



FISCAL RESTRAINT

Every time the government spends a dollar it must also either tax, create, or borrow a dollar. Each option imposes a burden on the American people. Taxes deprive people of their earnings and suppress economic activity. When the Federal Reserve creates money to finance spending, it triggers inflation and higher prices, as was the case with the federal government's response to COVID-19. Finally, borrowing to finance deficit spending crowds out private borrowing, leading to higher interest rates on mortgages, car loans, and business operations. In short, Americans ultimately pay when the government fails to control spending. Fiscal restraint is key to affordability.

The problem of overspending took decades to take shape. Congress has consistently raised annual discretionary spending at a growth rate well above inflation plus population growth. But the largest driver of spending growth is autopilot spending, specifically on entitlement programs. Continuing to delay the reforms that these programs require to ensure solvency will only make the eventual adjustment more painful whether through higher inflation, higher taxes, or significantly reduced benefits. Continuing to delay reforms also raises the prospects of a financial or debt crisis.

Comprehensive Social Security reform is the only way to avoid large tax increases, abrupt benefit cuts to those most in need, and/or a severe fiscal crisis. The Disability Insurance program should also be reformed by shifting to a flat anti-poverty benefit.

Growth in health entitlement spending is the biggest projected driver of deficit *growth* in the coming decades. To restrain growth in spending, Medicare should be converted to a premium support model, and its eligibility age should rise gradually from 65 to 67, mirroring changes already made to Social Security. Benefits for wealthy retirees should be means-tested to preserve the program for those who truly need it. Medicaid should be converted to per capita caps that vary by covered population, and subsidies for able-bodied adults should be converted to premium support.

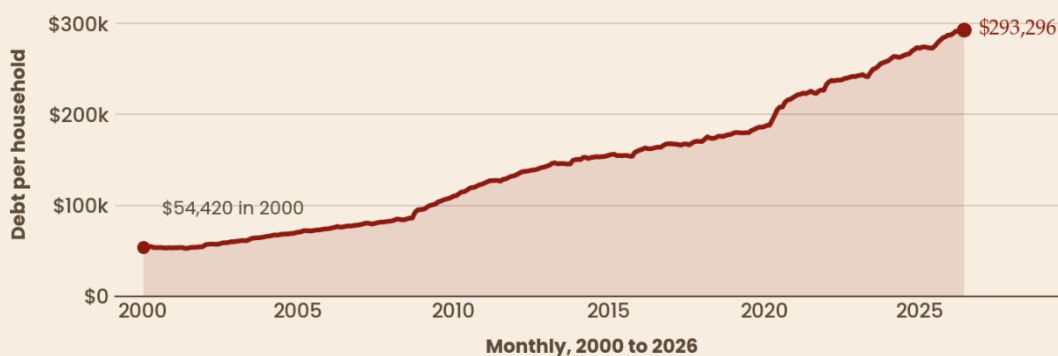
To ensure that Congress has the tools it needs to enforce fiscal restraint, appropriate mandatory programs should be converted to discretionary spending (and subject to annual appropriation). Biases in the budget scoring in favor of higher spending should also be eliminated to make spending restraint more politically plausible.

It's essential that Congress gets its fiscal house in order. If it does, it will help the American people to keep their fiscal houses in order.



The federal debt has risen to roughly \$293,000 per household

Total public debt outstanding divided by the number of U.S. households



Sources: U.S. Department of the Treasury, Debt to the Penny (Total Public Debt Outstanding); Total Households, TTLHMI56N — via FRED. AAF calculation: the daily debt reading nearest the 15th of each month, divided by that month's household estimate. Figures are nominal. The October 2025 household value is absent and interpolated.

COVID “Stimulus” checks were paid by American families through inflation

Transfer payments peaked in the first quarter of 2021. Inflation peaked 5 quarters later.



Sources: U.S. Bureau of Economic Analysis, Government Current Transfer Payments (A084RC1Q027SBEA); U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPIAUCSL) — via FRED. Transfer payments shown based on a seasonally adjusted annual rate. Inflation is the percentage change from a year ago.