Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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How can the United States stop its fiscal nightmare?

The Biden administration created the largest fiscal imbalance in a period of growth, with record tax receipts. Furthermore, as Professor EJ Antoni and Dr. Peter St Onge point out, the economy has been in a recession for two years if we consider the adjusted inflation these economists use.

These adjustments understated cumulative inflation by nearly half since 2019, resulting in an overstatement of cumulative growth by roughly 15%.

The fiscal nightmare of the United States became evident when the federal budget deficit escalated to $1.8 trillion in fiscal year 2024, an increase of $138 billion, or 8 percent, from the previous year. This happened in a year of record tax receipts, as revenues rose by 11 percent, or $479 billion.

The problem is that expenses kept rising to a new record of $6.2 trillion—an increase of $617 billion from the previous year. Furthermore, the Congressional Budget Office highlights that the deficit would have risen to $2 trillion if the Supreme Court had not stopped other expenditures, notably the student debt relief plan.

In a period of peace and economic growth, a 6.4% budget deficit indicates the worst economic growth in the United States since the 1930s when adjusted for government debt accumulation.

Cut spending

There are many conclusions to draw from these figures: The average American citizen perceives the economy as not doing well due to elevated government-created inflation and rising taxes, which have caused the middle class to suffer and real wages to stagnate. More debt and more spending have bloated GDP but impoverished the nation.

An important conclusion is that there is no revenue measure that can eliminate the deficit. No tax increase can generate an annual and constant increase in tax receipts of $2 trillion. Furthermore, no tax increase measure can reduce the budget deficit and maintain economic growth.

> There are no unfunded tax cuts, there are unfunded spending hikes

Deficits and public debt are always a spending problem. Tax revenues are cyclical, and higher taxes will negatively impact the productive economy, investment, and real wages. The only way to end the fiscal nightmare of the United States is to cut spending.

However, if we look at aggregated figures, it seems that it is virtually impossible to find $2 trillion to cut. Keynesian macroeconomists make a very broad analysis and conclude that there is no room to cut. Additionally, they state that unfunded tax cuts will increase the deficit. There are no unfunded tax cuts, there are unfunded spending hikes.

Reducing the deficit to 2%

These two assumptions are simply inaccurate. Instead of cutting $2 trillion annually, the United States should aim to reduce the deficit to 2% or lower, which will significantly reduce the debt to GDP ratio as the economy strengthens.

Reducing the deficit to 2% can be achieved by letting Biden expenditure increases die, i.e., not be renovated, reducing staff and budget in agencies that conduct only administrative and political work, reducing regulation, and improving competition in healthcare by allowing some mandatory items, including Social Security and Medicare, to reduce expenses while improving their service.

We must remember that government spending soared for more than $2 trillion between 2019 and 2024 and is now almost $2 trillion higher than before COVID-19.

According to Chris Edwards at Cato, “together, transfers and aid to the states account for 76 percent of noninterest spending. Thus, aside from interest, three-quarters of the federal budget is a giant redistribution machine taking from taxpayers and giving to favored individuals, businesses, and state and local governments."

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Re-shaping a significant part of these transfers as tax deductions and addressing the inefficiencies embedded in the system will surely strengthen economic growth, improve the redistribution process, and reduce government spending.

When the Department of Government Efficiency (DOGE) begins its work, it will discover hundreds of relatively small budget items that cumulatively add up to a significant amount. Additionally, there is ample opportunity to reduce expenditures on activities that the private sector can implement.

While discretionary spending alone amounts to $1.7 trillion, the DOGE should scrutinize thousands of programs. Almost 20 percent of non-interest discretionary spending goes to more than 1,350 subsidy programs, and all of these should be audited.

Interest expense

Wherever possible, the administration should convert transfers to tax deductions. To enhance efficiency and cut down on bureaucracy, the government should shift state aid to direct funding from the states. Furthermore, it should scrutinize purchases to ensure the best price and involve the private sector whenever possible.

Interest expense, which is close to $1 trillion, is another important factor contributing to the budget deficit. If the United States starts to cut spending and controls the deficit, interest expense will decline rapidly.

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The Trump administration must make these cuts swiftly and rigorously. Gradual changes would only weaken the public finances further.

President Javier Milei in Argentina has proven that the government can cut a 6% deficit to a surplus and maintain it. To do it, the administration must act forcefully and immediately. Delaying the tax cuts will be detrimental to growth and jobs as well as real wages.

The United States must expedite the implementation of these budget cuts, just as fast as the Biden administration increased expenditure.

There is no such thing as unfunded tax cuts. Any tax cut means giving citizens more of their own money. However, there is a problem of unfunded spending increases.

If Trump, Bessent, Musk and Ramaswamy want to deliver a successful recovery of the economy and an example for the world, they must implement the budget reductions and tax cuts rapidly to end inflation and recover the health of the U.S. public finances.