

Children of Liberty on Ending the National Debt

Why is the COL Ending the National Debt Plan Best?

- The Children of Liberty (COL) act quickly. We have an innovative plan to end the annual deficit in a single year!
- We eliminate trust fund accounting, reducing the reported national debt by 28%, over 5 trillion dollars.
- The COL reform the budgeting process and support a balanced budget amendment that would help ensure continued balanced budgets, not adding to the national debt.
- We provide specific plans to reign in the four horsemen (Health Care, Defense, Entitlement Spending, and Debt) of the federal budget which are causing the rising debt.

A Big Picture Overview

- The COL do not believe it will take seven to ten years to balance the budget. Continued “long range” solutions have plagued our national government since the 1980s. The budget can and must be balanced in a single year. What is the solution? A new, innovative tax system that increases revenue WITHOUT INCREASING TAXES coupled with spending cuts.¹
- Our fiscal policy eliminates the current deficit of nearly \$700 billion and replaces it with a balanced budget. In year two, the government would run a budget surplus, paying down the debt for the first time in over 16 years!
- The COL eliminate the fiction of trust fund accounting showing an accurate report of the national debt and ending the falsehood of, “I will receive the benefits I paid in.” In reality, all programs simply are funded with taxes and fees paid by individuals in any accounting period.
- To help prevent future deficit spending, the COL:
 - Advocate a two year budgeting process, eliminating continuing resolutions and budget stalemates;
 - End debt ceiling debates and authorizations, which harm our national reputation and credit; and,
 - Support a balanced budget amendment that restrains but does prevent deficit spending when needed.
- The COL provide specific plans for restraining the growing costs of Health Care and Entitlement Spending. We also provide suggestions for reducing Defense spending.² Without plans to reduce costs, the budget, even when balanced, will quickly return to deficit spending.

¹ See *The Children of Liberty Plans Fiscal Policy, Spending Plan, and Tax Plan* for details.

² See *The Children of Liberty Health Care Reform, National Defense, Saving Social Security, Retirement, and Welfare Plan* for details.

Why is Immediate Change Required?

The cost of the annual debt payments is rising. If the economy enters a phase of strong economic growth, the rate of debt payments will rise even faster.³ Not only will continued deficit spending increase the debt, the interest rate on the debt itself will more than double. Currently, interest payments on the debt are the fourth largest program and account for six percent of all federal spending.⁴

1. The Debt Will Soon Force Significant Budget Changes

The White House estimates that interest payments will be the largest federal program by 2024.⁵ Three outcomes are possible. 1) Borrow more money at an even greater rate to pay the rising interest payments (borrowing money to pay the interest on the money already borrowed). 2) Reduce program costs like national defense, health care, welfare, social security, education, transportation, or national parks. 3) Raise taxes.

Both major parties currently promise not to significantly raise taxes. Both parties offer to increase spending. The major parties clearly promise, therefore, to continue to borrow money, bankrupting our future.

2. Rising Costs Are Magnifying the Program

The following programs currently are experiencing cost growths that exceed the inflation rate and will claim an ever increasing share of the budget: health care, social security and welfare spending (especially disability payments). Medicare grew 5.5% in 2015.⁶ Social security will grow by 57% over the next 15 years and the number paying for the program will decline by 14%.⁷ Medicaid grew 11%. Disability has grown over the last thirty years nearly 300%, outpacing the population which grew by only 135%.⁸ The cost of health care will continue to outpace inflation, and the Affordable Care Act will further magnify Medicaid costs. Medicare and Social Security Retirement will continue to rise as our population continues to age. Disability will continue to grow if the number of jobs in the United States does not grow substantially. Disability serves as a “back door” unemployment program.⁹

3. Foreseeable Issues Will Need Significant Cash Investments

The COL are not talking about sea walls to combat global warming or minimum income standards. Traditional challenges will be enough: paying down debt, possible war, and severe economic downturns, and the need for rebuild the infrastructure will require unforeseen expenses.

Immediate change is required.

³ <https://www.cbo.gov/publication/45684>

⁴ <https://www.nationalpriorities.org/budget-basics/federal-budget-101/spending/>

⁵ <http://blogs.wsj.com/economics/2015/02/03/the-legacy-of-debt-interest-costs-poised-to-surpass-defense-and-nondefense-discretionary-spending/>

⁶ <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html>

⁷ <http://www.ssa.gov/OACT/TR/2014/lr4b2.html>

⁸ <http://www.frbsf.org/economic-research/files/explaining-disability-growth.pdf>

⁹ <http://apps.npr.org/unfit-for-work/>

How does the COL Plan Reduce the National Debt?

Fundamentally, the only way to pay down the debt is to run multiple budget surpluses over an extended period of time. The hole dug over the last 30 years cannot and will not easily be filled. The COL tax plan and spending reforms will put us on the right track, but we feel, given the poor leadership in Washington, other measures need to be taken to help prevent Congress and the President returning us to the wrong track.

End Trust Fund Accounting

Why is ending trust fund accounting important?

First, it creates a false impression that social security has a separate budget and separate source of funds upon which to draw. It does not. We the people pay all taxes and must fund the cost of all program shortfalls. Since, the so-called "trust funds" actually contain no cash but simply contain treasury bonds, they are an accounting mirage. When the payroll taxes no longer fund the program costs, then general revenue is required to meet the shortfall. Government trust funds are a financial lie. Only three things exist in a government budget: tax revenue, program costs, and borrowing. The trust funds are empty.

Second, trust funds distort the national debt. There is the reported debt, and the actual debt or "debt held by the public." The reported debt as of September 30, 2016 is 19.57 trillion dollars but the debt held by the public is 13.66 trillion.¹⁰ Why does this matter? When the citizens compare our national debt to that of other countries, the reported debt number, not debt held by the public, is often reported.¹¹ We are NOT a Greece or Japan. Our debt to GDP ratio is much closer 80%, not 125%, making us comparable to other industrialized nations like Germany. By exaggerating the problem, trust fund accounting fosters the misimpression that the debt is too large to manage. Our debt is significant but not beyond reform . . . yet.

Reforming the Budget Process

Increasing unable to meet its most basic job duty, passing a budget, Congress fails "We the People." The current budget process requires significant reform.

- Since 1977, Congress has completed its budget process, on time, only four times and has NOT been successful since 1997.¹²
- We have seen 18 government shutdowns since 1976.¹³
- Since 1981, the United States has employed deficit spending 32 times with only 4 budget surpluses.¹⁴
- The last balanced budget was 2001.

¹⁰ <https://www.treasurydirect.gov/govt/reports/pd/mspd/2016/opds092016.pdf>

¹¹ <https://data.oecd.org/gga/general-government-debt.htm>

¹² Tollestrup, Jessica (23 February 2012). "The Congressional Appropriations Process: An Introduction" (PDF). Congressional Research Service. p. 12. Retrieved 24 January 2014.

¹³ "Start Getting Ready for the Next Government Shutdown". Bloomberg. 2013-10-10. Retrieved 2013-10-10.

¹⁴ <http://www.davemanuel.com/history-of-deficits-and-surpluses-in-the-united-states.php>

A constitutional amendment is required. See the next section, *COL Budgeting Reform Amendment Proposed Text*, for the actual amendment provisions. The amendment would do the following:

- **Section 1** (Budgeting Process)
 - Create a two year budget cycle, decreasing the time Congress spends on budgeting and
 - Mandate that the federal government operate within a budget by requiring the automatic adoption of the last balanced budget should Congress fail to act;
- **Section 2** (Budgets Should be Balanced)
 - Require that all budgets be balanced unless three-fifths (60%) of both Houses of Congress vote otherwise,
 - Prevent Congress from allocating money outside of the budget process unless two-thirds (67%) vote otherwise, and
 - Exclude borrowing from being considered revenue;
- **Section 3** (Presidential Budgeting)
 - Require the President to submit a budget to Congress;
- **Section 4** (Validity of the National Debt)
 - Prevent Congress from passing debt ceilings or any law that might prevent the Treasury from guaranteeing and paying the national debt; and
- **Section 5** (Mandating a Balanced Budget)
 - Require that the first two-year budget is a balanced budget, resetting the deficit spending cycle and providing a “fresh start” for all future budgets.

COL Budgeting Reform Amendment Proposed Text

Section 1

Congress shall pass a biennium budget that begins on the first of January every odd numbered year and shall pass the biennium budget by the first of September every even numbered year. Should a new biennium budget fail to be enacted into law by the end of an even numbered year, the last biennium budget where total outlays did not exceed total receipts shall be the biennium budget and law in like manner as if passed by the House of Representatives and the Senate and signed by the President.

Section 2

Total outlays for any biennium budget shall not exceed total receipts unless three fifths of each House shall otherwise approve. No additional money shall be drawn from the Treasury nor collected through taxation outside of the biennium budget unless approved by two thirds of each House. Total receipts shall include all revenue of the United States Government except those derived from borrowing. Total outlays shall include all money drawn from the Treasury. The Congress may rely on scientific estimates of outlays and receipts.

Section 3

The President of the United States shall submit to the House of Representatives by the first of March of every even numbered year a proposed biennium budget and may rely on scientific estimates of outlays and receipts.

Section 4

The validity of the public debt of the United States, authorized by law, shall not be questioned and shall require no further authorization nor subject to further limits imposed by the Congress.

Section 5

This article shall take effect beginning the next even numbered year after ratification. Total outlays shall not exceed total receipts in the first biennium budget.