National Small Business Network

Fiscal Policy Reform for Economic Sustainability

NSBN Policy Recommendations for the 114th Congress

January 2016

At the end of the First Session Congress passed significant extensions of tax reduction incentives, a reauthorization of the transportation construction trust fund, increased FY2016 agency appropriations, and also increased the Federal borrowing limit. We supported those actions, but they did not resolve the growing national debt, by providing either off-setting revenue, or a more effective long term Congressional budget control process. The last budget agreement, and subsequent legislation without adequate pay-for provisions, has actually increased long-term debt projections. It is time for the Congress to focus on realistic long term solutions for our fiscal problems. These recommendations suggest a broad-based strategy for Congress to re-invent an efficient and stable federal fiscal process and re-build a sustainable American economy.

For our companion recommendations on tax reform see our Policy Paper on "Business Tax Reform for Economic Growth" on our website at www.NationalSmallBusiness.net.

The Growing Fiscal Threat

After years of deficit spending, 10% of last year's federal budget was spent just paying the interest on past spending, even at today's historically very low interest rates. Fiscal mismanagement from too much spending and too little tax revenue has put a burden of over $750,000 in Federal debt obligations on every American family. Federal spending is currently about 18.% of GNP but tax revenue is only about 17.5%. Last year's official deficit, alone, was over $680 Billion, for a total current sovereign debt of over $17.8 Trillion. This exceeds our entire annual Gross National Product, and is over 13 times total annual Federal Income Tax revenue. Even these amounts do not include the large unfunded future obligations for federal retirement benefits, veterans benefits, Social Security, Medicare, and Medicaid, which are currently estimated to be over $127 Trillion, or over 57 times total annual Federal tax revenue.

The status of the dollar as the world's reserve currency for international transactions is also being challenged, with potentially severe devaluation consequences if it loses that function. Our sovereign credit rating was downgraded by a major rating agency, with warnings from others. The IMF recently approved China's currency for international reserve transactions. The only thing protecting us from significantly higher interest rates for our national debt is the current weak demand for capital and the fact that other major countries have similar debt problems. If the Treasury average interest rate rises to only 5.5%, the annual interest on the current debt would be over $970 Billion and would consume 56% of all current Federal Income Tax revenue.

The broad "middle class" prosperity that drove our economy for the last 100 years is also disappearing as the "income gap" has widened and more of our national wealth is concentrated in the top 1% of the population. The top 1% of the population controls over 35% of total personal net worth and 43% of financial assets. From 1982 to 2011 the income of this the top 1% of the population increased from 12.8% of total personal income to 21.3%. The top 20% of the population now earns 50% of total income and the bottom 20% earns only 3.4%. As an individual's income increases, they generally spend a progressively smaller percentage of their disposable income on consumption which reduces the economic multiplier of their income on the general economy. This decline of the nation's middle class is resulting in declining total consumption and a permanent decline in jobs that depend on that spending.

<u>In the past, our technological innovation and high workforce skills increased individual productivity, and were a major factor in our manufacturing and economic growth.</u> Today, that advantage is rapidly declining as first the production, then the engineering, and now the research and development of new technologies has moved to other countries. The quality of our education system and the skills of our workforce are also declining in relation to other countries, particularly in key science and engineering areas. In addition, the world has become an open market for both consumers and investors. Much of our nation's individual and business investment is now being directed to stocks and bonds of foreign businesses that hire foreign workers and benefit foreign economies. Ironically, we continue to reward foreign investments with the same special income tax incentives on capital gains and dividends as direct investments made to start or grow an American business that hires American workers.

<u>Our current political process seems unable to confront and correct these fiscal problems, even though adequate information is available to recognize the problems and develop workable solutions.</u> Political conflict let these problems grow into a major recession with economic consequences that we are still facing. Although the scale is much larger, the government's problems of expense control, income generation, and maintaining credit worthiness are really no different than those faced everyday by America's businesses and families. If Americans can sacrifice to solve these problems as individuals, why can't we resolve our economic problems as a nation?

The following recommendations for action may not be politically easy to implement, but every year we fail to correct the problems, the consequences of inaction, and the costs of correction, grow larger. Collectively, these economic issues present just as much a risk to America, and our citizens' way of life, as any foreign military threat. Many members of the Congress served our country in the armed services. Overcoming these new economic threats will require the same patriotism, sacrifice, and a willingness to work together for the common good.

These policy recommendations are based on data from recent reports by the JCT, CRS, CBO, special Presidential Commissions, and other economic research organizations. Many of these background reports are available on the NSBN website at http://www.NationalSmallBusiness.net/issues.htm. This Policy Paper focuses on <u>using</u> the extensive information available to make <u>logical</u>, <u>information driven</u>, <u>non-partisan</u>, recommendations for re-inventing a sustainable federal budgetary process and a strong American economy.

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Budget and Fiscal Policy Reform Recommendations-

The Reform Objectives:
We share the general goals of the last President's Commission on Fiscal Responsibility and other deficit reduction research groups for progressively returning to a sustainable federal fiscal policy. Most have suggested an initial 10 year plan to progressively eliminate annual deficits and reduce the federal debt to 60% of GDP by 2025, and 40% of GDP by 2035, while keeping maximum total Federal tax revenues below 21% of GDP. We also share the conclusion of most other groups that deficit reduction will require both significant spending reductions and some revenue increases. We believe that about 50% to 60% of deficit reduction should come from tighter budget control over all areas of federal expenditures, including "entitlement" programs and military spending, with the remainder to come from additional tax revenue.

The recommendations which follow include both budget reform issues and broader policy decisions which have budget impacts, as well as logical tax policy and revenue reforms. We believe that building sustainable economic growth and reducing the debt will require action by the Congress in all these areas.

Budget and Fiscal Policy Reform Recommendations:

1. Budgeted Program Expenditure Control

The purpose of government is to provide a stable structure in which people can live and work, and to provide important services collectively that individuals cannot effectively provide for themselves. Unfortunately the federal budget has grown so large and complex that it is difficult for even the Congress to properly evaluate program effectiveness, or understand the long-term economic impacts of spending policies. Realistic budget decisions are also made more difficult by a lack of transparent and consistent accounting standards, as required of private sector organizations, and the tendency of both Congress and the Administration to present expenditure and revenue estimates with time frames and baselines most favorable to their policy preferences. To assist Congress in making more realistic and sustainable budget decisions we recommend these changes to the Federal budget process.

A. **Develop a performance based budgeting process** similar to successful businesses and several state governments which have "re-invented" their budget processes. Congress should regularly re-evaluate program expenditures and agency budgets in relation to the value and efficiency of the services delivered. This approach rewards the program's current importance to citizens, rather than historical expenditure levels. Multi-level prioritization based on clearly defined performance measures should occur at the program level, the agency level and finally between agencies. The process should focus on minimizing "non-value added costs" that do not significantly improve service delivery, and on identifying programs that provide the greatest benefit to taxpayers in relation to their cost. Current service level, "use it or lose it" budgeting, or "across the board" percentage reductions such as sequestration, often waste resources on in-efficient or unneeded programs, and under-fund more beneficial programs.

B. **Replace, intergovernmental and private contractor "cost plus" reimbursement agreements, which reward inefficiency, with fixed price contracts that reward cost reduction** and have penalties for poor performance. Joint Federal – state programs should require states to use jointly developed reporting and data exchange software programs to take advantage of economies of scale in development, and facilitate easy exchange of program data.

C. **Put a greater emphasis on analyzing the broader long-term economic impacts of all legislation and budget allocations** prior to adoption. Too often legislation is crafted to look revenue positive during the 10 year scoring period without considering longer term revenue consequences. A perfect example was Congress using the short term tax revenue from allowing the conversion of taxable IRAs to Roth IRAs to "pay for" the Bush era tax cuts, without considering the long term loss of tax revenue. Revenue scoring also often focuses only on estimated federal tax revenue changes, without adequate consideration of the direct governmental program and administrative costs and additional private sector compliance costs which reduce economic productivity. We support the bills that have been introduced in this Congress to require analysis of long-term budget impact on major tax and expenditure legislation.

D. **Develop a stronger and more detailed 10 year running budget and revenue plan** for the federal government with a congressionally adopted policy to keep expenditures below projected revenues over the 10 year period with a goal to reduce the national debt below 60% of GDP by 2025. This is a better way to control expenditures than "Balanced budget Amendments" that restrict recovery options in true economic emergencies.

E. **Using the 10 year budget plan as a base, assure that annual budgets and appropriations are evaluated by the Congress and approved prior to the start of each fiscal year.** This would allow agencies to more efficiently make transitions needed for future funding and program changes and prevent future government shutdowns. Doing this will require catching up on the budgeting and appropriations process and making it a top priority at the start of every congressional session. The recent failure to pass agency budgets until well after the start of a budget year demonstrates a basic lack of proper control over the budget and expenditure process, and encourages wasteful spending and program disruption. The government should also search for and reclaim unused prior year grants and revenue sharing expenditures and reapply the funds in current budgets.

F. **When short-term economic stimulus or "emergency" deficit spending is needed to help the economy through cyclical downturns, wars, or natural disasters, Congress should provide a source of offsetting revenue** later in the 10 year budget planning period. The focus of any short term economic stimulus incentives should also be on creating long-term jobs that are likely to continue beyond the funding period.

G. **Develop a bi-partisan <u>strategic</u> National Economic Growth Plan** identifying the best potentials for future domestic and international traded sector economic growth. Identify, and invest in, the kinds of education and training programs needed to develop the workforce skills to successfully compete with other countries in the future. This will also reduce the need for foreign workers to provide needed skills. We will also need to maintain and improve our economic infrastructure and develop sustainable energy programs that will be needed to reduce the use of fossil fuels. The Congress should then support government programs, regulatory policies, and tax policies to encourage and support future economic growth in these key economic sectors, within the legal limits of international trade agreements.

H. **Expand the roles of the Office of Management and Budget (OMB), the Congressional Budget Office (CBO), and the Government Accountability Office (GAO), to help the Congress better evaluate the comparative performance and cost efficiency of agencies and programs.** Detailed and unbiased evaluations of program performance and value are necessary for a successful performance based budgeting process.

2. Off- Budget Expenditure Control:

A. **There should be <u>no</u> continuing off budget expenditures**, for military activity, disaster assistance, or any other purpose. There is no value to having a budget for fiscal control unless all significant expenditures are included. Congress should review and approve supplemental budget authorizations for any non-budgeted expenditures at least every 6 months, including making adjustments to other budget items, or providing additional revenue if necessary. Recurring "emergency" spending needs, such as disaster assistance, should be budgeted for based on average expected expenditures.

B. **Congress must also prevent the growth of unfunded future budget commitments** such as federal employee retirement benefits, veteran's benefits, or other programs, by properly accounting for estimated future liabilities and providing adequate reserves in current program budgets for the future payments. For example, the VA indicates that almost 45% of the 1.6 million veterans from the Iraq and Afghanistan wars have sought disability compensation. When possible, convert new federal employee and military retirement benefits from defined benefit programs to <u>currently funded</u> defined contribution plans which will automatically prevent the growth of unfunded pension obligations.

3. Regulatory Agency Cost Control:

Regulatory programs are an important function of government, but also result in both regulatory agency expense, and significant non-value-added compliance costs for businesses and individuals. The Federal government should expand, and make part of the regulatory process, an ongoing "Regulatory Efficiency Initiative" building on prior efforts by multiple Administrations and Congresses. Much of the non-value added cost of the current regulatory structure results from poor regulatory design and poor coordination of new regulatory legislation with the existing regulatory processes of other Federal agencies, and with state regulatory processes. The result is overlapping regulatory responsibilities and duplicate administrative costs, as well as duplicate reporting and compliance costs for businesses. Unfortunately regulatory agencies, like other organizations, inherently seek to enlarge their responsibilities, employee base and budgets. Without careful Congressional oversight, regulatory programs can grow beyond their original need, adding to governmental cost and private sector burden.

A. **When budgeting for regulatory agencies, Congress should demand increasingly efficient performance results**, and should base program funding, and state government or private sector cost reimbursements, on the use of the most efficient administrative processes and technologies. This would include improving economies of scale by combining existing agencies and administrative processes, and using standardized reporting and compliance programs when appropriate. State government program partners and private service providers to federal programs should also be required to use standardized electronic reporting and accounting software to reduce duplicate development costs and improve program accountability. The non-value-added cost impacts on the private sector, on state governments, and on the economy, must also be considered in evaluating the need for, and performance of, all regulatory programs.

B. **Develop a more coordinated and economically efficient Federal-State regulatory structure**. The process should also include continuation and expansion of initiatives to work more directly with the states to coordinate taxation and regulatory programs, and share reporting information and regulatory overhead costs.

4. Health Care System Reform and Cost Control:

After many years of bipartisan discussions about rising health care costs and lack of health insurance coverage for a significant percentage of the population, the Congress finally passed the Affordable Care Act in 2010. The reforms were based on the Massachusetts model developed by a Republican Governor with key leadership from the business community. The ACA was never intended to be the final version of health care reform. Many provisions of the reform legislation were experimental, and many logical cost control measures were not included in the initial reform provisions.

It is already clear that although the ACA has increased insurance coverage through mandates and significant subsidies for low income individuals, it has not adequately reduced the growing total cost of health care. It has also added a large new entitlement program when the federal government, the states, and taxpayers were already finding it difficult to sustain the existing "entitlement" programs. Further changes will be needed to make health care more affordable, but it may be too early to know which provisions of the ACA may be effective, and which provisions should be changed or added.

The next President and Congress should comprehensively evaluate the effectiveness of the initial PPACA health care reform legislation in reducing overall health care costs, and improving the general quality and availability of health services. The Congress should then consider evidence based changes to further reduce non-value-added costs and improve the health care system.

5. Social Insurance Programs:

The funding deficits for the social insurance programs, Social Security and Medicare, deserve separate evaluation, because they are dedicated programs with a separate payroll tax funding source. Both programs are currently underfunded for their projected future benefit payout and have a negative cash flow. This is a result of rapid growth in benefits paid out for the large number of "baby boomers" now retiring with substantially increased life expectancies, and a declining growth in the working population and average taxable wage base. To compound the problems, the recent economic slowdown and re-structuring of many businesses to reduce employment, at least in the US, will reduce payroll tax revenues in relation to GDP growth. Chronic unemployment and under employment is also increasing the number of citizens relying on benefit programs such as Medicaid and being forced to start Social Security at 62 because of involuntary "retirement".

Making these programs sustainable is technically simple, as any insurance actuary knows, and should have been done years ago. There are only 3 options to restoring stability – increase the payroll tax rate or maximum wage limit; further limit benefits to those most in need; or provide additional funding for the programs from other revenue sources. In selecting a balanced solution from those alternatives it is important to remember that the programs were originally intended to be "social <u>insurance</u>" safety nets for those who need them most, not pre-paid benefit programs for every citizen. People buy many kinds of insurance every year; even though most never collect any actual benefit from it. If current benefit levels are going to be continued with projected participant levels, payroll taxes would have to increase on current wage earners, with potential negative economic impacts. The current payroll tax base limits for the programs are also regressive by limiting the tax contributions from higher income wage earners while taxing all the wages of lower income workers.

A. **Increase the Social Security early retirement, and full retirement, ages** to better reflect current life spans and working patterns. Revise the Cost Of Living Adjustment formula.

B. **Continue the current method of taxing Social Security benefits to reduce the net after tax benefit** to those with other income. The estimated value of the taxes paid on social security benefits should be credited from general revenues to the Social Security program.

C. **Remove the Social Security taxable wage limitation so it matches the Medicare program provisions** to increase contributions from higher income individuals**.**

D. **Investigate and reduce the expanding level of fraudulent Medicare reimbursement billings and invalid claims against the Medicare disability system and other government disability programs.** Require states or other agencies who administer federal programs to use the same reporting software and communication systems to process claims to help enable rapid detection of duplicate or fraudulent claims. Eliminate government payments to private attorneys who promote fraudulent claims.

6. Workforce Education and Population:

The root cause of any long term governmental deficit is a cost of governmental services that exceeds the economic productivity and tax revenue contribution of its citizens. As a result, an important factor in restoring economic sustainability is the composition and average economic productivity of the US population. Two hundred years ago we had a vast continent, with seemingly unlimited resources and a great need for people to develop it. In the last century, most businesses were highly labor intensive and economic growth depended on a growing population.

We now face a different world where technology advances in agriculture, manufacturing, and most other types of businesses, have reduced our need for human labor in relation to our GDP. This has been compounded by a "flatter world" which has caused many of our lower skill middle income manufacturing jobs to be "out sourced" to lower cost foreign workers in foreign economies. This reduces the domestic economic multiplier effect of our domestic consumption expenditures. Millions of machines have replaced manual labor, computers have replaced administrative and managerial employees, and now intelligent new robots are replacing many remaining domestic manufacturing and distribution jobs. The standard unemployment statistics greatly understate the true level of under-employment and long-term un-employment.

The percentage of our population, who are unemployed, under-employed, unemployable, or prematurely "retired", continues to grow. It is now estimated that over 40% of our total working age population is not employed. Many citizens simply do not have the skills needed for higher skill, higher economic value, jobs. This results in lower per capita productivity and personal income, and a greater need for governmental social program subsidies, but with less income tax and payroll tax revenue to pay for the government programs. Efforts to shift increased benefit costs onto employers, such as in the PPACA health care reform legislation, will only increase the incentive to eliminate jobs wherever possible, and replace low skill, high benefit cost, employees with technology, robotic machines, off-shore production, or increased use of part-time workers. This would further compound the long term under employment problem.

A. **Develop a more comprehensive national economic and workforce redevelopment plan**. Target Federal tax incentives and education programs toward workforce skill areas needed in the economy, and that will be needed for the US to compete in the future world economy.

B. **Provide stronger incentives in unemployment and social welfare programs to get more recipients into retraining and work experience programs.** Partner with private businesses, trade groups, colleges and state employment departments to develop training programs to match specific regional workforce needs.

C. **Provide significant, simple and consistent incentives for business to hire and train military veterans, the disabled, the under educated, and other displaced workers.**

D. **Adopt strategic, 21st century immigration policy reforms.** Review and update US immigration laws to resolve long standing issues such as the quantities and skills of both permanent immigrants and short-term "guest workers" who are truly needed for the current economy, and the process for admitting them. Resolve the status and citizenship options of long-term illegal alien residents and their children. Change the outdated policy of giving automatic citizenship to children of non-citizen parents, just because they happened to be born while the parents were in the United States. This policy, when combined with preferential treatment for illegal immigrants with a child who is a US citizen, provides a strong incentive for people to enter the country to have a child. The law should be changed to remove automatic citizenship and instead provide that when parents of a child legally become naturalized citizens, then any minor children would also be made citizens. We need to better utilize our potential work force of current citizens, before adding additional population.

7. Environmental Economic Threats:

Just as borrowing against the future is bad fiscal policy, compromising the country's physical environment and future economy for short term gain is bad national policy. Failure to protect the environment and climate would not only be a failure of our responsibility to future generations, but could also present a very real treat to our economy and the lives of our citizens. Our current culture and governmental policies have created an "Environmental Cost Deficit" which is growing year after year. Unless we act soon to identify and reduce potential damage, the long term costs of paying off our "Environmental Deficit" may be even greater and more economically damaging than the consequences of our Fiscal Deficit.

Unfortunately, the problem with our "Environmental Deficit" is that there is no agreed, or comprehensive, accounting system to measure the growing future economic costs of our short term environmental decisions. We see some small pieces of the eventual cost in the costs of environmental cleanups, crop failures, abnormal storms, floods, and droughts, but there are no standard long term cost projections to guide public policy decisions.

The greatest potential long term economic costs could result from climate changes and rising sea levels caused by continued growth of atmospheric levels of carbon dioxide (CO2), methane, and other greenhouse gases. There is clear long term scientific research to know that increased greenhouse gases will warm the earth and result in significant climate changes. The US alone emits about 1.5 Billion metric tons of CO2 per year, or about 19 metric tons per capita. There may still be some debate about how much of the increasing greenhouse gas levels result from human activity, versus natural emissions which are estimated at about 4% of the total, but the issue is really moot, since the only CO2 emissions we can realistically hope to reduce are the man-made ones.

A recent Department of Defense Report concluded that climate change will result in very real public costs. The report states that "rising global temperatures, changing precipitation patterns, climbing sea levels and more extreme weather events will intensify the challenges of global instability, hunger, poverty, and conflict. They will likely lead to food and water shortages, pandemic disease, disputes over refugees and resources, and destruction by natural disasters in regions across the globe." The Defense Department calls climate change "a threat multiplier, because it has the potential to exacerbate many of the challenges we are dealing with today…"

If greenhouse gases were red, instead of colorless and odorless, so that we could see the millions of tons we are releasing into the atmosphere every year, we would probably have found ways to replace most carbon fuel use long ago. The most important problem is that we can't "see" the true economic cost of fossil fuel use, because none of the long-term public or private costs of the environmental consequences are currently included in the market price of fuel and energy.

To help consumers make better long-term energy decisions Congress should enact a revenue neutral Carbon Emission Adjustment fee on all fossil fuels produced or imported into the United States, to provide a simple market based economic incentive for reducing carbon emissions.

The Carbon Emission Adjustment (CEA) fee would be collected from all producers or importers of fossil fuels at the time of domestic extraction or importation, based on the carbon content of the specific fuel. It is estimated that this would affect less than 2500 large businesses and would have little administrative cost since it could be combined with existing reporting and fee collection programs for coal extraction and petroleum production and importing. The cost effect of the adjustment would then pass throughout the rest of the economy without any administrative cost other than providing a potential fee offset for non-fuel uses, such as petrochemicals, or for other types of significant carbon sequestration. The collection of the CEA fee should be kept as simple as possible, particularly in the early years when the adjustment amount is smaller. Carbon emission content varies by the type of fuel, but standard conversion lists already exist for most fuels and different units of measurement. The adjustment fee, based on the amount of Carbon Dioxide (CO_2) emitted when the fuel is burned, would provide a market based incentive for reduced use of high carbon content fuels and conversion to lower carbon fuels or alternative energy sources. By more accurately reflecting the hidden costs of carbon emission impacts, the CEA would give consumers more accurate information when making energy choices. The fee also continues the political tradition of expecting those who cause public expenses to pay part of the cost.

To reduce any initial economic or political issues we suggest the CEA fee start at only $10 per metric ton of CO_2 ($36/ton of carbon) emission content, and increase by $5 per ton each year for at least 5 years, to a level typical of other countries emission taxes. This initially equates to a price impact of about $.09/ gallon of gasoline; $.10/ gallon of diesel, jet, or heating fuel; $ .58 /1000 cu.ft. of natural gas; or $.012/ kWh of electricity generated from coal. US per capita CO_2 emissions are about 19 tons per year, so the total initial CEA cost impact would only be about $190 per person, for both personal and workplace fuel use and total fee revenue would be only about $15 Billion. In coordination with other nations we should also support development of international carbon emission adjustment standards, along with provisions for crediting foreign carbon taxes already paid on imported fuels.

To prevent overall economic effects, the CEA should also be <u>revenue neutral</u>, at least initially, by rebating about the same amount that is collected to individuals and businesses on a per capita or business size basis. Most individuals and businesses could receive their rebate as an exemption against existing taxes, taken proportionally through the year as a reduction in withholding rates or estimated taxes. Non-taxpayers receiving public income or retirement assistance could receive a comparable rebate through increased monthly payments, with provisions to prevent duplicate benefits.

It is important that the CEA adjustment, or any US carbon reduction program, be done at the <u>federal</u> level, not by individual states, to prevent wasted duplication of administrative costs, and disruption of free interstate commerce. A CEA adjustment on imported fuels is also practical to collect only at the US customs port of entry, not after fuels are distributed throughout the states.

A predictable and transparent carbon content adjustment fee is also likely to be more effective, and more equitable, than carbon emission trading schemes that encourage speculation and reward the largest existing carbon polluters, not energy consumers.

Why should the United States adopt a carbon price adjustment system now, when global warming effects the entire earth and many other nations have not yet acted? We are the world's largest economy and largest CO2 emitter on a per capita basis. We also think of ourselves as one of the world's leaders in doing what is "right", even at great sacrifice, as we have proven in many wars. The need to prevent climate related economic damage from increased carbon pollution is just as serious as a war, and just as threatening to our nation's future.

8. Monetary Policy:

The last option to reduce the national debt burden is to use the government's ability to simply print more money to pay our national debt. It is the simplest alternative, and one we have been using for the past 8 years, but it is also one of the worst long-term strategies. Monetary policy decisions are made by the Federal Reserve, not the Congress, but are influenced by the political process. Since 2009, the Federal Reserve has increased the M1 monetary supply by over 70%. This is far beyond the growth rate of the US or world economy. Much of this monetary expansion has been used to "purchase" Treasury notes to fund the deficit in an accounting maneuver that would be illegal in the private sector. When the money supply is increased significantly beyond the growth rate of an economy, the potential for future inflation and devaluing of the currency increases.

Much of the US money supply is currently absorbed by its role as the world's "reserve" currency for international transactions and foreign bank reserves. If we increase the money supply to a level which foreign and domestic holders see as excessive, they may abandon the dollar and move to other currencies or exchange systems resulting in a rapid excess supply of dollars and devaluation of the dollar. If excessive growth in the money supply results in higher inflation, the true value of every American's savings and investments will be reduced and the cost of basic necessities such a food and energy will increase.

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