PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

REDUCE FEDERAL SPENDING

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TOPLINE: Out-of-control federal spending has driven the Fed to rapidly grow the money supply to accommodate deficits, which, in turn, has driven persistent inflation.

BACKGROUND: In the late 1990s and early 2000s, Congress balanced the federal budget for four straight years and kept the national debt below $6 trillion. Since then, America's fiscal situation has imploded. The total national debt topped $40 trillion on August 18, 2026, and the government now borrows from the public (on net) at a rate of about $2 trillion every year (and rising). Roughly $17 trillion of the debt (about 42% of it) has accrued since the start of 2020.

The massive spike in federal borrowing since 2020 was caused by a huge increase in federal spending during and after the COVID-19 pandemic (federal receipts as a share of GDP have *risen* since 2019). In each of the six years leading up to 2020, federal expenditures were between $4 and $5 trillion. Since 2020, annual expenditures have exceeded $6 trillion every year and are projected to exceed $7.4 trillion in FY 2026.

The ongoing spending splurge has forced the Federal Reserve to choose some combination of higher inflation (through expansion of the money supply) and higher interest rates. Since the start of 2021, inflation has averaged nearly 4.5%, more than double the Fed's target. But increasingly, the excessive debt and spending are spilling over to higher borrowing costs, starting with higher interest rates on U.S. Treasuries (the 30-year Treasury yield hit a 19-year high in August 2026) and then higher rates on business loans and mortgages. Net interest on the debt is projected to exceed $16 trillion over the next decade.

Action Items (Congress and the President):

- **Face the elephant in the room: Bend down the growth curve of entitlements**.
  - Social Security, Medicare, and Medicaid comprise well over half of non-interest federal spending (and rising) and must be reformed to survive.
- **Return most categories of non-defense, discretionary appropriations to 2019 spending levels,** adjusted for inflation and population increases.
  - This could immediately reduce spending by $100 billion and by trillions of dollars in the long run.

Eventually, Federal Spending Comes out of People's Pockets One Way or Another:

- ***Taxes***: Americans will pay roughly $5.5 trillion in federal taxes in FY 2026.
- ***Inflation***: The 3.7% PCE annual inflation Americans face (as of June 2026) amounts to a more than $800 billion growth in consumption spending per year.
- ***Borrowing Costs***: The average 30-year mortgage rate is up 2.7 percentage points since 2019—about $150,000 in total extra interest payments on a $250,000 loan.

BOTTOMLINE: The federal government has made life less affordable largely by spending too much of the American people's money.