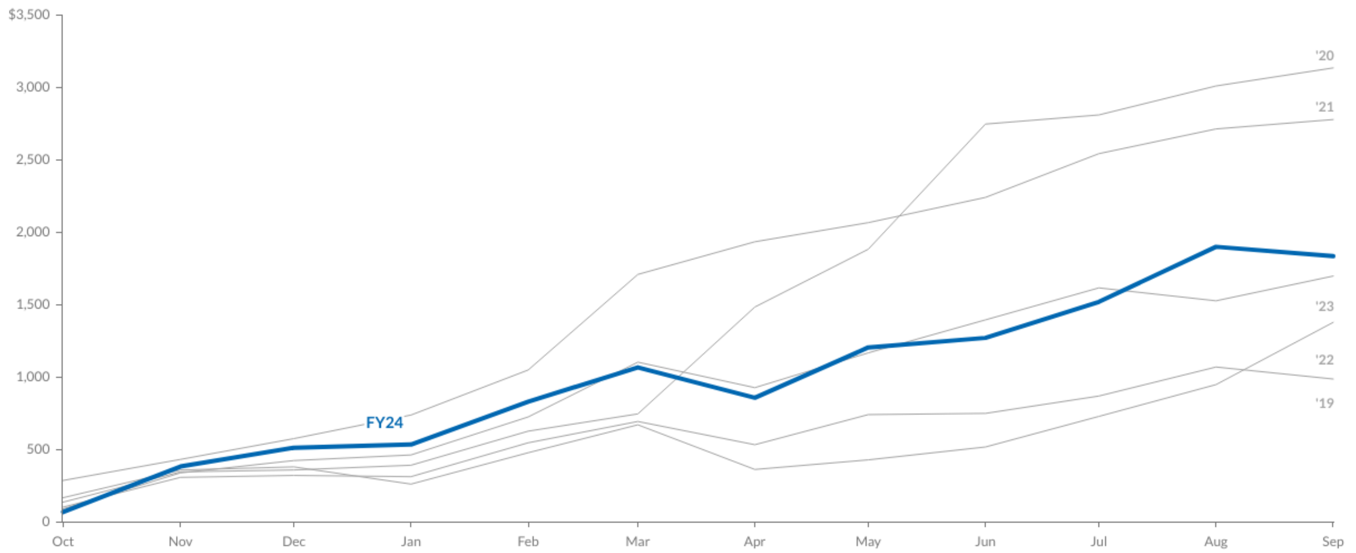
As the chart shows, the federal government responded to the pandemic by greatly increasing the budget deficit and federal debt. Then, after a brief correction back toward pre-pandemic fiscal policy at the end of Donald Trump's presidency, the government resumed its spending increases, heading on a budget path similar to that of the Obama administration. This has continued to the present, as a chart from the Peter G. Peterson Foundation illustrates[4] (see fig. 2).

The borrowing is a result of huge federal spending increases, far above the January 2017 to January 2020 trendline (see fig. 3).

"As the chart shows, the federal government responded to the pandemic by greatly increasing the budget deficit and federal debt. Then, after a brief correction back toward pre-pandemic fiscal policy at the end of Donald Trump's presidency, the government resumed its spending increases, heading on a budget path similar to that of the Obama administration."

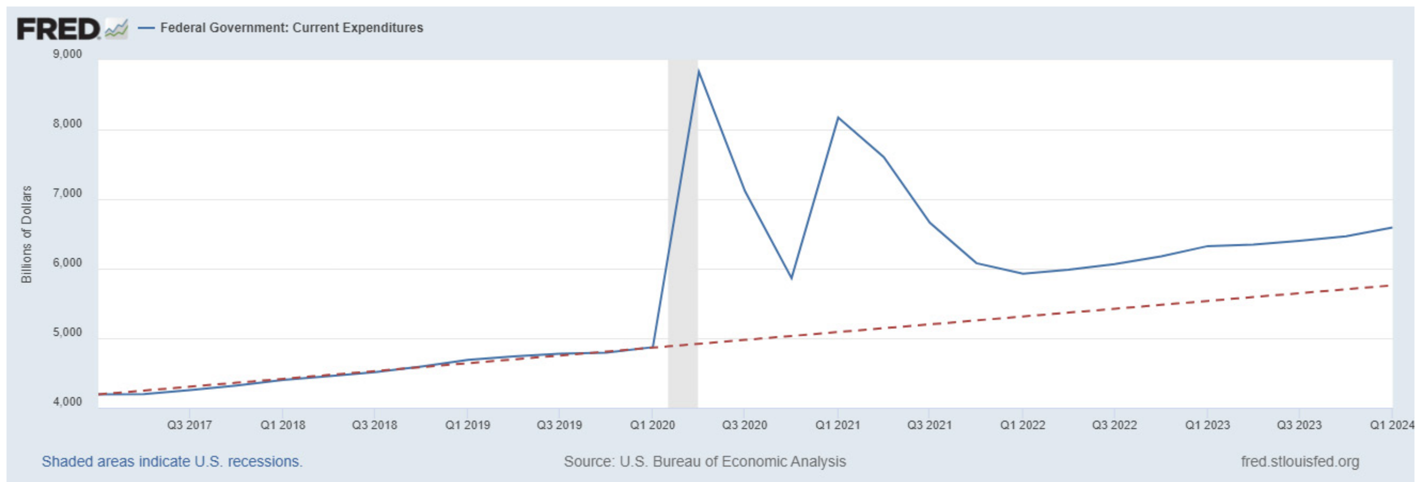
Spending has not come back down since the end of the pandemic. Meanwhile, real, after-tax per capita income has recovered only slowly after a big post-pandemic decrease and remains significantly below the 2017 to 2020 trendline (see fig.4).

Figure 2: The FY24 Deficit Generally Tracked the FY23 Deficit



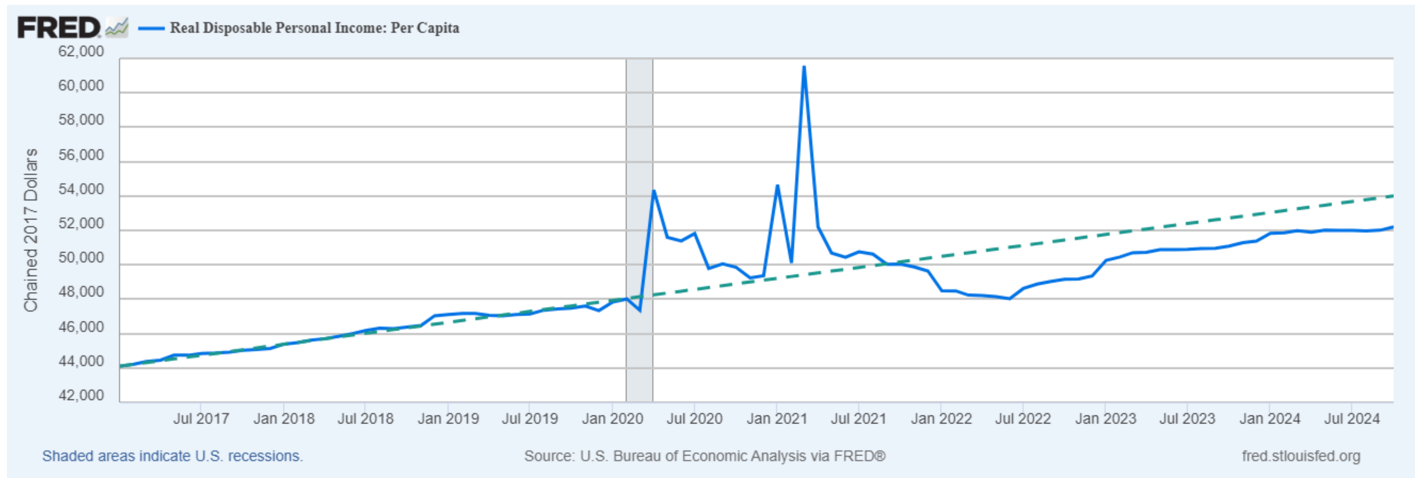
Source: Peter G. Peterson Foundation

Figure 3: Expenditures of the Federal Government



Source: author, using data from St. Louis Fed, https://fred.stlouisfed.org/

Figure 4: Real Disposable Personal Income Per Capita



Source: author, using data from St. Louis Fed, https://fred.stlouisfed.org/

Figure 5: Federal Surplus or Deficit

Source: author, using data from St. Louis Fed, https://fred.stlouisfed.org/

For context, Figure 5 shows what federal spending and revenues have looked like since the beginning of the twentieth century (the federal income tax was imposed in 1913).

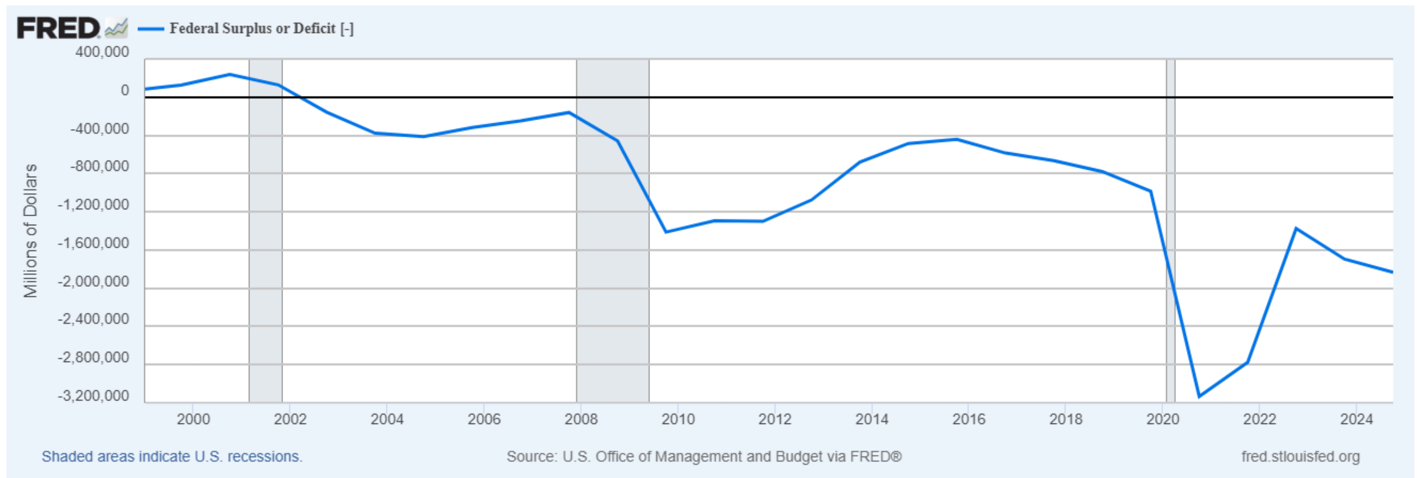
To focus on the current situation, Figure 6 shows what the past quarter-century looked like.

A graph from the Committee to Unleash Prosperity illustrates the ever-greater share of the U.S. economy the national government has consumed since 2008 (see fig. 7).[5]

The budget deficit has reached a crisis level, *The Center Square* reported in November of 2023[6]:

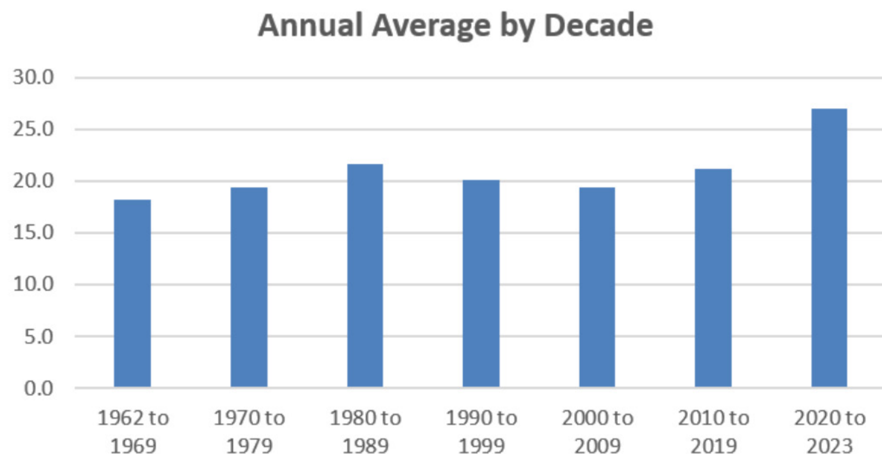
> The cost of borrowing money is taking up a larger share of the federal budget, which along with the rising costs of Social Security and Medicare, are driving up the national deficit.

Figure 6: Federal Surplus or Deficit



Source: author, using data from St. Louis Fed, https://fred.stlouisfed.org/

Figure 7: Federal Outlays As a Share of GDP



Source: Committee to Unleash Prosperity

Interest costs on the country's $33 trillion debt increased 23 percent to $879 billion in fiscal 2023—a record high. Interest costs accounted for 14 percent of total federal spending in September 2023, and the cost of maintaining the federal debt is forecast to surge further in coming years. The Congressional Budget Office released projections in June that showed interest costs would "exceed all mandatory spending other than that for the major health care programs and Social Security by 2027, all discretionary outlays by 2047, and all spending on Social Security by 2051."[7]

High government debt has multiple adverse consequences. In a study published in the *Cato Journal* in 2021, Mercatus Center Research Associate Jack Salmon notes that a review of 40 empirical (not theoretical) studies published from 2010 to 2020 on the effects of government debt shows high levels of public debt have a negative effect on economic growth in both the short and long terms.[8]

All parties accept that the current budget deficits and debt are not sustainable. The disagreement is over how to slow the increase: raise taxes, cut spending, or both.

Calls for Tax Increases

Throughout his term in office, President Joe Biden repeatedly called for tax increases, concentrating on "the wealthiest Americans," to close the budget gap.[9] Vice President and 2024 Democrat presidential candidate Kamala Harris endorsed that approach. Biden proposed to double the capital gains tax, to 39.6 percent. Biden also wanted to raise the top income tax rate by 2.6 percentage points and place a minimum tax on billionaires. Biden further proposed increasing the top payroll tax for Medicare to 5 percent from the current 3.8 percent, an increase of nearly one-third, along with other suggestions for tax hikes.

Harris likewise advocated numerous tax increases. "The Harris campaign officially endorsed the laundry list of new and higher taxes included in the Biden-Harris administration's fiscal year 2025 budget, a plan that would increase taxes by $5 trillion over ten years," Americans for Tax Reform (ATR) reported in August 2024.[10,11] The list included:

- Raising the tax rate on small businesses to 39.6 percent from 37 percent
- Raising the corporate tax rate to 28 percent from 21 percent, an increase of one-third
- Raising the top tax rate on capital gains: "[T]he proposals would increase the top marginal rate on long-term capital gains and qualified dividends to 44.6 percent," the Biden-Harris budget stated. That would be more than double the rate in China, and the rates would have been much higher in some U.S. states: 57.9 percent in California, 55.3 percent in New Jersey, 54.5 percent in Oregon, 54.4 percent in Minnesota, and 53.4 percent in New York.
- A 32 percent increase in the top tax for Medicare
- A second death tax, on unrealized appreciation in assets, in addition to the regular death tax
- Joining an international agreement to impose a global minimum tax of 21 percent per year on all U.S. businesses, significantly higher than the 15 percent tax the Organization for Economic Co-Operation and Development had proposed
- Quadrupling the 1 percent tax on stock buybacks, which would hit Americans' retirement accounts
- An estimated $37 billion in new taxes on U.S. oil and mining extraction
- $24 billion from a cap on retirement benefits
- A 30 percent federal excise tax on electricity used for cryptocurrency mining

In addition to those tax hikes, Harris endorsed an unprecedented tax on "unrealized capital gains," essentially a wealth tax, for high-income individuals. "The Harris-endorsed budget calls for an annual 25 percent minimum tax on the unrealized gains of individuals with income and assets exceeding $100 million," ATR noted. "Once in place, it won't be long before the threshold is lowered to hit more and more Americans." Add in inflation on top of that, and rapidly increasing numbers of Americans would be paying inflated taxes on imaginary gains they have not received as income.

The budget deficit for FY 2024 was $1.83 trillion, 6.4 percent of GDP, according to the CBO.[12] The CBO forecasts an annual deficit of $2.7 trillion in 2033, 6.9 percent of GDP.[13] If implemented and successful in raising the expected revenue, Harris's proposed tax increases averaging $500 billion a year over 10 years would cover less than one-fifth of the projected 2033 annual deficit, assuming no spending increases.

The (Hard) Revenue Limit

The proposed tax hikes would certainly not raise the projected revenue. *Since the end of World War II, the federal government has never been able to increase tax revenues as a percentage of GDP for any length of time by increasing tax rates.* There is a natural limit on what the U.S. government can take from the American people each year, and nothing the government has tried over the past eight decades has ever been able to change that.

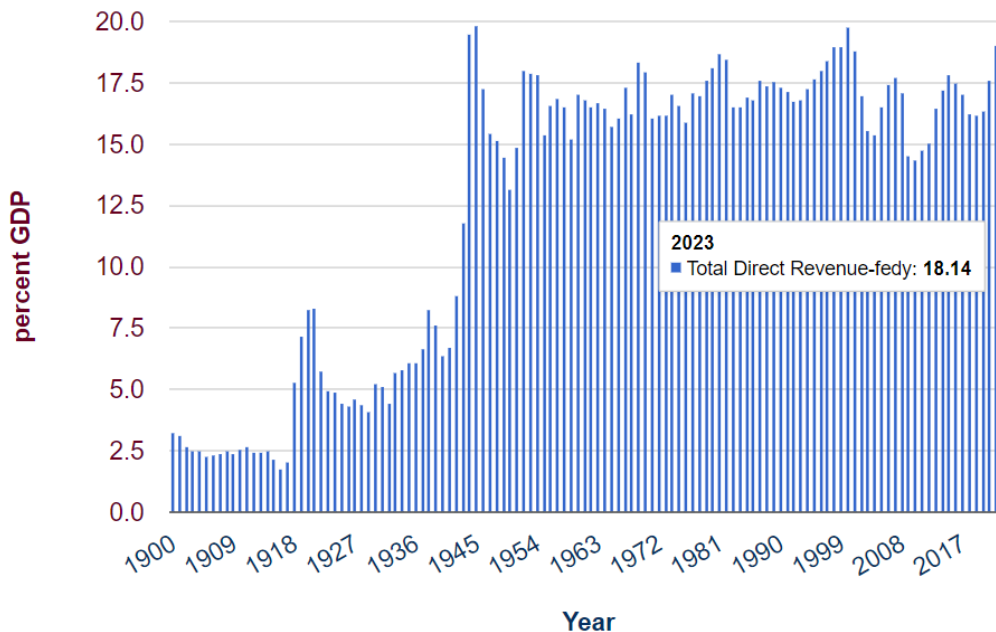
Federal revenue has historically hovered around 17.4 percent of GDP for the past 75-plus years, no matter what the tax rates have been (see fig. 8).[14]

It's essential to recognize that the deviation from 17.4 percent at any point in time is only a percentage point or two, as the chart shows. You cannot expect to get 35 percent of GDP for even a quarter of a year, much less a year or multiple years, no matter what tax rates you charge and how many different taxes you levy. The government has tried multiple options over the decades, and the outcome is always the same. You can get 18.5 percent for a few months, but revenue will gravitate back toward 17.4 percent of GDP very soon—and probably drop below that number for a while.

Notice that the graph lists revenue for FY 2023 at 18.14 percent. Federal tax revenue was already falling at that time: "Uncle Sam's tax collections were down 26% in April compared to last year at the same time, according to new estimates Monday by the Congressional Budget Office that offer a worrying picture about the state of government finances," *The Washington Times* reported in May 2023.[15]

Federal revenue has historically been about 17.4 percent of GDP since World War II, regardless of how high or low tax rates have been.

Figure 8: US - Total Direct Revenue



Source: usgovernmentrevenue.com

Tax Rates versus Tax Revenues

The pursuit of ever-higher "taxes" through higher tax rates on more things fails because of a category error. Raising tax *revenues* and raising tax *rates* are two different things. Likewise, cutting taxes and cutting tax rates are two different things. Raising tax rates never raises the federal government's revenues above 17.4 percent of GDP for long. Federal spending can go as high as Congress, the president, and the public want it to go, but revenue will not obey their commands.

In general, and over time, "raising taxes" lowers federal government revenue. On the otherhand, although it may seem counterintuitive, "cutting taxes" increases federal government revenue. That is so because "raising taxes" is always taken to mean "raising tax rates," and "cutting taxes" is conceived as "cutting tax rates." Revenues do not follow rates in the way politicians hope they will.

There are multiple reasons why this occurs, though they all rely on a simple truth: the more you tax something, the less you get of it. Unless the government chooses to force people to generate incomes (and good luck with that), raising taxes on an activity will reduce the total amount of the taxed activity. Raising taxes on various forms of wealth will reduce the amount of those types of wealth that can be reported to authorities. Raising taxes on particular goods and services will reduce production and purchase of those goods and services.

Those reductions occur at the margins, of course, affecting current activities that will be taxed in the future, and they are not necessarily full. Highly taxed people will continue to generate incomes through work and investments, though they will gravitate toward lower-taxed forms of income.

Hidden Tax Cuts

Many politicians recognize this, and they commonly work with high-taxed people to ensure that the latter do not reduce their income-generating activities and wealth-generating investments by too much. What that involves is essentially tax cuts for the rich, in complicated forms calculated to make it look like taxes are high, though they are not. Writing at *Law & Liberty*, economic historian Brian Domitrovic, Ph.D., the Richard S. Strong Scholar at the Laffer Center, notes that high tax rates are often softened considerably by large tax deductions[16]:

> One can gainsay 1950s prosperity, call it a myth. … And yet there were all the houses, the cars, the corporate jobs, the vacations, the inventions, "*The Life!*" as [journalist] Tom Wolfe marveled while watching throngs of kids from that time cruising the ice cream shops and drive-ins at night, the scene exuding high-Roman levels of apex mass prosperity. We did not get this—halcyon days—while in any material way having high tax rates. We got this while not enforcing high tax rates due to high deductions, by making nosebleed numbers on a tax table inapplicable and irrelevant.

Before the Kennedy tax cut of 1964, official tax rates were very high, yet the government's revenues from personal income taxes were much lower, Domitrovic notes:

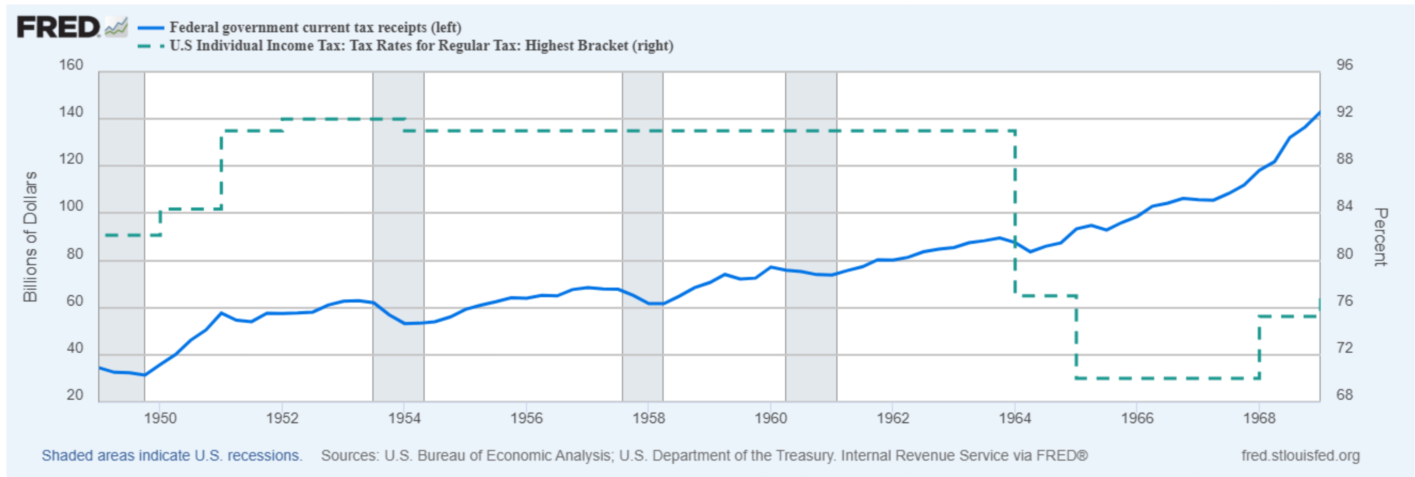
> Personal income tax rates ran from 20 to 91 percent. The corporate rate was 52 percent. The capital gains rate was 25. The tax on top estates was 77. Personal income and corporate income is national income. The tax take was 16 percent.

Figure 9 illustrates how the Kennedy tax rate cuts created major tax revenue increases.

Figure 10 shows the effects of the Kennedy, Reagan, and Trump tax rate cuts on economic output as measured by real GDP.

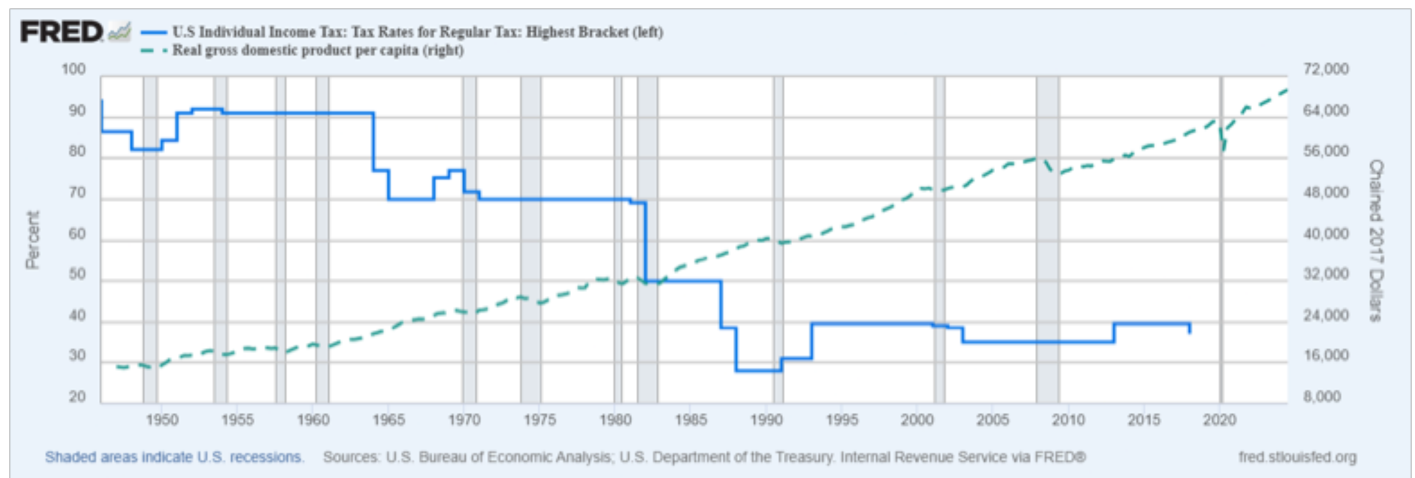
An important factor in the tax rate and revenue equation is that there can be a big difference between the top stated tax rate and what people actually pay. "When we look at income taxes specifically, the top 1 percent of taxpayers paid an average effective rate of only *16.9 percent* in income taxes during the 1950s," Scott Greenberg noted in a 2017 article for the Tax Foundation.[17] Greenberg explains:

Figure 9: Federal Govenment Tax Receipts vs. Tax Rates



Source: author, using data from St. Louis Fed, https://fred.stlouisfed.org/

Figure 10: US Tax Rates vs. Real GDP Per Capita



Source: author, using data from St. Louis Fed, https://fred.stlouisfed.org/

There are a few reasons for the discrepancy between the 91 percent top marginal income tax rate and the 16.9 percent effective income tax rate of the 1950s.

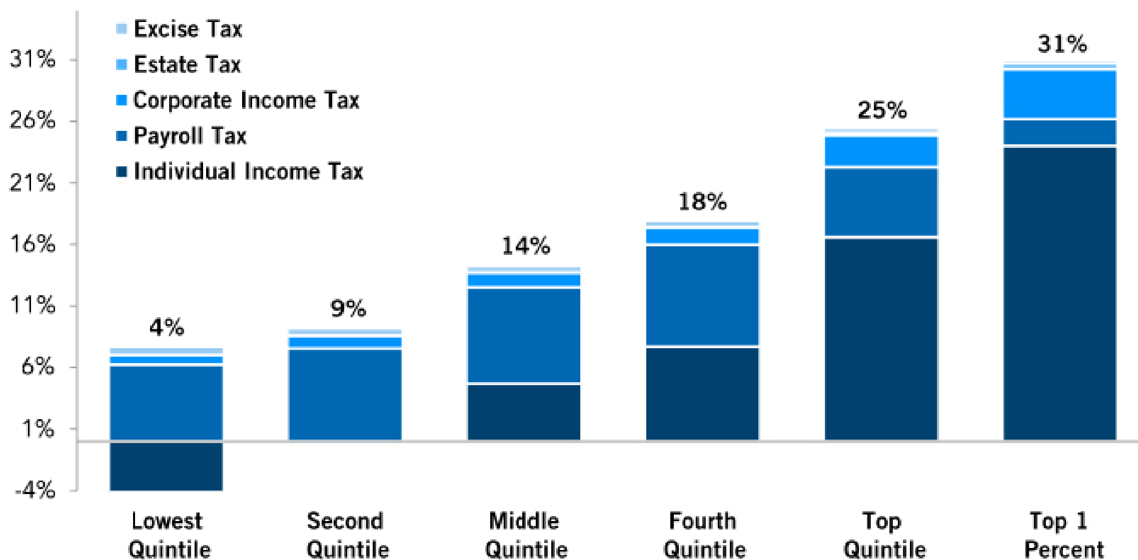
- The 91 percent bracket of 1950 only applied to households with income more than $200,000 (or about $2 million in today's dollars). Only a small number of taxpayers would have had enough income to fall into the top bracket—fewer than 10,000 households, according to an article in *The Wall Street Journal*. Many households in the top 1 percent in the 1950s probably did not fall into the 91 percent bracket to begin with.

- Even among households that did fall into the 91 percent bracket, the majority of their income was not necessarily subject to that top bracket. After all, the 91 percent bracket only applied to income above $200,000, not to every single dollar earned by households.
- Finally, it is very likely that the existence of a 91 percent bracket led to significant tax avoidance and lower reported income. There are many studies that show that, as marginal tax rates rise, income reported by taxpayers goes down.[18] As a result, the existence of the 91 percent bracket did not necessarily lead to significantly higher revenue collections from the top 1 percent.

The years 1951 to 1954 in Figure 9 illustrate Greenburg's last point, with revenue going stagnant and then dropping rapidly in response to the tax rate hikes. The tax-relief provisions noted above are thus a practical matter and not (necessarily) a conspiracy by governments to keep the rich from "paying their fair share of taxes." The Tax Policy Center estimated that in 2022, the top 1 percent of income earners in the United States "contribute[d] 26 percent of all federal revenues collected."[19] Having the 1 percent pay taxes at 26 times their share of the population might not be enough to satisfy Antifa radicals and liberal arts professors, but it is certainly a progressive tax system, as the Peterson Foundation notes in finding the top 1 percent paid an effective tax rate of 31 percent in 2022 (see fig. 11).

Figure 11: All Income Groups Pay Taxes, But Overall the U.S. Federal Tax System is Progressive

EFFECTIVE FEDERAL TAX RATE (% OF EXPANDED CASH INCOME IN 2022)



SOURCE: Tax Policy Center, *Baseline Share of Federal Taxes*, October 2022.
NOTES: Individual income tax rates for the lowest and second quintiles are negative and are netted against the payroll tax rate. A quintile is one-fifth of the population. The breaks are (in 2022 dollars): 20% $30,000; 40% $58,500; 60% $103,800; 80% $189,200; 90% $276,100; 95% $398,100; 99% $982,600; 99.9% $4,439,400. The top quintile includes the top 1% of earners.

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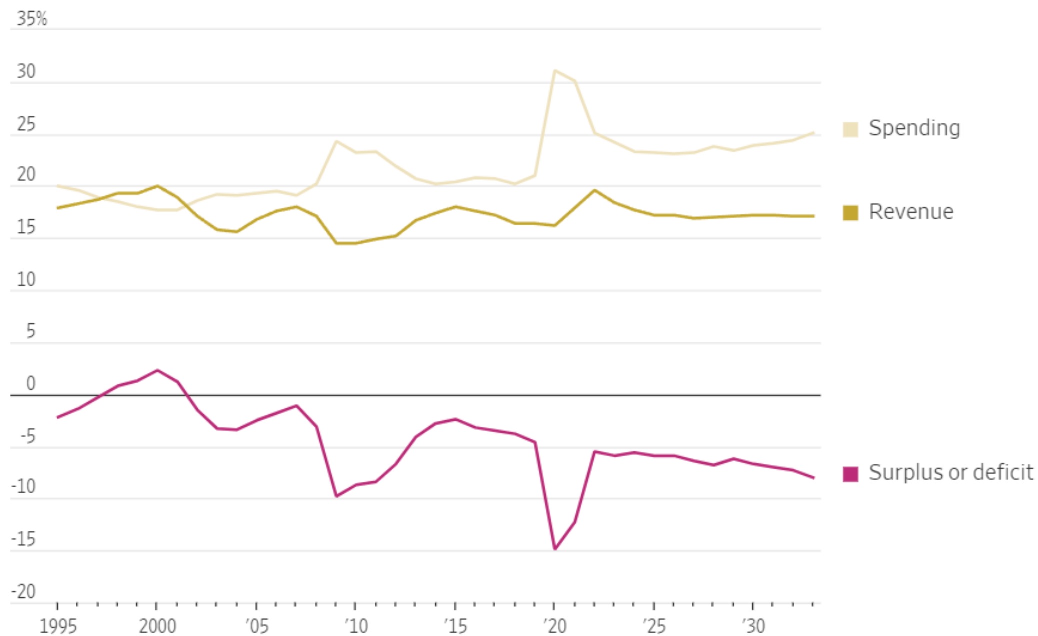
Source: Peter G. Peterson Foundation

Figure 12: Revenue, Spending, and Surplus or Deficits as Percentages of GDP



Source: *The Wall Street Journal*

Governments that do not provide backdoor tax relief through deductions do not get more revenue by that refusal. Instead, they cause people to gravitate to lower-taxed activities, move to other countries, or reduce their investments of money and effort because they do not pay well in after-tax terms. That reduces government tax revenues far below their potential.

Political Constraints

The Wall Street Journal U.S. tax policy reporter Richard Rubin conveyed the conventional wisdom in late 2023, arguing that Democrats and Republicans in Congress agree that the federal government should not increase taxes on most Americans and that this will lead to further increases in the budget deficit and federal debt[20]:

> Just as both parties agree that Social Security and Medicare, the two biggest federal spending programs, must not be touched, they also agree that income taxes on the overwhelming majority of Americans can go down but never up. That tacit, politically popular consensus keeps tax revenue as a share of the economy flat or declining in the long run while spending's share rises. It also locks in a permanent budget imbalance that both parties bemoan but neither seems eager to change.

Rubin is right in saying that tax revenue as a share of the economy (measured as GDP) is flat in the long run—it is not declining—but it is not true that the culprit is tax cuts and in particular the Tax Cuts and Jobs Act of 2017. After that reform, federal revenues rose, but spending rose more rapidly. Rubin is also correct to note that lawmakers continually try to buy votes by lowering taxes on lower- and middle-income Americans. That does major damage by divorcing voters' enthusiasm for spending from their caution about having to pay the

bills. When taxes are low and expected to stay that way because of powerful political headwinds, it is tempting, though obviously shortsighted, for people to support higher spending even though it creates high future debt burdens. A government benefit in the hand is worth many more than two burdens in the bush, to most voters.

Rubin does not mention this explicitly, instead concentrating on what he conceives to be a large reduction in potential tax revenue. As the figures show, however, tapping into that seemingly rich seam of middle-income earners' potential tax money will not raise federal revenues appreciably as a percent of GDP. As demonstrated above, federal tax revenue always ends up around 17.4 percent of GDP, regardless of what tax rates Congress and the president impose on various income brackets and different sectors of the economy. Rubin's article, in fact, supplies a graph that confirms this point (see fig. 12).

There is plenty that is wrong with our federal tax system, but neither repairing those defects nor exacerbating them will change the iron law of federal revenue: tinkering with tax rates and moving the tax burden around among the various income groups does not increase revenues as a percentage of the nation's economic output. Any attempt to deal with ongoing federal budget deficits and an excess accumulation of debt obligations must accept that reality.

How to Increase Revenues

There is one reliable way to increase tax revenues over the long term: economic growth. The only way to increase the federal government's revenues sustainably is to increase the tax base. The only way to expand the nation's tax base is through economic growth. A growing economy increases the size of the pie from which the government gets approximately 17.4 percent of GDP in tax revenue.

The only means the federal government has for spurring real economic growth are tax rate cuts and reductions of regulation. Cutting tax rates and reducing regulation will increase tax revenues over time, as demonstrated by the Kennedy tax (rate) cuts, the Reagan tax (rate) cuts, and the Trump tax (rate) cuts. What creates the inevitable subsequent budget deficits are new spending increases that always follow tax cuts the way wolves follow deer.

"There is one reliable way to increase tax revenues over the long term: economic growth. The only way to increase the federal government's revenues sustainably is to increase the tax base. The only way to expand the nation's tax base is through economic growth."

What governments should do is in fact the opposite: cut spending. Because of the ironclad law of tax rates not raising revenues above their normal percentage of GDP for any appreciable length of time, the only short-term solution to budget deficits is to cut spending. In fact, when cutting tax rates, it is essential that the government cut spending until the greater tax revenues arrive. Failure to do so creates an even worse debt spiral as the government cancels the rate cuts and increases tax rates repeatedly in a hopeless dream of trying to pry more tax revenue out of the public than is possible. The only way to free a government from a deficit and debt trap is to reduce tax rates and cut spending. That will provide the government with more money, in time, allowing lawmakers and the public to choose whether to spend more or pay down existing debt, or in what proportions to do so—but only later, after the increased revenue arrives.

That is exactly what happened in the 1990s, when the Republican Congress and President Bill Clinton cut government spending, as Domitrovic notes[21]:

> In the debate over the national debt, the silence over what transpired in the 1990s is deafening. President Clinton, with Newt Gingrich in Congress, consolidated the Reagan tax-reform rates in the low part of their range—especially on the corporate and capital gains side—and cut spending, if more disproportionately in defense.

> Budget surpluses emerged. The surpluses immediately quashed all concern, rampant in the 1980s, that Reagan's deficits would prove debilitating, in particular, as the common phrase went, for "our grandchildren." It became apparent that in a handful of years, by the early 2000s, the national debt, unthinkably large a few years before, was shrinking so quickly that the ordinary market demands for treasury debt instruments might have to be fulfilled by other securities.

Domitrovic argues that the solution to the federal debt crisis requires a return to the 2019 spending level:

> A balanced budget automatically eviscerates (amortize: "to kill") debt, since debt service is an outlay item within the budget. If the federal government reset spending to the ample levels of 2019 and reinitiated Reaganite tax reform, a debt-free twenty-first century can be ours, complete with levels of mass prosperity competitive with any in our history. Lower, not higher tax rates are consistent with a full expression of natural economic vitality and therefore the capacity of the country to meet its debt obligations with ease.

This century's ongoing budget deficits and massive increases in federal debt are caused solely by overspending and the excessive weight of government regulations on the economy. Raising tax rates will not increase tax revenues over the long term, and will instead decrease revenues below potential by suppressing economic growth and creating distortions in the economy. Cutting tax rates, by contrast, will increase revenue by expanding the economic pie from which the federal government claims its share. The logical way to do this is to reduce federal spending back to 2019 levels, or at most the inflation-adjusted 2019 figure instead of the actual 2019 number.

"President-elect Donald Trump's plan for a Department of Government Efficiency dedicated to identifying as much as $2 trillion in potential spending cuts and making recommendations for their implementation would do exactly what is needed, if the new Trump administration adopts those proposals and Congress, the courts, and the public allow them to go forward."

President Donald Trump's plan for a Department of Government Efficiency dedicated to identifying as much as $2 trillion in potential spending cuts and making recommendations for their implementation would do exactly what is needed, if the new Trump administration adopts those proposals and Congress, the courts, and the public allow them to go forward.

Conclusion

The hard limit on how much revenue the federal government can take in has nothing to do with desire, will, or corruption. It is an economic reality the government must accept, or the American people will pay an ever-higher price through greater government debt and lower economic output.

The only way to increase tax revenues over the long term is to expand the economy from which the government takes its taxes. Cutting tax rates and regulations will accomplish that, as history has repeatedly demonstrated. Cutting government spending is the only way to reduce deficits and debt. Unless and until lawmakers and the public accept the truth about the limits on potential federal revenue, the result will be ever-increasing deficits and debt along with the economic ills they create.

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Policy Recommendation

The only way to solve the federal budget problem is through tax rate cuts, spending cuts, and removal of all excess regulations on economic activity. Together, these will increase revenues, reduce spending, grow the econom, and allow paydown of the national debt over time.

"The only way to solve the federal budget problem is through tax rate cuts, spending cuts, and removal of all excess regulations on economic activity."

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