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# Economic Policy Institute

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## FEDERAL BUDGETERS FAILING ARITHMETIC

### New fiscal policy needed to avert train wreck

Come January, whoever occupies Washington's most exclusive real estate will face two urgent, daunting, and politically sensitive clean-up tasks: bringing peace to Iraq and defusing the time bomb that has been planted inside the federal budget by years of misguided fiscal policy choices.

The second of those tasks is explored in a new report released today by two Economic Policy Institute experts, research director Lee Price and economist Max Sawicky. ***The Budget Arithmetic Test*** offers a detailed picture of the current federal budget and where it is headed, a critique of the failed policies that sent us down this path, and recommendations for putting our economic house on a more solid foundation.

"The federal budget is being destabilized by an explosive concoction of huge tax cuts, unmanageable deficits, and fiscal policy that systematically ignores the rules of arithmetic," said co-author Price. "Unless the President and Congress sit down and do the hard work of creating a fiscally sound budget and policy, it will surely blow up in our faces."

### NEWS CONFERENCE CALL FOR JOURNALISTS, NOON (ET), TUESDAY, OCTOBER 12

**Join authors Lee Price and Max Sawicky of EPI to discuss  
*The Budget Arithmetic Test***

**To join the call and receive the toll-free line and password, please contact EPI at  
(202) 775-8810 or [news@epinet.org](mailto:news@epinet.org)**

Among the budget facts laid out by the authors are these:

- The \$549 billion decline in the budget balance since 2001 is the largest three-year decline since World War II.
- Under current policies, the growth of federal debt is unsustainable. Virtually all of the federal government revenues will be eaten up by payments for interest on the debt, the military, and entitlement programs like Social Security and Medicare. This would leave the government without revenues to pay for other programs in areas such as education, law enforcement, the courts, environmental protection, veterans' affairs, aid to states and localities, health care, drought relief, agricultural programs, and many others – currently about 18% of the federal budget. The result would be a forced choice between two equally undesirable alternatives: even larger deficits or major and unpopular policy changes shunned by both parties.

*-More-*

- On the spending side, the real problem areas are defense and health care, not Social Security.
- Health care spending growth presents an economy-wide problem, not just a budget problem.
- On the revenue side, taxes have hit historically low, unsustainable levels that, if unaddressed, will thwart government's ability to provide expected and essential services.

“The budget is fundamentally broken and the old politically motivated remedies can't fix it,” said Sawicky. “Difficult political compromises will be required amidst a tangle of political ‘third rails’: renunciation of the false god of balanced budgets, cuts in defense and entitlements, and tax increases.”

Among the remedies proposed by the authors are these:

- Balancing the budget within ten years is not realistic or necessary. What is essential is a series of steps to bring the deficit down to a manageable size and to keep it from ballooning out of proportion again. Balancing the budget without changes to defense, entitlement, or tax policies would necessitate an unthinkable gutting of domestic programs.
- Constraints on spending in defense and health care, as well as increased tax revenues, will *all* be necessary.
- Maintenance of domestic discretionary (that is, non-defense, non-entitlement) spending will be vital for social welfare and economic growth.

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***The Economic Policy Institute is an independent, nonprofit, nonpartisan research institute – or “think tank” – based in Washington, D.C. EPI researches the impact of economic trends and policies on working people in the United States and around the world.***