



The Free Enterprise Nation

Unrestrained Spending, Debt and Taxes

POSITION PAPER

01.15.10

The Free Enterprise Nation, Inc.
1511 N. West Shore Blvd., Suite 700
Tampa, FL 33607
TheFreeEnterpriseNation.org

SUMMARY

In American football, there is a rule against “piling on.” Once the ball carrier has been tackled, numerous referees are in place to protect the ball carrier from being pummeled by opposing players. Unfortunately, there is no rule against “piling on” when it comes to the protection of the taxpayer in the United States. The American taxpayer supports 88,000 public sector institutions. Each has the ability to tax, or to charge fees or tolls, in order to obtain the funding it needs to carry out its assignment. There is no ultimate authority with the power to limit the total amount of taxes that can be levied by these institutions. The result is that each public sector entity independently determines its needs without reference to the total impact on the person or business being taxed. To make matters worse for the taxpayer, most of these entities are free to incur debt and liabilities that will automatically add even more burdens to the taxpayer with each passing year.

The combination of a huge pool of taxpayer-supported entities, together with the fact that each of them has a virtually limitless ability to incur debt, (including the ability to hide “off-the-balance-sheet” liabilities), has resulted in a massive and generally unrecognized impact on businesses and workers in the private sector. While federal spending and debt deservedly receives widespread attention, the combination of federal debt and deficits, when added to state, local, and public sector debt and spending, has created recognized and unrecognized debts that serve to put the taxpayer in an untenable position.

The national debt is purported to be \$12.3 trillion according to the federal government.¹ However, the “real” national debt, when unfunded “off-the-balance-sheet” items are added, has been estimated to be as high as \$56.4 trillion², \$99.2 trillion³ and \$103.3 trillion, depending on who is guessing.⁴ If the current “best guess” that federal debt is \$103.3 trillion is accurate, the average worker in the United States owes \$1 million. And that is just for federal debt.

The Congressional Budget Office estimates that over the next ten years, the budget deficit will be an unsustainable \$9.5 trillion,⁵ bringing total U.S. debt to 82% of the GDP, if unfunded liabilities for Social Security, Medicare and other entitlement programs are included.

During a meeting of the National Taxpayers Union, David Walker, former head of the Government Accountability Office, claimed “We suffer from a fiscal cancer” in that “Our off balance sheet obligations associated with Social Security and Medicare put us in a ...

¹ www.federalbudget.com

² www.pgpf.org/about/nationaldebt/

³ www.dallasfed.org/news/speeches/fisher/2008

⁴ www.dennistubbergen.com/

⁵ “Federal Budget Deficit Hits \$120.3 Billion”, December 10, 2009, CBS News.com

financial hole. America now owes more than Americans are worth-and the gap is growing!”⁶

States and local governments are also deeply in debt and also have huge “off-the-balance-sheet” unfunded liabilities. (See FEN report: [The Hidden Cost of Government](#)). While current non-federal explicit debt is an estimated \$2.5 trillion as of the end of 2009, the unfunded “off-the-balance-sheet” liabilities of their own pension and health insurance plans may exceed an additional \$3.5 trillion.

The fact is that no one actually knows what the real combined debt and long-term unfunded obligations of public sector entities are. While stated to be a total of approximately \$15 trillion, it is possible, even likely, that the actual debt is approximately \$110 trillion. What is remarkable is that the sum total of debt and liability that must be paid by the American taxpayer is unknown, and that even if the grossly-understated “debt” that is recognized by public sector entities were accurate, public sector entities continue to incur more debt each year without reference to the total impact that their collective deficit spending has on the American taxpayer.

The Free Enterprise Nation has identified Unrestrained Spending, Debt, and Taxes as one of the top economic threats to America in 2010.

SPENDING

The \$787 billion stimulus program has placed a huge burden on taxpayers. The intent may have been virtuous, but the reality is that it represents a spending frenzy that the government could ill afford, and story after story has unfolded about how those funds have been spent with little real value in return. Claims of hundreds of thousands of jobs “created or saved” have been questioned. Home buyer credits and Cash for Clunkers programs have been criticized as being misused.

Bailout money has led the government to now hold a majority ownership in GMAC, General Motors, Fannie Mae, Freddie Mac and AIG as well as a large share of Citigroup and Chrysler.⁷ And the \$871 billion health care reform bill looms as yet another expenditure on the horizon.

Yet despite our current deep recession, the government and public education sectors have not neglected their own salaries, benefits and pensions, with pay disparity

⁶ Fund, John. (2009, September 4). Warning: The deficits are coming! *Wall Street Journal*. Retrieved from <http://online.wsj.com/article/SB10001424052970203585004574392620693542630.html>

⁷ Appelbaum, B. (2009, December 31). U.S. takes majority stake in GMAC, giving lender \$3.8 billion more in aid. *Washington Post*.

between the public sector and the private sector an increasing inequity. While private sector employers have lost 6.9 million jobs since the beginning of the recession, the public sector has added 110,000 jobs, according to research done by the Nelson A. Rockefeller Institute of Government.⁸

Out-of-control spending is not confined to the federal government. State and local governments exhibit unrestrained spending as well. The state of Washington, for example, will be giving \$83 million in “step” increases in 2010 for 21,000 state employees, even though Governor Gregoire has proposed cutting \$1.7 billion from public education, healthcare and other state programs to meet their budget. In a quiet meeting, the Governor renewed labor contracts, and now the state will be held accountable for those raises until the 2011-2013 budget cycle.⁹

On the county level, officials in Nevada’s Clark County are worried over their general fund expenditures because public workers’ wages and benefits comprise nearly the entire amount: the county’s general fund is \$1.5 billion, and county payroll is \$1.2 billion.¹⁰ And on the local level, the city of Columbia, South Carolina, had to dip into its emergency reserves to the tune of \$24.7 million but still managed to give a combined \$5 million in pay increases to some of the city’s highest paid workers.¹¹

DEBT

Why is the “real” national debt almost more than ten times what the federal government reports?

In fiscal year 2009, the federal government incurred a record-setting deficit of \$1.4 trillion.¹² For fiscal year 2010, the federal government plans to spend \$3.5 trillion, leaving a deficit shortfall of an additional \$1.5 trillion.

There are substantial additional liabilities not included in the budget and therefore not reflected in the National Debt. The reason is a colossal flaw in the government’s accounting practices, which conceals trillions of dollars of debt that the government is essentially hiding from the public. This is accomplished by passing laws that allow government funds, such as the Social Security Trust Fund and the Medicare Trust Fund, to exclude their unfunded liabilities from the budget. This accounting practice is commonly referred to as “off-balance sheet” financing, the very accounting practice that gave Enron the appearance of being financially stable prior to its sudden collapse.

8 Cooper, M. (2009, August 20)/ Government Jobs Have Grown Since Recession. *The New York Times*.

9 Shannon, B. (2009, December 15). Raises in sight for some. *The Olympian*.

10 Schoenmann, J. (2009, December 30). Clark County cost-cutting ideas center on salaries. *The Las Vegas Sun*.

11 Beam, A. (2009, October 11). Pay soared along with deficits. *The State*.

12 William Ahern, “Can Income Tax Hikes Close the Deficit?”, October 22, 2009, www.taxfoundation.org

The National Center for Policy Analysis estimated that the 2009 unfunded liabilities for Social Security, Medicare Part A, Medicare Part B and Medicare Part D are estimated to be, respectively, \$17.5 trillion, \$36.7 trillion, \$37 trillion, and \$15.6 trillion, for an aggregate total of \$106.8 trillion¹³.

There are additional unfunded Government Sponsored Entity (GSE) liabilities not included in the federal budget. A GSE is a quasi-governmental entity established by Congress that creates, among other things, an inferred federal guarantee of obligations, such as Fannie Mae, Freddie Mac, and the U.S. Postal Service. The unfunded liabilities of Fannie Mae and Freddie Mac alone are estimated to be \$5 trillion but may be greatly underestimated as these two organizations continue the practice of lending to those who are not truly financially qualified to purchase a home. These known liabilities are not reflected in the national debt.¹⁴

In the unlikely event that the federal government wanted to reveal the “real” national debt, it appears to lack the capability to do so. Pursuant to the Government Management Reform Act of 1994, the Government Accountability Office (GAO) is required to audit the consolidated financial statements of the federal government. In 2008, the GAO reported that material weaknesses, which are significant deficiencies that result in the likelihood of misstatements on financial statements, among other things, “hamper the federal government’s ability to reliably report a significant portion of its assets, liabilities, costs and other related information” as well as “hinder the federal government from having reliable financial information to operate in an efficient and effective manner.” The GAO further reported that the federal government DID NOT maintain effective internal control over financial reporting and compliance with significant laws and regulations as of September 30, 2008. Additionally, as a result of the material weaknesses, the GAO was prevented from expressing an opinion from 1997 through 2008.¹⁵ This implies that the federal government is clearly unaware of its financial condition and unable to determine its true revenues, true liabilities and other related information. The federal government is violating and not complying with its own laws, and it has been unable to obtain clean, audited financials for the past 13 years.

State and local governments are accruing unsustainable debt as well. In Connecticut, the national state debt reached \$417 billion in 2008.¹⁶ Illinois is currently looking at an \$11 billion to \$12 billion 2011 budget deficit.¹⁷ And on the local level, Atlanta had \$1.2 billion in total unfunded pension liabilities for fiscal year 2009. Of its three pension plans, the general employees plan is in the worst financial condition, with \$634 million

¹³ www.ncpa.org

¹⁴ United States Public Debt, en.wikipedia.org

¹⁵ Robert F. Dacey, Chief Accountant, US Government Accountability Office, “Government Accountability Office Report”, December 9, 2008.

¹⁶ Fehr, S.C. (2009, October 30). Weekly wrap: Rating agency slams Conn. on borrowing. *Stateline*.

¹⁷ Hinz, G. (2009, October 21). Quinn wants \$14-billion U.S. loan guarantee. *Crain’s Chicago Business*

in liabilities. The police pension fund has unfunded liabilities of \$313 million, and firefighters have a pension fund with \$234 million in unfunded liabilities.¹⁸

TAXES

The federal government receives its revenue through taxation. Tax revenue comes in many forms, most significantly, from individual income tax, payroll taxes and corporate tax. According to the Tax Policy Center, approximately 80% of revenue dollars comes from individual income taxes and payroll taxes. Corporate income taxes contribute another 12 percent. The balance is made up of excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts (earnings of the Federal Reserve System and various fees and charges). The largest source of revenue, 45 percent, is generated by individual income tax.¹⁹

The spending programs outlined by the government will likely take their toll on taxpayers in a myriad ways. Individuals and companies, alike, will be hit with increased taxes to cover the unrestrained spending pattern that has been established.

Tax increases will hit small employers and taxpayers throughout the country. For example, small businesses in Florida are about to get hit with the highest unemployment tax ever faced. The depletion of the unemployment benefits trust fund has activated a record jump in the minimum annual rate charged to employers who retain employees, going from \$8.40 per employee to \$100.30 per employee.²⁰ And in California, the city of Atherton passed a \$750-per-acre parcel tax to help to pay police, administration and other public workers.²¹

CONCLUSION

There must be a recognition of the total debt and unfunded liabilities of all public sector institutions combined. The taxpayer must know what the sum total of all combined public sector costs and liabilities are, so that he/she can see the total tax obligation that exists. The level of federal, state and local government spending is clearly unsustainable.

The federal government must lead the way in creating a process that can prevent “piling on” by a combination of 88,000 taxing authorities. It must also clearly state federal debt

18 McWhirter, C. (2009, September 28). Pumped up pensions squeeze city. *The Atlanta Journal-Constitution*.

19 The Numbers, The Tax Policy Briefing Book, A Citizen’s Guide for the 2008 Election and Beyond, www.taxpolicycenter.org/briefing-book/background/numbers/revenue.cfm

20 Harrington, J. (2009, November 18). Florida employers face a huge jump in unemployment compensation taxes. *St. Petersburg Times*. <http://www.tampabay.com>

21 Jones, C. (2009, November 4). Most tax measures being approved. *The San Francisco Chronicle*.

and liabilities on one uniform balance sheet and create sustainable and restrained fiscal policy.

The Free Enterprise Nation advocates, as a first step, for the sound fiscal policy as reflected in the “Fiscal Year 2011 Federal Budget Resolution” to be considered by Congress in the Spring of 2010 and encourages its adoption by Congress.

