THE CONGRESSIONAL BUDGET OFFICE'S BUDGET AND ECONOMIC OUTLOOK

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

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HEARING HELD IN WASHINGTON, D.C., JANUARY 29, 2020

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THE CONGRESSIONAL BUDGET OFFICE'S BUDGET AND ECONOMIC OUTLOOK

WEDNESDAY, JANUARY 29, 2020

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 10 a.m., in room 210, Cannon House Office Building, Hon. John A. Yarmuth [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Moulton, Higgins, Doggett, Price, Schakowsky, Kildee, Panetta, Morelle, Horsford, Scott, Jackson Lee, Lee, Omar, Sires, Peters; Womack, Woodall, Johnson, Flores, Stewart, Norman, Hern, Roy, Meuser, Crenshaw, and Burchett.

Chairman YARMUTH. The hearing will come to order. Good morning. And welcome to the Budget Committee's hearing on the Congressional Budget Office's Budget and Economic Outlook.

I want to welcome our witness today, the Director of the Congressional Budget Office, Dr. Phillip Swagel. I thank you for taking time out of your schedule to be with us today. I will now yield myself five minutes for my opening statement.

Good morning, once again. And once again welcome to Dr. Swagel who is testifying before our Committee for the first time as the Director of the Congressional Budget Office.

I would also like to take a moment to thank Director Swagel and all the dedicated staff at CBO for their hard work and their commitment to being a non-partisan indispensable partner to Congress.

In 2019 alone, CBO worked diligently to publish more than 700 cost estimates and nearly 80 analytic reports, working papers, and testimoneys. While the compendium of CBO's work is invaluable to our work here in Congress, our annual hearing on the budget and economic outlook is always enlightening as we begin a new session of Congress.

Yesterday, CBO released its report unveiling its projections for the next decade. Unfortunately, the report once again confirms that despite the economic expansion he inherited, the fiscal outlook has worsened since President Trump took office.

Director Swagel, you project a deficit this year that is more than $1 trillion. And over the next decade, deficits are projected to rise. The national debt is expected to reach 98 percent of GDP by 2030, the highest ratio since World War II.

Under President Trump, deficits have risen to heights not usually seen outside of recessions and major world wars. They have increased every year, an unusual trend given that deficits tend to fall with the unemployment rate.

In fact, the deficit in 2019 was the highest since 2012 when we were recovering from the great recession and the unemployment rate was 8 percent, more than double the rate today. As a result of these deficits, the national debt has climbed higher and faster than CBO projected at the end of the Obama Administration.

Now, on their face, these fiscal facts might not be so concerning if we were using whatever fiscal space we have to make critical investments while interest rates are low to address the multitude of deficits we face in the real economy—crumbling infrastructure, skyrocketing healthcare costs, widening student achievement gaps, a warming climate, lower life expectancy.

In light of these and other problems, it is difficult to escape the conclusion that we should be making bolder investments in American families and our nation's future. But unfortunately, that is not the reality.

The reality is that President Trump drove up deficits to instead gift the wealthy and corporations with a $1.9 trillion dollar tax cut. At least we thought it would be only $1.9 trillion. As we will learn today, it is substantially more than that.

But that is $1.9 trillion that had little meaningful impact on the economy. $1.9 trillion that could have been, but was not, put toward making childcare more affordable, a college education more accessible, and retirement security more achievable for American families.

Our economy and budget face difficult times ahead. An aging population and rising healthcare cost mean economic growth is projected to be slower and deficits are expected to be larger going forward.

As we learned from our previous hearing, a warming climate will increasingly stress our nation's budget. Meanwhile, we will need to make investments in our infrastructure, education, and job training if we hope to compete in the global economy.

CBO's report shows that there is a real need to address our fiscal issues over the next several decades. And the solution will require a balanced approach and a fair tax system.

As Chairman of the Committee, I have stressed that we need to think seriously about severe and persistent deficits in the real economy, not just deficits in the budget. That doesn't mean that we can spend tax dollars without thought or discretion, but it does require that we use our nation's resources more wisely than this Administration has.

It means prioritizing policies that will help modernize our economy, prepare our communities for the opportunities of the future, and help more American families get ahead in this economy.

Director Swagel, thank you for being here, once again. And I look forward to hearing your testimony.

[The prepared statement of Chairman Yarmuth follows:]

Chairman John A. Yarmuth
Hearing on the Congressional Budget Office's
Budget and Economic Outlook
Opening Statement
January 29, 2020

Good morning. I would like to give a special welcome to Dr. Phillip Swagel, who is testifying before our Committee for the first-time as Director of the Congressional Budget Office. I would also like to take a moment to thank Director Swagel and all of the dedicated staff at CBO, for their hard work and their commitment to being a non-partisan, indispensable partner to Congress.

In 2019 alone, CBO worked diligently to publish over 700 cost estimates and nearly 80 analytic reports, working papers, and testimonies. While the compendium of CBO's work is invaluable to our work here in Congress, our annual hearing on the Budget and Economic Outlook is always enlightening as we begin a new session of Congress.

Yesterday, CBO released this report, unveiling its projections for the next decade. Unfortunately, the report once again confirms that, despite the economic expansion he inherited, the fiscal outlook has worsened since President Trump took office.

Director Swagel, you project a deficit this year that is over $1 trillion. And over the next decade, deficits are projected to rise. The national debt is expected to reach 98 percent of GDP by 2030, the highest ratio since World War Two.

Under President Trump, deficits have risen to heights not usually seen outside of recessions and major world wars. They have increased every year – an unusual trend given that deficits tend to fall with the unemployment rate. In fact, the deficit in 2019 was the highest since 2012, when we were recovering from the Great Recession and the unemployment rate was 8 percent – more than double the rate today. As a result of these deficits, the national debt has climbed higher and faster than CBO projected at the end of the Obama Administration.

Now, on their face, these fiscal facts might not be so concerning if we were using the fiscal space we have to make critical investments while interest rates are low to address the multitude of deficits we face in the real economy. Crumbling infrastructure. Skyrocketing health care costs. Widening student achievement gaps. A warming climate. Lower life expectancy. In light of these and other problems, it's difficult to escape the conclusion that we *should* be making bolder investments in American families and our nation's future.

But unfortunately, that's not the reality. The reality is that President Trump and Republicans drove up deficits to instead gift the wealthy and corporations with a $1.9 trillion tax cut. $1.9 trillion that had little meaningful impact on the economy. $1.9 trillion that could have been, but was not, put toward making childcare more affordable, a college education more accessible, and retirement security more achievable for American families.

Our economy and budget face difficult times ahead. An aging population and rising health care costs mean economic growth is projected to be slower and deficits are expected to be larger going forward. As we learned from our previous hearings, a warming climate will increasingly stress our nation's budget. Meanwhile, we will need to make investments in our infrastructure, education, and job training if we hope to complete in the global economy. CBO's report shows that there is a real need to address our fiscal issues over the next several decades and the solution will require a balanced approach and a fair tax system.

As Chairman of the Budget Committee, I have stressed that we need to think seriously about severe and persistent deficits in the real economy, not just deficits in the budget. That doesn't mean that we can spend taxpayer dollars without thought or discretion. But it does require that we use our nation's resources more wisely than this Administration has. It means prioritizing policies that will help modernize our economy, prepare our communities for the opportunities of the future, and help more American families get ahead in this economy.

Director Swagel, thank you for helping us begin that conversation. I look forward to hearing your testimony.

Chairman YARMUTH. I now yield five minutes to the Ranking Member for his opening statement.

Mr. WOMACK. I thank the Chairman for holding this hearing. Director Swagel, thank you for your service. And we look forward to your testimony here today.

I sure hope the country is paying attention to what is going to be discussed here today. As we are all aware, yesterday the CBO released its annual baseline confirming what we already know. Our country is on—on an unsustainable fiscal trajectory. Specifically, in fiscal 2020, CBO expects the deficit will be a trillion plus, an increase of $31 billion from last year.

It should be deeply unsettling to all of us here in this room that Fiscal Year 2020 will be the first year since fiscal 2012 that the deficit will eclipse a trillion. We are clearly headed in the wrong direction.

Looking even further ahead, if we don't take action to get our fiscal house in order, the deficit will be a trillion dollars by Fiscal Year 2021 and rise to $1.7 plus trillion by fiscal 2030. Deficits will total $13 plus trillion over the budget window. This is unacceptable for this country.

Our country's unsustainable deficits are driven by our out of control—largely by out of control mandatory spending, which includes daunting interest payments on our debt even at low rates. Mandatory spending currently accounts for about 70 percent of the federal budget and by the end of the budget window, 76 percent.

To put this in perspective, in the mid–1960's, just over a half century ago, spending in the mandatory columns accounted for just 34 percent.

Because of the continued growth of our country's mandatory spending, federal spending will consume an ever-expanding share of economic resources. It will rise from 21 percent of GDP this year to 23.5 percent by 2030, vastly exceeding the 20.4 percent annual average of the past 50 years.

Make no mistake, if we continue down this reckless path, CBO confirms that we will face the severe threat of a fiscal crisis, which will negatively impact every single American.

While Washington undoubtedly has a spending problem, our revenue growth remains pretty strong. CBO estimates federal revenue in fiscal 2020 will increase by $170 billion from the previous year—that is a record—reaching $3.6 trillion. Revenue is projected to grow to $5.7 trillion in fiscal 2030. You ought to be able to run a country on that kind of money.

To further underscore this remarkable growth, by fiscal 2026 revenues will exceed the historic average for revenues as a percentage of GDP. This upwards trend continues through the end of the budget window. It is pretty clear that the government has a spending problem, not a revenue problem.

While it is true that we are experiencing a period of historic economic prosperity and growth, the stark reality is that the consequences of our high and rising debt are severe. According to CBO's projections, the federal debt will grow faster than the economy in perpetuity, which of course is unsustainable.

And this isn't just CBO's analysis. A few short months ago right here in this very room Federal Reserve Chairman Jay Powell testified before this Committee when he said our debt is growing faster than our economy by a margin. By definition that is unsustainable.

There is no way around it. Either Congress will put the federal budget on a sustainable course, or a financial crisis will result. According to CBO, the current death path—debt path increases the risk of a fiscal crisis, that is a situation in which the interest rate on federal debt rises abruptly because investors have lost confidence in our U.S. Government's fiscal position.

We have heard about the reality of our fiscal trajectory time and time again, and yet it still seems as though my colleagues on the other side of the aisle are not taking those warnings seriously.

Policies promoted by congressional Democrats would increase mandatory spending by tens of trillions of dollars, thus drastically adding to the national debt. The most notable unrealistic policy proposals that come to mind include Medicare for All and the Green New Deal.

It is critical that Congress come together to address our daunting fiscal outlook, and yet Democrats continue to promote outrageously expensive policies with no way to pay for them.

Our dire fiscal situation underscores the pressing importance of budget resolutions which are supposed to come from this Committee as a long-term financial plan for the country. Under Democrat control, our Committee did not put a budget forward last year. And it doesn't appear as though we will do one this year.

In every business, every city, every state, a budget—a budget is done. Yet in the greatest country in the history of the world, we are not doing a budget.

It is my hope that after hearing from CBO Director Swagel today, eyes will be opened to the stark reality we face. We simply must start making tough budgetary decisions in order to put our country on a responsible fiscal path and deliver on our duty to the American people.

[The prepared statement of Steve Womack follows:]

BUDGET | HOUSE BUDGET REPUBLICANS

Rep. Steve Womack
Ranking Member

Ranking Member Steve Womack (R-AR) Opening Remarks at Hearing Entitled:

The Congressional Budget Office's Budget and Economic Outlook

Remarks as prepared for delivery:

Thank you, Chairman Yarmuth, for holding this hearing. I look forward to participating in this important conversation today.

As we're all aware, yesterday, the Congressional Budget Office (CBO) released its annual baseline confirming what we already know: our country is on an unsustainable fiscal trajectory. Specifically, in fiscal year 2020, CBO expects the deficit will be $1.015 trillion, an increase of $31 billion from last year.

It should be deeply unsettling to all of us here in this room that fiscal year 2020 will be the first year since fiscal year 2012 that the deficit will eclipse $1 trillion. We are clearly headed in the wrong direction.

Looking even further ahead, if we do not take action to get our fiscal house on a responsible path, the deficit will be $1 trillion by fiscal year 2021, and then rise to $1.74 trillion by fiscal year 2030. Deficits will total $13.1 trillion over the budget window.

Our country's unsustainable deficits are driven by our out-of-control mandatory spending, which includes daunting interest payments on our debt. Mandatory spending currently accounts for 70 percent of the federal budget, and it is on track to reach an alarming 76 percent by fiscal year 2030. To put this in perspective, in 1965, mandatory spending accounted for only 34 percent of the federal budget.

Because of the continued growth of our country's mandatory spending, federal spending will consume an ever-expanding share of economic resources. It will rise from 21.0 percent of GDP this year to 23.4 percent in 2030 – vastly exceeding the 20.4 percent annual average of the past 50 years.

Make no mistake: if we continue down this reckless path, CBO confirms that we will face the severe threat of a fiscal crisis, which will negatively impact every American.

While Washington undoubtedly has a spending problem, our revenue growth is strong. CBO estimates federal revenue in fiscal year 2020 will increase by $170 billion from the previous year, reaching $3.6 trillion. Revenue is projected to grow to $5.7 trillion in fiscal year 2030.

To further underscore this remarkable growth, by fiscal year 2026, revenues will exceed the historic average for revenues as a percentage of GDP. This upward trend continues through the end of the budget window. It's pretty clear that the government has a spending problem, not a revenue problem.

While it's true that we're experiencing a period of historic economic prosperity and growth, the stark reality is that the consequences of our high – and rising – debt are severe. According to CBO's projections, the federal debt will grow faster than the economy in perpetuity, which, of course, is unsustainable.

And this isn't just CBO's analysis. A few short months ago, Federal Reserve Chairman Jerome Powell testified before this very Committee confirming this reality. He said, “our debt is growing faster than our economy by a margin… by definition, that is unsustainable.”

There is no way around it: either Congress will put the federal budget on a sustainable course, or a financial crisis will result. According to CBO, the current debt path increases “the risk of a fiscal crisis – that is, a situation in which the interest rate on federal debt rises abruptly because investors have lost confidence in the U.S. government’s fiscal position.”

We’ve heard about the reality of our fiscal trajectory time and time again, and yet it still seems as though my colleagues on the other side of the aisle are not taking these warnings seriously. Policies promoted by congressional Democrats would increase mandatory spending by tens of trillions of dollars, thus drastically adding to the national debt. The most notable unrealistic policy proposals that come to mind include Medicare-for-All and the Green New Deal.

It is critical that Congress come together to address our daunting fiscal outlook, and yet, Democrats continue to promote outrageously expensive policies with no way to pay for them.

Our dire fiscal situation underscores the pressing importance of budget resolutions, which are supposed to come from this Committee as a long-term financial plan for the country. Under Democrat control, our Committee did not put forward a budget resolution last year, and it doesn’t appear that we’ll have one this year either. In every business, in every city, in every state a budget is done. Yet, in the greatest country in the history of the world, we’re not doing a budget.

It is my hope that, after hearing from CBO Director Swagel today, eyes will be opened to the stark reality we face. We simply must start making tough budgetary decisions in order to put our country on a responsible fiscal path and deliver on our duty to the American people.

Thank you. I yield back the balance of my time.

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Mr. WOMACK. Thank you, Mr. Chairman. And I yield back my time.

Chairman YARMUTH. Thank you for your opening statement. In the interest of time, if any other Members have opening statements, you may submit those statements in writing for the record.

And now it is my great honor to introduce once again Director Phillip Swagel of CBO. Director Swagel, the floor is yours. You are recognized for five minutes. And I will be very liberal with the gavel so take what time you need.

STATEMENT OF PHILLIP SWAGEL, PH.D., DIRECTOR OF THE CONGRESSIONAL BUDGET OFFICE

Dr. SWAGEL. OK. Many thanks, Chairman Yarmuth and Ranking Member Womack. Thank you very much for inviting me to testify on CBO's budget and economic update.

And thank you both for your guidance and support during these first seven months as director. And thank you to your staff as well, for helping make sure that we are focused on supporting the Congress and the priorities of the Congress.

So I will start with an overview of our analysis of the budget and the economy. We project economic growth and job creation will continue over the coming decade, but also a worrisome trajectory for the federal budget.

Not since World War II has the country seen deficits during times of low unemployment that are as large as those that we project. Nor in the past century has the United States experienced large deficits for as long as we project.

So let me start with the good news on the economy. We project real GDP will expand at a solid 2.2 percent this year, driving continued job creation and a historically low unemployment rate.

We anticipate that consumer spending supported by rising wages and household wealth will remain strong. We also expect business investment to rebound as several of the factors that weighed on businesses last year abate.

So in our projections for the later years of the coming decade, GDP growth moderates and settles back to its maximum sustainable growth rate that we see as 1.7 percent.

Now, that growth rate is lower than the historical average because of long term demographic trends. The United States is an aging society and that means the growth of our labor force will be slower in the future than it has been in the past. OK.

Now, let met turn now to the challenging fiscal situation. In our projections, the federal budget deficit is $1 trillion this year and averages $1.3 trillion per year between 2021 and 2030. The deficit widens from 4.6 percent to GDP in 2020 out to 5.4 percent in 2030.

Now, over the past 50 years, the average annual deficit equaled 3 percent of GDP and was generally much lower when the economy was strong.

Now, revenues are growing. If current laws did not change, which is the basis of our projection, federal revenues would rise from 16.4 percent to GDP in 2020 to 18 percent in 2030. And those projections reflect a scheduled increase in individual income taxes at the end of 2025, among other changes that are in current law.

The challenge is that spending is projected to grow more than revenues, widening the gap between spending and revenues. And our projection—federal outlays climb from 21 percent to GDP to 23.4 percent of GDP over the next decade. And that growth in outlays reflects mainly increased spending for mandatory programs and then also increased payments of interest on the federal debt.

So the increase in mandatory outlays over the decade is from 12.9 percent to GDP to 15.2 percent of GDP. And again, that is attributable to the long-term demographic trend to the aging of the population.

A second factor is rising healthcare costs. Now, you will see in our report, we have healthcare costs rising more slowly than has been the case in the past, but still rising faster than overall GDP. So those two trends, aging and healthcare cost, affect Social Security and Medicare in particular. And we see those trends persisting beyond the 10-year budget horizon.

The increase in interest spending—in net interest outlays over our baseline, it is caused by both large deficits and also what we see as rising interest rates over the 10 years and beyond after a period in which interest rates have been very low.

The result of all this is that federal debt held by the public will rise from $31.4 trillion at the end of 2020—I am sorry—federal debt held by the public will rise to $31.4 trillion at the end of 2030. And that is an amount equal to 98 percent of GDP.

Now, at that point in 2030, debt would be higher as a percentage of GDP than at any point since just after World War II. And the debt would be more than double what it has averaged over the past 50 years.

We project that—again, the gap between spending and revenue will continue to widen. And then eventually the debt in our long-term projections, 30 years hence, would reach 180 percent of GDP by 2050. And that is well above the highest percentage ever recorded in the United States. And it would be headed higher after that.

So that debt path would dampen economic output in the U.S. It would increase our interest payments to foreigners since we borrow from foreigners. It would also elevate the risk of negative economic effects, whether it is still moving or sudden such as a fiscal crisis.

Now, to be sure interest rates remain low today. There is time to address our fiscal challenges. And fiscal policy could be used as a tool to address other challenges facing the nation if the Congress chooses to do so. But our debt is on an unsustainable path. And over time, we must address this fiscal challenge.

So to conclude, the U.S. economy is doing well. We have low unemployment and rising wages that have drawn people off the sidelines and back into the labor force. But the economy's performance makes the large and growing deficit all the more noteworthy.

Thank you very much.

[The prepared statement of Phillip Swagel follows:]

Congressional Budget Office

Testimony

The Budget and Economic Outlook: 2020 to 2030

Phillip L. Swagel
Director

Before the
Committee on the Budget
U.S. House of Representatives

January 29, 2020

This document is embargoed until it is delivered at 10:00 a.m. (EST) on Wednesday, January 29, 2020. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Chairman Yarmuth, Ranking Member Womack, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy, which we released yesterday.

CBO projects continued economic growth and job creation over the coming decade but also a worrisome trajectory for the federal budget. Not since World War II has the country seen deficits during times of low unemployment that are as large as those that we project—nor, in the past century, has it experienced large deficits for as long as we project.

The Economy

We project that real gross domestic product (GDP) will expand at a solid rate of 2.2 percent this year, driving continued job creation and a historically low unemployment rate. We anticipate that consumer spending, spurred by rising wages and household wealth, will remain strong; we also expect business investment to rebound as several of the factors that weighed on it last year abate. In particular, we expect higher oil prices to boost investment in the energy sector and the impact of trade barriers on economic growth to diminish.

We also project that for several years, the economy will be producing more than what we estimate to be its sustainable level of output, leading to higher inflation and interest rates after a decade in which both remained low, on average. In our projections for the later years of the coming decade, GDP growth moderates and settles back to its maximum sustainable rate of 1.7 percent. That maximum sustainable rate is projected to be lower than its long-term historical average, mainly because the population is aging and the labor force is expected to grow more slowly than it has in the past.

Deficits

In our projections, which incorporate the assumption that current laws governing taxes and spending generally remain unchanged, the federal budget deficit is $1.0 trillion this year and averages $1.3 trillion per year between 2021 and 2030. Measured as a percentage of economic output, the deficit widens from 4.6 percent of GDP in 2020 to 5.4 percent in 2030. Over the past 50 years, the average annual deficit equaled 3.0 percent of GDP, and it was generally much smaller when the economy was strong.

Revenues and Spending

Revenues will grow in our expanding economy. If current laws did not change, federal revenues would rise from 16.4 percent of GDP in 2020 to 18.0 percent of GDP in 2030. Those projections reflect a scheduled increase in individual income taxes at the end of 2025, among other things.

Spending is projected to grow more than revenues, widening the gap between the two. In our projections, federal outlays climb from 21.0 percent of GDP to 23.4 percent over the next decade. That growth has two sources: increased spending for mandatory programs and interest on federal debt.

The increase in mandatory outlays over the decade—from 12.9 percent of GDP to 15.2 percent—is attributable partly to the aging of the population. Another major factor is the growth of health care costs, which has slowed in recent years but is still projected to be faster than economic growth. Those two long-term trends affect Social Security and Medicare in particular, and they are expected to persist beyond 2030.

As for the increase in interest spending, one of its causes is the large deficits, which lead the federal government to borrow more each year in our projections. Another cause is rising interest rates over the next decade. All in all, the federal government's net interest outlays are projected to increase from 1.7 percent of GDP in 2020 to 2.6 percent in 2030.

Debt

As a result of the persistently large deficits, federal debt held by the public is projected to rise to $31.4 trillion at the end of 2030—an amount equal to 98 percent of GDP. At that point, debt would be higher as a percentage of GDP than at any point since just after World War II and more than double what it has averaged over the past 50 years. We project that the gap between spending and revenues would continue to widen over the following two decades and that debt would reach 180 percent of GDP by 2050, well above the highest percentage ever recorded in the United States. And it would be headed still higher.

That debt path would dampen economic output over time. Rising interest costs associated with the debt would increase interest payments to foreign debt holders and thus reduce the income of U.S. households by increasing amounts. Such a significant increase in federal borrowing would also elevate the risk of a fiscal crisis. In addition, it could limit lawmakers' ability to adopt deficit-financed fiscal policies to respond to unforeseen events or for other purposes. Negative economic and financial effects that were less abrupt but still significant—such as expectations of higher inflation or an increased burden of financing public and private activity—would also have a greater chance of occurring. Those effects would worsen the consequences associated with high and rising federal debt.

In Closing

The U.S. economy is doing well, with low unemployment and rising wages that have drawn people off the sidelines and back into the labor force. But the economy's performance makes the large and growing deficit all the more noteworthy.

To be sure, interest rates remain low today, suggesting that there is time to address our fiscal challenges and that fiscal policy could be used as a tool to address other challenges facing the nation, if the Congress chose to do so. But our projections also suggest that over the long term, changes in fiscal policy must be made to address the budget situation, because our debt is growing on an unsustainable path.

The Budget and Economic Outlook: 2020 to 2030 is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. This testimony highlights key issues related to that report.

In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. The report, a visual summary of its findings, and supplemental data files are available on CBO's website at www.cbo.gov/publication/56020. This testimony is available at www.cbo.gov/publication/56064.

Phillip L. Swagel
Director

Chairman YARMUTH. Thank you very much for your testimony. We will now begin our question and answer session.

As a reminder, Members can submit written questions to be answered later in writing. Those questions and the witness' answers will be made part of the formal hearing record. Any Members who wish to submit questions for the record may do so within seven days.

As we usually do, the Ranking Member and I will defer our questions until the end. So I now recognize Mr. Higgins of New York for five minutes.

Mr. HIGGINS. Thank you, Mr. Chairman. I just—a couple of things. Since 2003 when the United States went into—invaded and occupied Iraq, at that time the United States economy was eight and a half times larger than that of China. Today China's economy is in some measures larger than the United States.

And the difference is that the United States in some estimates spent $1.9 trillion in Iraq. That is $6,300 per person with a population of 327 million people. China on the other hand invested in the growth of their own economy, which catapulted them to a point where the Chinese economy grew by about 8.5 percent each year since 2003.

The United States economy—I was just kind of adding it up. I didn't quite get there, but we are hovering about maybe 2 to 2.4 percent.

You know, we had a tax cut bill that was approved in December 2017. And the White House Counsel of Economic Advisors issued a report. And they said that each American household would realize an annual increase in household income because of this tax cut of between $4 and $9 thousand.

Is there any evidence that, that has actually occurred?

Dr. SWAGEL. We haven't tallied the dollars per household. We did a comprehensive analysis in April 2018.

Mr. HIGGINS. Is there any evidence that it is close?

Dr. SWAGEL. The tax cut has raised GDP and so we see the level of GDP is about 1 percent higher, but we haven't apportioned that per household.

Mr. HIGGINS. What is the GDP growth right now?

Mr. HIGGINS [continuing]. growth right now? [DELETE]??

Dr. SWAGEL. We see GDP growth coming in this year at about 2—well, 2.4 percent——

Mr. HIGGINS. So——

Dr. SWAGEL [continuing]. last year and 2.2 percent this year.

Mr. HIGGINS. OK. 2.4 percent. So what you are saying is it would have been 1.4 percent without the tax cut?

Dr. SWAGEL. We see the level of GDP is higher. The growth rate impact is maybe two or three tenths of a percent per year.

Mr. HIGGINS. Well, that is different from 1 percent.

Dr. SWAGEL. So the level of GDP is higher——

Mr. HIGGINS. OK.

Dr. SWAGEL [continuing]. but incomes are higher, but the growth rate is——

Mr. HIGGINS. OK. I am confused. All right.

Dr. SWAGEL. Yes, I apologize.

Mr. HIGGINS. All right. But we were also told that we would expect to try to achieve annual economic growth, because of this tax cut bill, by 4 percent annually. Is there any evidence that we are close to that or within the foreseeable future can achieve that?

Dr. SWAGEL. So we don't see that happening. In our projection, GDP growth goes down. I should say our GDP projection is well within the range of other forecasters.

Mr. HIGGINS. Yes.

Dr. SWAGEL. But the blue-chip economic forecast surveys 40 or 50 leading economic forecasters——

Mr. HIGGINS. Yes.

Dr. SWAGEL [continuing]. and none see growth rising above 2.5 percent.

Mr. HIGGINS. OK. So the 4 percent annual economic growth is not achievable within the foreseeable future?

Dr. SWAGEL. We don't see that happening. And our forecast, I think, is pretty——

Mr. HIGGINS. OK. So the deficit projected for this year is a trillion dollars.

Dr. SWAGEL. That is right.

Mr. HIGGINS. OK. And we are anticipating annual budgetary deficits, not the debt——

Dr. SWAGEL. Mm-hmm.

Mr. HIGGINS [continuing]. to increase a trillion dollars each year into the foreseeable future?

Dr. SWAGEL. That is right. So it is $1.1 trillion this year and rising over the decade.

Mr. HIGGINS. OK. How much has the federal debt increased in the last three years? Dr. Swagel. In the last——

Mr. HIGGINS. Three years.

Dr. SWAGEL. I am sorry. In the last three years. I don't have the dollar figure.

Mr. HIGGINS. It is $3 trillion .

Dr. SWAGEL. OK. $3 trillion. Right.

Mr. HIGGINS. It is $3 trillion.

Dr. SWAGEL. So we got close to——

Mr. HIGGINS. Yes, I am just—here is my point. Here is my point. When you divert nearly $2 trillion since 2003 to a foreign war that took a bad Sunni by the name of Saddam Hussein and put in a bad Shia by the name of Nouri al-Maliki who the United States gave him his first term. Iran gave him his second term.

And today after losing 4,500 American soldiers and spending almost $2 trillion, Iraq is owned today by Iran. That is bad on its face. But in terms of the money that was diverted that otherwise could have been spent on the growth of the American economy, we have lost considerably.

And I think—you know, when you look at deficit spending, a war obviously is not a good investment nor are tax cuts because tax cuts don't pay for themselves. The best-case scenario you can retrieve about 32 cents for every dollar that you give away in a tax cut.

If you invest in education, you grow your economy, like China has done. If you invest in infrastructure, you grow your economy, like China has done. And if you invest in scientific research, you don't get beat by China when it comes to new technology like 5G, next generation.

We are getting clobbered right now. And I would argue it is because we failed to invest in the right things toward the growth of the American economy.

I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Ohio, Mr. Johnson, for five minutes.

Mr. JOHNSON. Thank you, Mr. Chairman. As both you and our Republican lead here on the Committee, Mr. Womack, have pointed out, yesterday the Congressional Budget Office released its most recent baseline which reaffirmed what we already know.

And some of what I am going to say is going to be repetitive because I don't think we can say it loudly enough nor often enough. The economy is strong. The federal deficit continues to grow an unsustainable rate. And mandatory spending is out of control.

And I want to make sure that the record is straight and clear. Under the previous Administration, the national debt doubled in 10 years—eight years. I am sorry. Eight years of the last Administration.

And much of the increase in mandatory spending that is out of control today is laws that went on the books and spending that went on the books—checks that we can't cash—in the previous administration.

In Fiscal Year 2020, CBO expects the deficit will be $1.015 trillion making Fiscal Year 2020 the first year since 2012 that the deficit will eclipse $1 trillion. Additionally, CBO estimates that the debt held by the public will reach $17.9 trillion at the end of Fiscal Year 2020. That is 81 percent of GDP.

And as our Republican lead, Mr. Womack, has pointed out, the outlook for mandatory spending is even more worrisome. This spending category currently accounts for 70 percent of the federal budget and is on track to reach 76 percent by 2030.

There is no question that mandatory spending is the primary driver of our deficit. And yet congressional Democrats have introduced legislation and proposals like the Green New Deal or Medicare for All that would add trillions of dollars in additional mandatory spending.

Ladies and gentlemen, now is the time for Congress to address our out of control mandatory spending and take action to put the federal budget on a sustainable course. And I would recommend we start in this very committee by doing a budget resolution.

Dr. Swagel, how relevant is the Tax Cuts and Jobs Act to the fiscal imbalance? More specifically, where would our fiscal deficit be had we not passed the Tax Cuts and Jobs Act?

Dr. SWAGEL. So this is in April 2018, CBO did a comprehensive analysis of the December 2017 tax cut. And we see that as adding about 1 percentage point of GDP to the deficit so—we cut taxes, lost revenue, increased growth that brought back some revenue, paid for roughly 20 percent of itself.

So it is at 1 percentage point of GDP out of our—the 4.6 percent deficit that we see this year. So if that gives you a sense of the effect of the 2017 tax cut relative to the overall——

Mr. JOHNSON. Is it safe to say that without the Tax Cuts and Jobs Act, we would still be facing massive deficits over the next 10 years?

Dr. SWAGEL. Yes. That is correct.

Mr. JOHNSON. OK. Well, Dr. Swagel, the United States economy is undergoing the largest, longest economic expansion in American history. What impact has the Tax Cuts and Jobs Act had on our economy, especially when American families are keeping more of their hard-earned money as a result of the legislation?

Dr. SWAGEL. OK. So in that April 2018 analysis, we saw the December 2017 Tax Act affecting business investment and consumer spending so supporting higher consumer spending as you said, families keeping more of their money. And then especially on business investment, the lower taxes on businesses would spur investment.

And we saw what looked to be the response in the first half of 2018. Business investment was relatively strong. It has been difficult since then in some sense to disentangle the effects of the Tax Act from subsequent developments. Tariff policy in particular, starting around the middle of 2018 looks to have an effect on business investment.

So it is a little hard to say exactly, you know, what is the Tax Act, what is other things, but that is how we saw it both supporting consumer spending and business investment.

Mr. JOHNSON. OK. Well, you know, CBO projects that mandatory outlays for major healthcare programs will total $1.3 trillion in Fiscal Year 2020 and almost double to $2.5 trillion by 2030. What are the greatest factors contributing to this massive growth in federal health spending?

Dr. SWAGEL. So it is roughly divided in two. So half of it is just the aging of the population. We know an older population involves more health spending. And then the other half is the excess cost growth in healthcare. The healthcare costs are just rising faster than the overall economy and that is driving the higher spending as well.

Mr. JOHNSON. OK. Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Texas, Mr. Doggett, for five minutes.

Mr. DOGGETT. Thank you, Mr. Chairman, and thank you, Director. Well, here we are in the fourth year of the reign of the king of debt, self-styled. We now face more than a trillion dollar deficit this year and according to your report a trillion dollar deficits for as far as the eye can see in what you have described as I understand it, a totally unsustainable path; is that correct?

Dr. SWAGEL. That is correct, sir.

Mr. DOGGETT. And I guess the one thing we can be in complete agreement on from what you just said is that those Republican tax cuts that we were told were going to pay for themselves have not paid for themselves, have they?

Dr. SWAGEL. We don't see the tax cut as——

Mr. DOGGETT. Yes, sir. I believe you just said we think that it is from your analysis—your objective analysis that we got about 20 cents on the dollar for every dollar of tax cuts; is that right?

Dr. SWAGEL. That is correct, sir.

Mr. DOGGETT. Yes, sir. That is consistent with what all economists except for the true ideologues told us before this proposal was ever adopted.

And if we have more of those same unpaid Republican tax cuts, which President Trump seems to feel he has to promote in order to get re-elected, it will make it even more unsustainable, won't it? If you have more tax cuts——

Mr. SWAGEL. OK. I am sorry. That is right—definitely unsustainable, more tax cuts——

Mr. DOGGETT. And we were also—the Republicans had the help of that great historic character, Rosy Scenario, in their work on this. They told us that at a minimum with this wonderful proposal, we would have 3 percent growth. I heard President Trump say why not 6 percent growth. You are just not being optimistic enough.

But you have analyzed it, and what we can look forward to is less than—or about half of what Republicans told us we would get. Only 1.7 percent growth is your best analysis; is that right?

Dr. SWAGEL. That is right. Over the long term.

Mr. DOGGETT. Over the long term.

Dr. SWAGEL. 1.7.

Mr. DOGGETT. And so the same people that told us we can't afford more medical research. We can't afford better schools. We can't provide healthcare for more Americans. We can't meet our infrastructure needs with our crumbling roads. When it came to helping the very rich in this country and multinational corporations, they could not do enough.

And I want to ask you about one specific area that I have been troubled with—was troubled when they hoisted it off on us and that is all the giveaways to the multinational corporations to just encourage them to move more jobs offshore and to have new investment offshore.

You are familiar with the very appropriately named GILTI Provision in the Republican tax bill, aren't you—are you not?

Mr. SWAGEL. Yes, I am.

Mr. DOGGETT. And as I understand it that gives a 50 percent deductions for profits that multinationals earn overseas.

And as if that half off deal—50 percent sale—that slashed the already very low corporate tax rate wasn't enough, up to a 10 percent rate of a return on tangible investments for multinationals overseas would be exempt entirely from GILTI allowing a corporation to avoid even the low discounted rate that Republicans established on offshore profits.

And as far as tangible investments are concerned isn't this when a corporation decides they would rather build their plant and get their equipment in some other country than in America, in other words not putting America first.

Dr. SWAGEL. That is right. A tangible investment would be a factory or plant as you have——

Mr. DOGGETT. So last year you came to us with your report and noted that the Republican tax bill contained provisions like GILTI that could be quote—could have an incentive affect to encourage the location of such assets abroad instead of making America first; isn't that right? That was in your report.

Dr. SWAGEL. So the report talks about the overall impact of the 2017——

Mr. DOGGETT. Yes.

Dr. SWAGEL [continuing]. Tax Act as improving incentives to invest in the U.S. That particular provision as you said——

Mr. DOGGETT. These international provisions——

Dr. SWAGEL [continuing]. goes in the other directions.

Mr. DOGGETT [continuing]. to encourage abroad. And——

Dr. SWAGEL. The tangible——

Mr. DOGGETT. And as if the provisions that these Republicans wrote weren't bad enough in incentivizing moving offshore, the Treasury Department has been working to make it a little worse.

And I read your report this year to indicate that among the factors you look at are the regulations Treasury has written and those that have not yet gone into effect. And you say they add about another $110 billion to us over the next decade; is that right?

Dr. SWAGEL. Yes. So we have been tracking the incoming data related to the 2017 Tax Act. We don't have all of it just because the——

Mr. DOGGETT. Because it probably would be worse once they actually complete their work. We don't have all of them in effect. We only have part of them in effect—GILTI not completely in effect. Likewise, the high tax exclusion BEAT, another appropriately named provision in effect.

My concern, Mr. Chairman, is that 90 corporate giants in this country paid zero—absolutely nothing—zilch—to contribute to the challenges that we face. And the Trump Treasury Department is only making it worse with their regulations.

And thank you, Mr. Director and Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Utah, Mr. Stewart, for five minutes.

Mr. STEWART. Thank you, Chairman. Director, thank you for being here. I am going to ask you a question I don't know if you are going to have the answer to it, but I think it would be appreciated.

We are in a little bit of uncertainty with the coronavirus obviously in China and spreading to other parts of the world, a little bit here in the U.S. And it is clearlygoing to have an economic impact. Do you have any insights on that, that you could share with us?

Dr. SWAGEL. Yes, of course. We have been tracking that. And we recognize that it will have economic impacts as you say. You know, we see them already with travel certainly. We recognize that the manufacturing in China looks to be disrupted. It is hard, of course, to know how long that will persist and ultimately what will be the effects.

CBO in the past has done work on similar instances. Back in the days of the Avian Flu, the CBO did analysis. You know, I don't want to say it is going to be the same this time as then just because we don't—you know, we don't ultimately know. But we are watching it closely, and we will provide information to the Committee and to Members as we have more.

Mr. STEWART. Let me ask you this, going back historically looking at as you have mentioned the Avian Flu or perhaps SARS, do we have an estimate of how much that impacted our economy at that time?

Dr. SWAGEL. You know, I don't recall offhand. The Avian Flu in the end, it wasn't a gigantic impact in the U.S. It was, you know, more overseas and then it was tamped down. And the same with SARS—it affected China and others.

We do have some evidence from disruptions here. So it is not an epidemic, but—the catastrophes along the Gulf Coast from the Hurricanes Katrina and Rita, you know, had massive effects on the localities. In the grand scheme of the overall U.S. economy, it was a negative and then we largely made it up.

So—you know, it is something that is a strength of the U.S. economy is our resilience and our flexibility that we can bounce back from these sorts of things.

Mr. STEWART. Well—and let's hope, of course, that this doesn't turn into anything more serious than what we have seen so far. And this would be just one of the impacts—the economic impacts on people.

And we are starting to see some of that already, which begs the point, and that is when we have these deficits like we do, we have very little or at least much smaller margin for error—our tool chest is limited in the sense of how we can respond to some of these emergencies and respond to the economic impacts of them.

Boring down on that just a little bit, 2020 $170 billion = increase in revenue to the federal government; is that right?

Dr. SWAGEL. I think that is right.

Mr. STEWART. And do you have an estimate for 2021—increase in revenue?

Dr. SWAGEL. An increase in revenue—sorry, I have it in front of me. I don't have 2021 in front of me.

Mr. STEWART. OK.

Dr. SWAGEL. I apologize. But revenues will continue to grow. We see them—revenues growing at a roughly 4 to 5 percent pace.

Mr. STEWART. OK. That is a fairly remarkable statement. Revenues growing at 4 to 5 percent. $170 billion this year—increase in revenue.

And the point is, is that we don't have a revenue problem. We have got a deficit problem that is caused by spending. That is very, very clear. And the mandatory spending on this is, you know, the key to that.

I mean 70 percent of the federal deficit is—I am sorry—the federal budget is attributable to mandatory spending. We all know that. And I just hope someone has the courage at some point to really take that on because to date we haven't.

But my question to you then is this, anticipating by 2050 when we look at something like 180 percent of GDP in federal debt, much of that owned by not U.S. citizens but by foreign entities and organizations and businesses, what does that mean? And what are the national security implications of having that much debt owned by foreign entities?

Dr. SWAGEL. OK. So I would first start where you started that in a sense it reduces our room—our fiscal room to maneuver.

That if the debt is high—if—investors beliefs about the United States change and that leads to higher interest rates, will the negative impact of higher interest rates on our fiscal situations will ramp up much more quickly—in the sense that it could make policymakers hesitant to use fiscal policy as necessary whether for national security purposes or economic purposes or anything.

Mr. STEWART. Is it plausible to think that someone—I mean we hear this scenario where someone actually—a national actually holds us hostage because of the debt that is owed to them. Is that a realistic or plausible, you know, potential that could happen.

Dr. SWAGEL. You know, in principle it is possible. A challenge in some sense is the codependence say between us and China. China and Japan are the two largest holders of U.S. debt. Japan is a touch above China now.

But in some sense, China if they were to try to hold us hostage, this sense in which we are in this together that if they, you know, did something that impaired U.S. Treasury Bonds, they would be taking a big hit as well.

Mr. STEWART. Yes.

Dr. SWAGEL. So——

Mr. STEWART. Yes, it is——

Dr. SWAGEL [continuing]. it could happen.

Mr. STEWART. It is a two-way street. And that is actually the point I wanted to make. I mean the idea of holding us hostage is probably exaggerated. The ability to influence our decisions and our policy though, absolutely not. Would you agree?

Dr. SWAGEL. That is right.

Mr. STEWART. Absolutely not an exaggerated threat?

Dr. SWAGEL. That is right we increasingly depend on the rest of the world to finance our spending.

Mr. STEWART. Yes.

Dr. SWAGEL. That is absolutely right.

Mr. STEWART. Chairman, I yield back. Thank you.

Chairman YARMUTH. Thank you. The gentleman's time has expired. I now recognize the gentleman from North Carolina, Mr. Price, for five minutes.

Mr. PRICE. Thank you, Mr. Chairman and welcome to our witness. And thank you for your good work and your testimony. We often hear contrary views about the deficit and the debt from our Republican friends and all around, I suppose. We have heard some of that this morning.

We all remember Dick Cheney said memorably, deficits don't matter. They seem especially not to matter when they are created by tax cuts for the wealthy or when they are created by defense spending. But then on the other hand, we hear the sky is falling. The sky is falling. We can't go on like this. We have heard a lot of that this morning.

So I hope you can—you have already done some of this, and I hope you can continue to give us some perspective on this. Our deficit is now 4.6 percent GDP. Our debt is 81 percent of GDP. Both our rising.

Dr. SWAGEL. Mm-hmm.

Mr. PRICE. They are high by historic standards, particularly in a time of economic growth and prosperity. They are getting higher. We don't seem to be able to envision a grand bargain such as we had back in the 90's because of frankly Republican dogmatism on taxes.

You know, everything has to be on the table. Those budget deals of 1990, 1993, 1997, everything was on the table. There was a political price to be paid, but nonetheless, I think a lot of us feel like those are some of the best votes we ever cast where we had four years, not just of balance budgets but of paying off $400 billion of the national debt.

Those seem to be out of reach now, those kinds of grand bargains. President Obama tried mightily; John Boehner too, but it just hasn't come together and doesn't seem likely to.

So how should we look at this? What is sustainable? What would you say the economic consensus is as to what is sustainable? Is there a consensus? What would the range of that be? And then what should we aim for in terms of what is sometimes called fiscal space——

Dr. SWAGEL. Mm-hmm.

Mr. PRICE [continuing]. to anticipate what might happen in the economy. To undertake aggressive countercyclical measures in the event of a severe downturn. So I assume when we talk about what is sustainable, we are thinking about that as well as some abstract number that the economists might think represents a tipping point.

Dr. SWAGEL. OK. No. And something you have put your finger on the key questions for looking at fiscal policy into the future. We know that markets today are not concerned, right?

I mean I have sat here, and I have told you the fiscal situation is unsustainable, but interest rates remain low in the United States. The United States has the ability to undertake fiscal policy today, you know, for whatever purpose, you know, for stimulus, for infrastructure, for whatever that Congress decides to do.

And it is not that—in some sense that is the difficulty is that the challenge is not immediate, but as you have said we know it is rising. And the challenge is knowing well what is the end point, right? At what point is the debt level on the tipping point of not being sustainable.

And there is not—unfortunately there is not an answer in the economic literature. At one point people said maybe it was like 70 percent debt to GDP. And of course we see that. You know, you see our numbers, and we are going above that without a problem. And so I don't know. That is the challenge.

I—last thought is the worry I have is that when we get there—when we reach the fiscal—the end of fiscal space as you put it, it will happen quickly and market participants will lose their confidence in the U.S. quickly and it will be too late. It will be too late to address it without difficult changes.

Mr. PRICE. Well, and that scenario you described could happen at the time of a severe downturn.

Dr. SWAGEL. That is right.

Mr. PRICE. We seem to be chugging right along——

Dr. SWAGEL. And then——

Mr. PRICE [continuing]. doing just fine and then all of a sudden——

Dr. SWAGEL. That is right.

Mr. PRICE. It is not that we reached a tipping point. It is that we need substantial resources for a major—countercyclical measures whether they be on the tax side or on the spending side and the resources simply aren't there without just an enormous increase in debt.

Dr. SWAGEL. That is right. And we don't know. In the last crisis 10 years ago where the U.S. was able to fund, right, the ARRA and TARP and all of the—you know, so all the crisis era programs without a problem.

We saw it with the China situation, U.S. interest rates went down, right. So a problem in the rest of the world, people look at the U.S. as safe. And, you know, so we still have that status. The challenge is keeping it.

Mr. PRICE. Thank you. Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Texas, Mr. Roy, for five minutes.

Mr. ROY. I thank the Chairman. Appreciate you being here for testifying today. A couple questions.

Dr. SWAGEL. Mm-hmm.

Mr. ROY. Did this Democrat led Congress pass a budget this last year?

Dr. SWAGEL. A budget resolution——

Mr. ROY. Yes.

Dr. SWAGEL. Budget——

Mr. ROY. Budget resolution.

Dr. SWAGEL. No, I don't believe so. No.

Mr. ROY. OK. Has this Democrat lead Congress passed any reforms that will significantly reduce mandatory spending in the last year in this Congress?

Dr. SWAGEL. No.

Mr. ROY. No. A lot of blame is being directed at the President. What—where are spending bills—where do they originate?

Dr. SWAGEL. The spending bills——

Mr. ROY. Do they originate in the House of Representatives, appropriations——

Dr. SWAGEL. Yes.

Mr. ROY [continuing]. spending bills? Yes.

Dr. SWAGEL. Yes. I mean that is——

Mr. ROY. Yes.

Dr. SWAGEL [continuing]. tax and spending——

Mr. ROY. It is a Democrat led——

Dr. SWAGEL [continuing]. Congress.

Mr. ROY [continuing]. House of Representatives. Yes. Did the House take up and pass the President's suggested spending levels? When the President sent over suggested spending levels, did this House take up those levels or did they spend at a higher level?

Dr. SWAGEL. I don't believe they spent—that the Congress spent what the President sent over.

Mr. ROY. Right. I think they spent perhaps more than what the President suggested.

Dr. SWAGEL. OK. Yes, I have to admit I am not up to date on the——

Mr. ROY. Right.

Dr. SWAGEL [continuing]. President's spending suggestions, but I suspect the answer is yes.

Mr. ROY. Mm-hmm. Did this Democrat led Congress vote to raise the spending caps last July?

Dr. SWAGEL. Yes. And our baseline reflects those higher spending caps.

Mr. ROY. Mm-hmm. Did this Democrat led Congress vote for appropriations just this past December that will spend at those higher cap levels?

Dr. SWAGEL. Yes. That is correct. And again——

Mr. ROY. Yes.

Dr. SWAGEL [continuing]. that is in our baseline.

Mr. ROY. Right. So it strikes me as interesting to hear a lot of finger pointing going at the President about the, you know, record debt levels and so forth over the last several years.

Of course, the questions always go back to the tax cut of 2017. One of my colleagues has rightfully raised the questions here about the percentage. I have heard the—my colleague from Texas talking about getting 20 cents back on the dollar.

One question I have for you as a practical matter, are you all going to do another assessment of the 2017 Tax bill from—just, you know, you did one in the spring of 2018. Are you going to do an update or no?

Dr. SWAGEL. You know, we are not—we are tracking it and that the challenge is disentangling, you know, what is the 2017——

Mr. ROY. Other policies.

Dr. SWAGEL [continuing]. Act from everything else since then. But we will keep tracking the—you know, as we can—for example, the International Tax Provisions that we can track some of that.

Mr. ROY. Has—it true that our federal receipts revenue to the federal Treasury since roughly World War II is tracked somewhere between sort of 14 percent to 20 percent on average?

Dr. SWAGEL. That is right. The 50 year average is 17.4 percent——

Mr. ROY. Right.

Dr. SWAGEL [continuing]. of GDP.

Mr. ROY. And it is ranged between those rough ranges, right? And we are somewhere in that kind of middle range, maybe just below 17 right now——

Dr. SWAGEL. We are a little bit below that.

Mr. ROY [continuing]. 16s.

Dr. SWAGEL. And we are going up in—over the next decade, we are going to have 17.4 percent——

Mr. ROY. Right.

Dr. SWAGEL [continuing]. revenue to GDP.

Mr. ROY. So we are tracking roughly at the same 15 year level of our overall revenues to the Treasury as a percentage of our GDP.

Dr. SWAGEL. Of our economy. Right.

Mr. ROY. Right.

Dr. SWAGEL. And in dollars it is going up as the economy gets larger.

Mr. ROY. So it is safe to say that—you know, without getting into the politics of it that the main driver of our current imbalance is a massively growing amount of spending and that is obviously heavily tracking mandatory spending that is driving a lot of that, correct?

Dr. SWAGEL. Right. And so there is the gap, right. Revenue is at the 50 year—it is going to be at the 50 year historic level and spending is higher. And that gap is the deficit.

Mr. ROY. So while we are looking at—and we can have debates about tax policy and, you know, the importance of tax policy for jobs and having money in the people's pockets and creating wealth and opportunity and stimulus versus, you know, what that may or may not mean for the net change to revenue into the Treasury. And we can have that debate.

The fact is spending is being driven by mandatory spending that is, you know, going to be 80 percent of the increase of our debt over the next decade is going to be Medicare, Social Security, and the interest; is that correct?

Dr. SWAGEL. That is correct.

Mr. ROY. And—dr. Swagel. Those three mainly.

Mr. ROY. And right now this body, this Committee, this House has got no proposals that it is putting forward to deal with those issues and solve those problems that we are dealing with. And one last question, when is Medicare part A going to be insolvent?

Dr. SWAGEL. It is—in our projection it is 2025.

Mr. ROY. And when is Social Security going to be insolvent?

Dr. SWAGEL Right. So we have it at 2032——

Mr. ROY. 2032.

Dr. SWAGEL [continuing]. for Social Security.

Mr. ROY. Thank you, sir. Thank you for your time.

Dr. SWAGEL. OK. Very good. And actually I should just add, you know, in our baseline even when those trust funds become insolvent, we have—in our baseline the spending continues because we are directed to do that by the budget law.

Mr. ROY. Yes, sir. Thank you.

Chairman YARMUTH. Gentleman's time has expired. I now recognize the gentlelady from Illinois, Ms. Schakowsky, for five minutes.

Ms. SCHAKOWSKY. Climate change, I see, is the greatest challenge facing humanity today. And across the globe we see near apocalyptic events like the continent-wide fires in Australia, flooding in Venice. In the United States, we are seeing catastrophic flooding, severe storms, wildfires, and devastating drought.

In Chicago where I am from, we have seen the lake at levels that we haven't seen before threatening the shoreline across the area. And the Great Lakes generate $16 billion every year in tourism revenue. So the climate crisis could have disastrous economic effects for our region and really for the country, if not the world—certainly the world.

In 2019 alone, the United States was impacted by 14 separate billion dollar disasters. If we do not take immediate action, the future economic and social cost of climate change will be breathtakingly high.

And so I want to ask you, Director—and thank you for being here—how are these climate related natural disasters and severe storms expected to affect the federal budget and economic outlook going forward, especially noting that we are predicting to see increased number of billion dollar disasters in the near future?

Dr. SWAGEL. OK. It is an issue that we are looking at carefully. And in some sense in two levels—one is to say what are the effects on the micro level in the economic baseline, the fiscal baseline, so it is flood insurance program, military instillations, and other things are affected. And so we are looking at that.

Those are implicitly—they are in our baseline, but we don't have a particular estimate of, you know, flood insurance spending will go up by a certain amount because of climate. But we are working to understand that.

The bigger challenge as you say is the overall—the macro picture where we know that climate change will have an effect on the overall economy and therefore on federal revenue and federal spending. And that we are also working to understand that.

It might not show up in a big way, you know, in the next year or even in the next 10 years, but we know is we look at a 30 year horizon. The overall U.S. economy will be affected.

Ms. SCHAKOWSKY. I am really shocked that—for you say though that it may not show up in the next decade because it is showing up right now. Given our current economic conditions of persistently low interest rates and low inflation rates, would you agree that it is sound fiscal policy for the government to invest in a clean economy now?

Dr. SWAGEL. OK. And I should actually make clear in terms of the showing up is saying, you know, will—the level of GDP be different near for the level of revenue is of course showing up as economic impacts, just trying to trace them through—precisely through the budget is——

Ms. SCHAKOWSKY. And I would—you could also talk to the farmers. We were over a month late getting into the field in Illinois. The economic impacts are so obvious.

Dr. SWAGEL. Mm-hmm. And so it is an issue that—an area—I am sorry—where CBO did a lot of work back in—it was 2013, I think, when the Waxman-Markey legislation—the cap and trade legislation was being debated. We haven't worked on that basically a lot since. And we are starting that up again. So we will have more to say.

On the investment part—I am sorry—I didn't answer the second part of your question. That is something we are also again starting to look at is to connect those policy levers to the economy and to the baseline.

Ms. SCHAKOWSKY. Yes. I mean I would hope that CBO could actually help Congress analyze these situations and help us come up with long term plans on how we deal with that.

I mean I—again, it is just surprising to me that while you are beginning to look at that and trying to understand that, that this is a major force in our country today that I think is changing the economics in so many ways.

Dr. SWAGEL. That is right. And substance we know that, that we need to do our work, so we are ready to support the Congress. And that is what we are doing. First, on the baseline the usual—what does it mean the budget.

And then over the coming months to understand better how various policy levers will affect climate and then affect the economy and so on.

Ms. SCHAKOWSKY. You know, I mean I think the question of what kind of investments are smart for our economy for—to make us more resilient. I think that you have a big role to play and I hope you will. And I yield back.

Dr. SWAGEL. OK. Thank you.

Chairman YARMUTH. The gentlelady's time has expired. I now recognize the gentleman from Texas, Mr. Flores, for five minutes.

Mr. FLORES. Thank you, Mr. Chairman and Director Swagel. We really appreciate you being here. This hearing today is incredibly important. The testimony we are hearing today clearly lays out that our—one of our country's biggest challenge is our growing deficits and growing debt are unsustainable.

Our growing deficit and debt—excuse me—debt and deficit represent a huge tax and fiscal obligation for future generations. Those generations are going to face daunting challenges of lower economic growth opportunities and massive tax increases.

The tragedy of today's hearing is that the majority of this Committee and the House of Representative has buried its head in the sand and is failing the govern by passing a budget to clearly share its priorities with the American people.

Do they have a budget to address the country's fiscal challenges? No. Do they have a budget which shows the true cost to their socialist projects like the Green New Deal, Medicare for All, free college programs that will explode the deficits and debt by over $100 trillion? No. Do they have any kind of budget? No.

Even worse to deflect from their failure to govern by passing a budget, they try to blame deficits on pro-growth tax reforms that went into effect two years ago, the tax reform that is helping to grow our economy, the tax reform that has grown the federal deficit—federal revenues to record levels, the tax reform that has created millions of jobs, the tax reform that has reduced unemployment, the tax reform that has lifted millions of families out of poverty, the tax reform that has helped grow incomes for lower income American families by a significantly higher rates than other income groups.

So in light of this foggy rhetoric by the majority, it is important to address the issues that we face today. In order to do this, let us look at a few issues.

So Director Swagel, I want to ask about what part that tax reform plays in federal debts and deficits? So what is the total amount of expected federal revenues over the next 10 years? $48 trillion?

Dr. SWAGEL. That is right.

Mr. FLORES. OK.

Dr. SWAGEL. Yes.

Mr. FLORES. And what is the total revenue impact based on CBO's estimates of tax reform over the next 10 years? Is it $1.9 trillion?

Dr. SWAGEL. That is right, the loss over——

Mr. FLORES. OK.

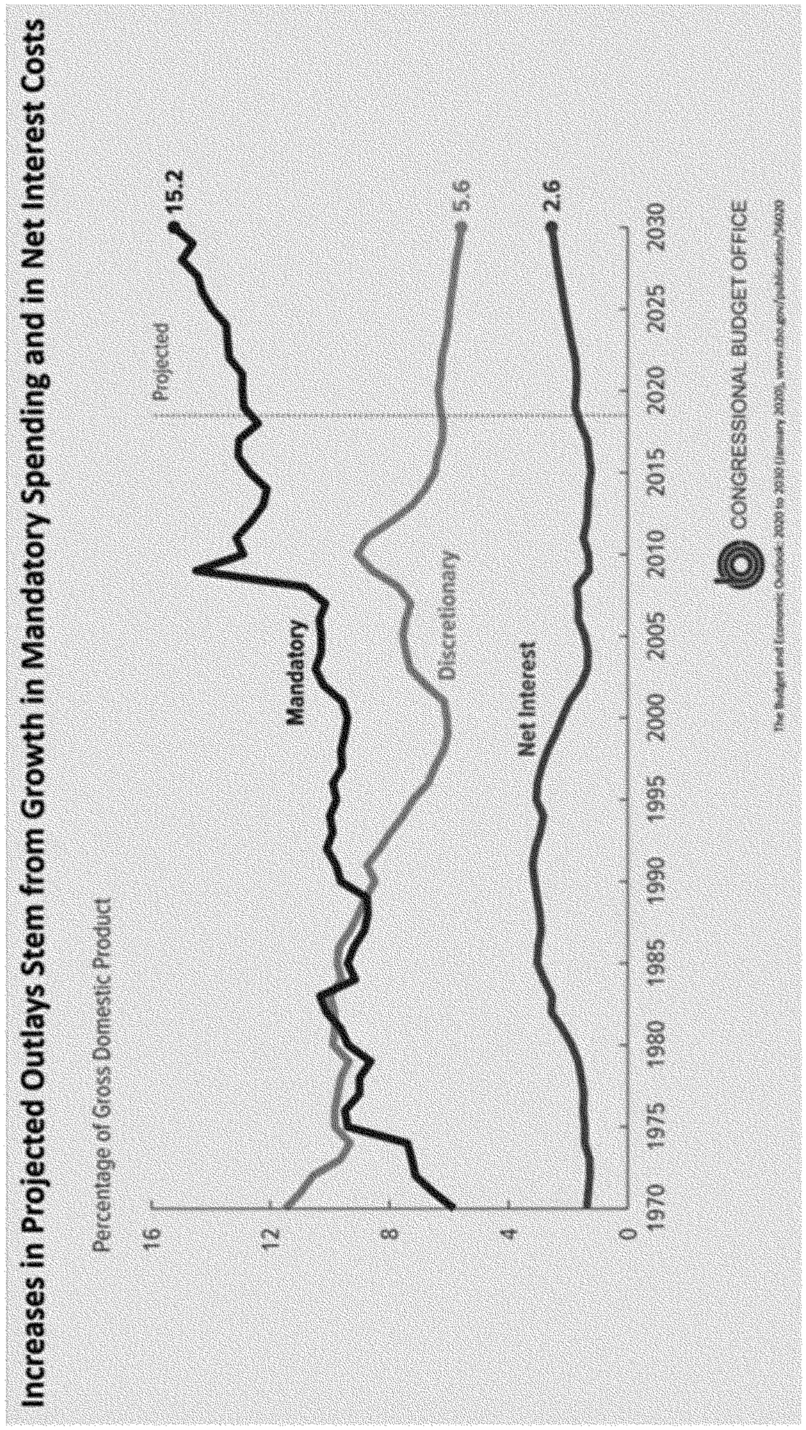
Dr. SWAGEL [continuing]. 10 years is——

Mr. FLORES. And so a little simple math here shows that the percentage of tax reform impact compared to total revenues is 4 percent. That means 96 percent of federal revenues were unaffected. So tax reform is clearly not the big issue. And so what are the projected deficits over the next 10 years? About $13.1 trillion, right?

Dr. SWAGEL. Yes.

Mr. FLORES. And so if you divide $13.1 trillion by $1.9 trillion you see that the total impact of tax reform on the deficits over the next 10 years is about 14 percent. That means 86 percent of federal deficits is because of something else. And so let's bring—let's look at this slide. This is CBO slide seven.

[Slide.]


Increases in Projected Outlays Stem from Growth in Mandatory Spending and in Net Interest Costs
Percentage of Gross Domestic Product
Mandatory
Discretionary
Net Interest
Projected
15.2
5.6
2.6
CONGRESSIONAL BUDGET OFFICE

Mr. FLORES. And this shows that revenues are growing faster than the rate of the economy, correct?

Dr. SWAGEL. Mm-hmm.

Mr. FLORES. OK.

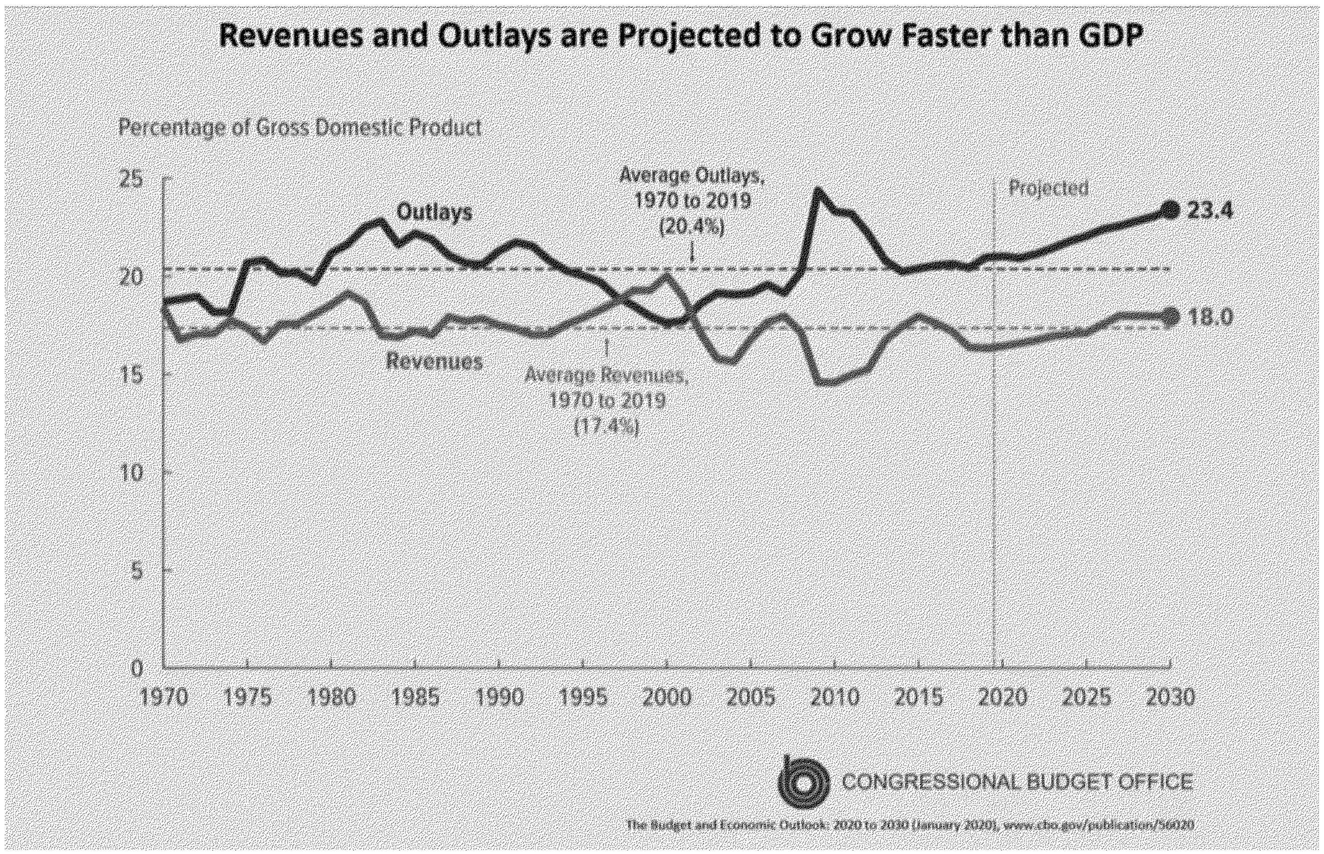
Dr. SWAGEL. That is right.

Mr. FLORES. That is good. That means deficits should be reduced.

Dr. SWAGEL. Mm-hmm.

Mr. FLORES. We go to the next slide, it shows the discretionary spending is growing at a rate slower than the rate of the economy—growth of the economy, right, and GDP?

[Slide.]


Revenues and Outlays are Projected to Grow Faster than GDP
Percentage of Gross Domestic Product
25
20
15
10
5
0
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020
2025
2030
Outlays
Revenues
Average Outlays, 1970 to 2019 (20.4%)
Average Revenues, 1970 to 2019 (17.4%)
Projected
23.4
18.0
CONGRESSIONAL BUDGET OFFICE
The Budget and Economic Outlook: 2020 to 2030 (January 2020), www.cbo.gov/publication/56020

Dr. SWAGEL. That is right.

Mr. FLORES. OK. That is good. OK. This brings us to the key issue. The two areas that are growing faster than the rate of growth and the economy are mandatory expenditures and net interest.

Now, so those are the issues that need to be addressed. So historically speaking if revenues grow faster than economy and expenditures grow slower than the rate of the economy, then our debts and deficits should be reduced, right?

Dr. SWAGEL. That is right.

Mr. FLORES. OK. I am saying this. I am a CPA, former chief financial officer, former CEO. So I look at—I try to analyze this from a business perspective. So if we really want to get our arms around this, what is in the mandatory spending category that is blowing things up?

Well, let me ask you one other question. So what are revenues in the last year of your projections for 2030? It is like $5.7 trillion, I think.

Dr. SWAGEL. Yes. It is—I am sorry. I am just going to look. As a percentage of GDP, it is——

Mr. FLORES. No, just in dollars.

Dr. SWAGEL. In dollars—yes, $5.7 and a half——

Mr. FLORES. OK. And what are total mandatory expenditures in that same year?

Dr. SWAGEL. It is about $4.9 trillion.

Mr. FLORES. OK. I would say it was $5.7 which leaves——

Dr. SWAGEL. Yes. Yes. Mandatory is in 2030 is like $4.9 trillion.

Mr. FLORES. OK. And then——

Dr. SWAGEL. Yes.

Mr. FLORES [continuing]. when you add debt to it——

Dr. SWAGEL. And then——

Mr. FLORES [continuing]. the net interest?

Dr. SWAGEL. Right. Net interest is another $800 billion——

Mr. FLORES. OK. So $5.73——

Dr. SWAGEL. $5.7—exactly——

Mr. FLORES. OK. All right.

Dr. SWAGEL. Between the two.

Mr. FLORES. I have been studying the numbers.

Dr. SWAGEL. Yes.

Mr. FLORES. So that means that mandatory expenditures and net interest on that will absorb one hundred percent of total revenues. That means there is no money left for anything else, for the FBI, for national security——

Dr. SWAGEL. Mm-hmm.

Mr. FLORES [continuing]. for border security, for anything else, right?

Dr. SWAGEL. That is——

Mr. FLORES. OK.

Dr. SWAGEL. That is.

Mr. FLORES. So really what this says is that we as Congress need to address the big issues here that nobody wants to address.

And I—it is my hope that the majority will work with the minority that Republicans, Democrats will sit down together, address these challenges head on so that we can balance the budget and take care of future generations. Thank you. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Michigan, Mr. Kildee, for five minutes.

Mr. KILDEE. Thank you, Mr. Chairman and thank you Director Swagel for being here. One area that I have been very interested in is understanding how investments or policy impacts the economy through the externalities that they generate. And obviously in some cases we measure that; in some cases, we don't.

And I am not talking about those benefits that are promised that are difficult to measure or that some claim, like when—in the case of the Tax Cuts and Jobs Act are taking place when we know that, that particular policy is only returning 20 cents on the dollar of investment. That is something that both sides seem to readily acknowledge, not good math, not supporting that policy at all.

But specifically, I would like to get your thoughts on the impact of another set of policies and the external benefits that would be derived. And that has to do with infrastructure spending.

According to the Economic Policy Institute, the rate of return on infrastructure is tremendous. Lots and lots of economic studies have pointed this out. In 2010 you may be familiar with the work that Moody's Analytics did looking at fiscal stimulus for a whole variety of governmental activities, tax cuts, increases in SNAP program spending, but specifically infrastructure work.

Their analysis determine that for every dollar of infrastructure investment there is a return of a $1.57 to the economy. It is a big difference between getting 20 cents back on the dollar and getting a $1.57 back on the dollar.

I know you may not specifically project or measure that, but it is your assessment that infrastructure spending would have a net positive impact on the economy and on our fiscal condition?

Dr. SWAGEL. So certainly on the economy and infrastructure investment if well done has the ability to improve GDP and have the kind of positive external effects that you mentioned that would have feedback to the budget.

You know, the challenge is the precise infrastructure that is done. I think we all know, right, there is—you know, the high-speed rail in the middle of nowhere. And there is the sort of, you know, fixing the bridge that is key. And we have——

Mr. KILDEE. Right, but if we are talking about the kind of investments that would clearly be tied to efficiencies in delivering products to market——

Dr. SWAGEL. Mm-hmm.

Mr. KILDEE [continuing]. particularly when it—when we talk about supporting the American manufacturer in our very, you know, steep global competition that we are facing, understanding what our competitors are doing. China, for example, is spending ten times what we are as a percentage of GDP.

It does seem to me do we not only good fiscal policy but good policy in general for us to make these sorts of significant investments. And then we get the additional reward——

Dr. SWAGEL. Mm-hmm.

Mr. KILDEE [continuing]. of significant return to the economy. Is that your—do you share that general view?

Dr. SWAGEL. I do. And as you said, it is very important that there are going to be things that cost money but have a huge impact on the economy in the substance that, you know, if costs money sometimes it is worth it. That it is not—it is not the only standard.

Mr. KILDEE. Right. I could just then return to a point that was made by one of my colleagues on the other side about this issue of our deficits and debt.

Dr. SWAGEL. Mm-hmm.

Mr. KILDEE. The point was made that well 14 percent of projected deficits are attributable to the Tax Cuts and Job Act, in other words that bill—that legislation made our situation worse, no question about that. The solution that is being suggested over and over again is to do deal with so called mandatory spending.

What percentage of the mandatory spending is constituted of Social Security, Medicare, Medicaid roughly? You don't have to give me precise.

Dr. SWAGEL. It is by far the largest part. I don't have——

Mr. KILDEE. So——

Dr. SWAGEL [continuing]. number, but it is by far the largest——

Mr. KILDEE. I think we need to be clear on what is being said. We are not—the discussion is it is OK to give tax cuts to benefit the people at the very top, but you have to offset that by cutting Social Security and Medicare and Medicaid.

Because if the real interest is in reforming those programs, we are all ears. In fact, we have legislation—one of my colleagues said there is no plan from Democrats.

We have a plan on Social Security with 208 Democratic sponsors that would deal with Social Security and make it stable as far as the eye could see. We invite our Republican colleagues to join us in that. And if they have suggestions on how we might improve that legislation, we are all ears.

But to take the President's proposal to cut Medicare and the President's proposal to cut Social Security and call that reform by placing it on the backs of the people who can least afford it but happily celebrate and throw parties and parades for tax policy that gave the wealthiest people in this country massive breaks at the cost of everyone else and then say well it only added to 14 percent of our fiscal problem is not a very good argument.

So I appreciate your time here. I have gone over time. And I yield back.

Dr. SWAGEL. Mr. Chairman, can I revise——

Chairman YARMUTH. Please respond, sir.

Dr. SWAGEL [continuing]. one sentence. I am not responding. It is just when I refer to high speed rail, I realize saying in the middle of nowhere is a poor way of putting it. And so I really had in mind investment projects that have—you know, a low return and not trying to, you know, say a bad thing about any particular part of the country.

Chairman YARMUTH. All right. Thank you for that clarification. I now recognize the gentleman from Georgia, Mr. Woodall, for five minutes.

Mr. WOODALL. Thank you, Mr. Chairman. When I flee to the family farm, it is in the middle of nowhere, and I go for precisely that reason——

Dr. SWAGEL. That is——

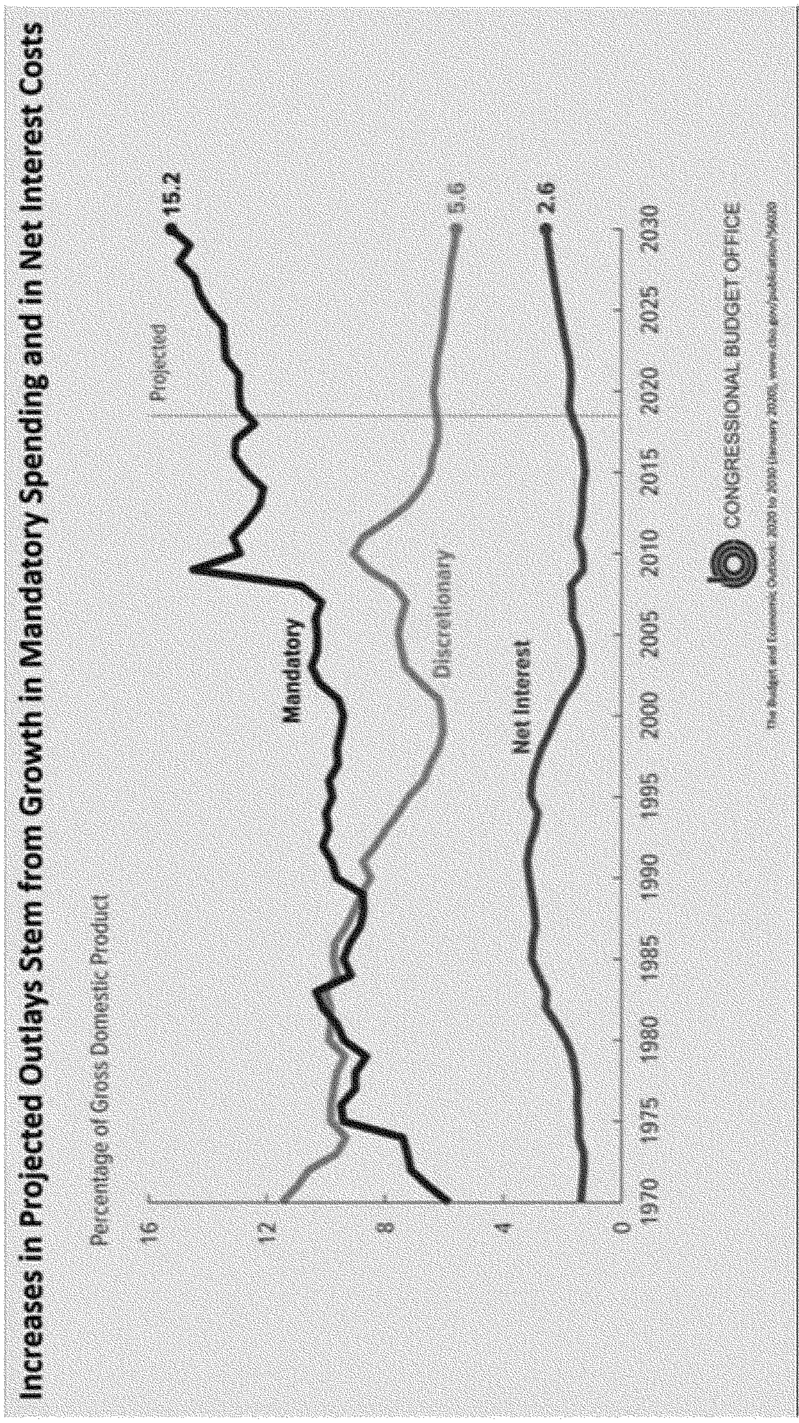
Mr. WOODALL [continuing]. so I took no offense to that. I don't want high speed rail in my backyard there. I am listening to the finger pointing going back and forth. I want to confess. I have been nine years. A lot of this is my fault. And I appreciate the work CBO has done during that time.

To work with such great men and women on both sides of the aisle and having not been able to make more of an impact is incredibly disappointing to me, but there was a time when we passed that 74 Budget Act and constituted this Committee that we said we are tired of taking orders from the White House. We are tired of OMB running the show, and we need to create an institution that will put us on equal footing.

And what has transpired over those past 40 years is we have dwarfed OMB. And there is not a President of either administration that isn't playing with the OMB numbers. And America looks to you all as the fair arbiter in that space. I thank you for taking on that responsibility.

I want to look up here at the—at your slide. Tell me what is reflected there in 2009, 2010 in that giant spike in mandatory spending as a percent of GDP?

[Slide.]


Increases in Projected Outlays Stem from Growth in Mandatory Spending and in Net Interest Costs
Percentage of Gross Domestic Product
16
12
8
4
0
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020
2025
2030
Projected
Mandatory
Discretionary
Net Interest
15.2
5.6
2.6
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Dr. SWAGEL. So it was both—of course GDP was going down because we were in a recession, and then there was a variety of mandatory expenditures that went up, increased transfers and other things and the Affordable Care Act created a new category of mandatory spending.

Mr. WOODALL. And so as the economy has not just recovered but begun to expand, I would expect to see all of the crisis response——

Dr. SWAGEL. Mm-hmm.

Mr. WOODALL [continuing]. go away and in fact begin to trend the other direction. I don't see that. I see a systemic increase of several percentage points there. Is that the Affordable Care Act in its entirety? Am I looking at something else there?

Dr. SWAGEL. No, it is not—I mean that the increase in mandatory spending at the higher level, it is a mix of the new legislation and then the trend of—the two trends I mentioned, the aging and the excess cost growth in healthcare. So it is a mix of those.

Mr. WOODALL. Mr. Kildee was talking about investment and transportation. I appreciate your distinction between investment and smart investment. If I could get more projects out the road—out the door faster, we could seek those benefits and find them faster.

He mentioned the figure of about $1.50 for every dollar invested. You are projecting trillion dollar deficits. If I then find $2 trillion in new revenue, would you—and we spent it all in new transportation projects, would you expect us then to be able to have a zero deficit that following year because that $2 trillion would yield the additional trillion that we needed?

Dr. SWAGEL. No. I wouldn't expect——

Mr. WOODALL. Wouldn't.

Dr. SWAGEL [continuing]. that. And sometimes—right—that would be like a PAYGO there might be some benefit, but it wouldn't reduce the existing deficit.

Mr. WOODALL. So let's look at the trend lines there with discretionary and net interests. It looks like what you are suggesting is—we argue so much about how to invest in schools and how to invest in roads and how to invest in basic science.

It looks like you are saying because of the debts that we have incurred on both sides of the aisle that we are going to be spending almost half as much paying our creditors as we spend on all investment in America combined?

Dr. SWAGEL. That is right. The discretionary spending includes all—essentially all federal investment.

Mr. WOODALL. Have any Members of Congress come to you in your capacity as our budget analysist to say I am excited about this figure and how can we make sure that net interest payments rise even higher to replace and crowd out what would have been investment?

Dr. SWAGEL. No, sir.

Mr. WOODALL. I am looking at POLITICO. They keep of the track of the Presidential candidates. I was disappointed in the Republicans last cycle because no one campaigned on balancing the budget.

They say of the 27 Democratic Members who have been in the Presidential election mix so far including past and former Members of this Committee, absolutely none has taken a position on debt. That of all the questions asked, we are not talking about debt.

Here you are looking at this. I would have a tough time getting out of bed every morning if I had your job, but because it—there is doom and gloom out there on the horizon, not that we can't solve problems, but that for whatever reason we haven't been able to come together to do that in quite some time.

What is it that you see as a professional economic analysist——

Dr. SWAGEL. Mm-hmm.

Mr. WOODALL [continuing]. that I need to see to help me understand why this isn't captivating the American people in a way that pushes the key leaders on both sides of the aisle to complete—not only not to address it, but to completely ignore it in our campaign seasons?

Dr. SWAGEL. So I look at the vertical dash line of today and then look at the net interest. And substance that is the challenge is that interest rates are low and interest rates have remained low.

And the cost of financing our debt has been modest, you know, even as our debt has increased. And that is the challenge is getting a start on addressing the situation over time. It is not—it doesn't have to be done this second. It is not an emergency, but it is a long-term challenge. And that is the challenge of starting.

Mr. WOODALL. We are only one major crisis away than, Mr. Chairman, from getting our Presidential candidates and Presidents to focus on this issue. Thank you, Mr. Chairman.

Chairman YARMUTH. Thank you. The gentleman's time has expired. I now recognize the Vice Chairman of the Committee, the gentleman from Massachusetts, Mr. Moulton, for five minutes.

Mr. MOULTON. Thank you, Mr. Chairman. And I also want to thank my colleague Mr. Woodall because I would like to pick off—pick up exactly where you left off because I do care about the debt. Director Swagel, do you care about the debt?

Dr. SWAGEL. I do. Yes.

Mr. MOULTON. It sounds like Mr. Woodall cares about the debt as well. And so if you get a chance to see the President, you can tell him that at least the three of us provide an answer to his question that he asked recently at a private fundraiser where he said, "Who the hell cares about the debt?" It is good to know there is at least three of us in answer to the President's question.

You know, as a candidate, President Trump said that he would—he could eliminate the national debt quickly. Of course, as President, he has added $3 trillion to the debt during his first three years in office. So are we on track to eliminate the national debt?

Dr. SWAGEL. No, we are not.

Mr. MOULTON. Despite the President's claims as a candidate, you stated that and I quote "Not since World War II has the country seen deficits during times of low employment that are as large as those that we project nor in the past century has it experienced large deficits for as long as we project" end quote.

What single law signed by President Trump is the single largest contributor to the deficit and debt growth over a 10-year period?

Dr. SWAGEL. Well, that would be the December 2017 Tax Act.

Mr. MOULTON. The Tax Cut and Jobs Act in other words as the President refers to it. So I would like to now shift taking that line of questioning and move over to where Mr. Price left off because he talked about what happens when the debt to GDP ratio gets to a point where it is unsustainable.

And you said that there will be a tipping point where that happens, although it is hard to predict exactly where that tipping point is. You then said that the effects will be felt very quickly. Mr. Director, what are those effects? What sort of effects could we expect to see?

Dr. SWAGEL. So when we reach that point, we would—if the fiscal crisis happens, it would come about as investors lose faith in the willingness or the ability of the United States to repay our debt without giving rise to high inflation—borrowing dollars so of course we can always print more dollars. That would lead to inflation and so on.

So we would have higher interest rates, higher inflation. The higher interest rates and inflation would lead to negative impacts on consumer spending, business investment, and therefore the overall economy.

Mr. MOULTON. And so would we likely see a major recession? I mean what—how would this play out——

Dr. SWAGEL. Mm-hmm.

Mr. MOULTON [continuing]. in the lives of ordinary Americans?

Dr. SWAGEL. That is right. It would—has the potential to be a sever negative economic impact with job creation slowing or going negative, output slowing or going negative. And again I am not—that is not in our projection. And I am not say that is happening 10 years or even 30 years. It is just the potential is there with our rising debt.

Mr. MOULTON. But as Mr. Woodall said, it is that crisis that we might have to reach before more people other than the three of us in America apparently care about the debt to answer the President's question?

Dr. SWAGEL. In a sense that is the challenge for policymakers is starting and someone taking the first step. That is——

Mr. MOULTON. And if—since we don't know when this tipping point would occur—I mean if it were to happen soon——

Dr. SWAGEL. Mm-hmm.

Mr. MOULTON [continuing]. do we have a lot of space in fiscal or monetary policy to react quickly and to avert a crisis?

Dr. SWAGEL. You know, that is where we look at financial markets today, and we see interest rates are low. And that is in our baseline. We have marked down our interest rate projection. That suggests we do have the space today if there is some problem today whether it is economic or national security, we have the fiscal ability of the Congress chooses to respond.

Mr. MOULTON. And how should the Congress respond in that—in the event of such a crisis.

Dr. SWAGEL. Of course you won't get policy suggestions from CBO, but you will get an analysis. So if there is, you know, an economic crisis and you tell us to analyze, you know, this spending or this tax cut or whatever, we will give you our best analysis.

Mr. MOULTON. Is your—in your best analysis, has creating such large debt during a time of low unemployment been good policy?

Dr. SWAGEL. You know, it is the noteworthy thing about the economic and budget situation today is that the deficit is wide, and the debt is rising when the economy is this strong. And so it is unusual and it—and so it makes the challenge we face yet larger.

Mr. MOULTON. Would you say that unusual is a euphemism for bad?

Dr. SWAGEL. I was thinking of well, President Kennedy——

Mr. MOULTON. Perhaps terrible.

Dr. SWAGEL. Well, I was thinking of President Kennedy, his inaugural address, right, was fix the roof while the sun is shining. In a sense that is the challenge is to figure out how to do that on the fiscal side.

Mr. MOULTON. And that is obviously what we are failing to do. Thank you. Mr. Chairman, I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Tennessee, Mr. Burchett, for five minutes.

Mr. BURCHETT. Thank you, Mr. Chairman, Ranking Member. I won't bore you with questions that have already been asked so I will try to put it down a little bit on my level so that at least I will understand your answer. And I appreciate you, brother. I appreciate you being here.

Your report stated that the deficit to reach a trillion dollars and that debt is held by the public, and it has risen to 81 percent of the GDP.

Dr. SWAGEL. Mm-hmm.

Mr. BURCHETT. That number as you reported is projected to rise to 98 percent by 2030 and by 180 percent by 2050. I think that is ridiculous. It is clear to me that we lack discipline when it comes to responsibly spending hard earned taxpayer dollars.

I am always—I hate it when either side tries to belittle small business or anything else and tells them how they need to better manage their money when we—I mean we give—we make drunken sailors look good. I know Crenshaw is a sailor, but he is not a drunk so I can say that—but Dr. Swagel, how can Congress scale back our irresponsible spending habit without having a devastating effect on the economy?

Dr. SWAGEL. In a sense the fiscal space that we are—that several of your colleagues have discussed means that we have the ability to do this over time. Right. That it doesn't have to be a wrenching change in—you know, whether on the spending side or on the revenue side that we can address this over time.

And in a sense, the sooner we act as a nation—again, it doesn't have to be tomorrow, but the sooner we act the more manageable will be the changes and the less the disruption to our economy and to small businesses and others as you say.

Mr. BURCHETT. OK. Thank you very much. I will yield back the rest of my time. And I won't bother you with running down my friends across the aisle or any of my predecessors so I will just leave it at that.

Chairman YARMUTH. The——

Mr. BURCHETT. I will save that for another day.

Chairman YARMUTH. The gentleman yields back. I now recognize the gentleman from California, Mr. Panetta, for five minutes.

Mr. PANETTA. Thank you, Mr. Chairman, Ranking Member Womack. And thank you, Director, for being here. And thank you for your service. And I guess thank you for giving us this report—this information, which is actually a pretty stark warning, a warning that as you have said deficits are pretty much growing beyond our control.

But what puts the fear in me is that deficits are growing beyond our will to control it. It is almost like we have gotten to a point where we have given up. It is what it feels like. And that is why we are returning to trillion dollar deficits for the first time since 2012.

Our national debt is expected to surpass $31 million by the end of 2030. And the debt service will take up a larger share of the federal spending leaving less for everything else that we have talked about. And of course it is going to lead to higher risk, of fiscal crises, crises and hamper our ability to respond to those types of crises.

Yet we are hearing a range of perspectives on our debt and deficits that we are in a debt emergency, and we have to dramatically cut spending today or that it is a long term issue and really not something we need to deal with right now. I don't agree with either of those.

I do agree with the fact that we need to start developing a plan to combat long-term deficit growth because I think as we are seeing the truth is that neither party, Democrats or Republicans, are doing anything right now to get our fiscal house in order unfortunately.

It doesn't mean we have to forgo important investments. OK. We understand that. We don't have to forgo infrastructure or students or families. But it is clear that our debt will make it harder to continue making these types of worthy investments.

And it means that we will need to be fiscally responsible when it comes to our spending and, yes, raise the revenue to do it. It means that we will need a plan to control healthcare costs and prescription drug prices.

We will need legislation like the Social Security Act, Social Security 2100 act and restore solvency to our Social Security trust funds. And, yes, we will need to repeal provisions of the 2017 tax law which are contributing to our current deficit without providing the growth we needed to offset it and ensure that the wealthy are paying their fair share.

And I appreciate what Professor Price said that everything does need to be on the table when addressing this issue when it comes to our deficit. And that includes us—this Committee—putting things on the table. It includes this Committee having a role to play.

And I do believe that this Committee can begin by getting back to passing budget resolutions and discussing ways to reform the budget process. I am hopeful that we in this Committee will take a serious look not just as the drivers of the deficit but also explore ways to ensure a fiscally sound policy in the future.

Now, with that being said, Director, what do you feel this Committee can do to reduce future deficit spending?

Dr. SWAGEL. Of course I have to start by saying, right, we will support you. We will give you the analysis. We won't give you the policies. But you have put your finger on the challenge.

And can I just add one, you know, small dimension to it which in a sense—imagine a policy of PAYGO, right, which would be a step, you know, in the direction of fiscal responsibility. But there is also a sense in which by taking off pay floors—by taking them off the table and spending them, well that doesn't address the existing challenge.

And this always makes it more difficult because then other things have to be done whether spending or revenue to address the challenge. And sometimes that is—that is how difficult it is that PAYGO is not enough. And in some ways, it makes it more difficult—you know, again without evaluating the merits or demerits of any particular project.

Mr. PANETTA. Understood. In your analysis—so I will make it easier for you to answer. In your analysis would this Committee passing a budget resolution or trying to reform the budget process would that help?

Dr. SWAGEL. I mean that wouldn't show up directly in the baseline. And of course that would change the way we work. And we would work however the Congress directs us to——

Mr. PANETTA. On that note what do you think of biennial budgeting to reduce deficits?

Dr. SWAGEL. I mean——

Mr. PANETTA. Or biennial appropriating.

Dr. SWAGEL. Right. So I have not looked at that. We haven't looked at it since I have been director. You know, I recognize this was the advantages and disadvantages of—giving the Congress, you know, more time and space to in some sense I think further down the road. And of course the disadvantages of less control in a sense.

Mr. PANETTA. Understood. Thank you. I appreciate your service. And thanks again, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Oklahoma, Mr. Hern, for five minutes.

Mr. HERN. Thank you, Mr. Chairman and Ranking Member. Director, thank you for being here. I want to give you a shout out for you and your team and the work you do to produce tools that we can do our work better. I would encourage all of my colleagues to go review your website. You have a tremendous amount of information on there.

Dr. SWAGEL. Thank you.

Mr. HERN. I spent some late nights reading a lot of your outlooks, not yours personally, but your——

Dr. SWAGEL. Mm-hmm.

Mr. HERN [continuing]. your group from all the way back in 2000. So it is interesting to see the predictions of the—various policies. You know, it is interesting that we take in $3.6 trillion which is the highest we have ever taken in as a country. And we still can't seem to get our budgets balanced. Most American people if not all find that just impossible to even comprehend.

We do have a problem that we need to get after. We have—it is going to run amuck if you will. You know, it is when you look at China and Japan own probably more than half of our foreign that—between the two of them. And it kind of vacillates back and forth between where they are at. One likes us; the other not so much. It is very troubling.

I go back and remember in July 17 when General Mad Dog Mattis testified before Congress. He said the national debt is the biggest national security threat we must face. As President Eisenhower noted the foundation of military strength is our economic strength.

In four short years, however, we will be paying more on interest on our debt that will be a bigger bill than we pay for our national defense. Much of that interest will be money that is destined to leave America for overseas. If we refuse to reduce our debt or pay down our deficit, what is the impact of the national security of future generations who will inherit the irresponsible debt and taxes to service it.

No nation in history has maintained its military power if it failed to keep its fiscal house in order. So this is not a Republican issue. This is not a Democrat issue. This is a national security issue. We must come together to mitigate this threat.

You know, many would say that we have created the greatest Ponzi scheme by taking economic opportunity away from future generations to pay for our insatiable appetite to spend today. Director Swagel, would you agree that this is could become a national security threat if we don't get this house in order?

Dr. SWAGEL. Yes, sir. I agree and agree with General Mattis. And we saw that in the chart that was put up before—discretionary spending—it doesn't have to be squeezed, but as revenue—as there is equals mandatory and net interest payments, discretionary inevitably will be squeezed.

Mr. HERN. So Director Swagel, in your analysis would you agree that Republicans and Democrats are responsible for this. I mean if you go back to President Bush, he doubled the debt from $5 to $10 trillion, Obama from $10 to $20 trillion. Certainly, President Trump is on a pathway to double it from $20 to $40 trillion. But we have equal responsibility.

And there is a lot of politics that come into the budget process which it shouldn't. We have—this is a numbers game, right? I mean it is really about balancing our budget, revenues, expenses not exceeding revenues, and getting after it. We saw that it can be done back in 1997, 1998, 1999, 2000.

American citizens look at us as failing to do our basic job of creating a budget and living within our means. Nobody understands it is one of the highest percentages in surveys that are done—why can't you do your job? Mr. Swagel, could you—you are student of your job.

Dr. SWAGEL. Mm-hmm.

Mr. HERN. Could you describe to us the purpose of the Congressional Budget Act of 1974?

Dr. SWAGEL. So it was referred to earlier in some sense to give the Congress the tools and the information that the executive had already with OMB. And so that is our job, you know, first and foremost is to provide the Congress with support on the budget and the—you know, the numbers and the analysis.

So you have the report we did today that gives you that information. And then when there is legislation, we will work and do our best to provide the Congress with cost estimates.

Mr. HERN. Director, I am sorry. I am just——

Dr. SWAGEL. No, please.

Mr. HERN [continuing]. running out of time. But it also laid out a format by which would get the President's budget, the House and the Senate's budget. We would reconcile the budgets.

Dr. SWAGEL. Mm-hmm.

Mr. HERN. And the President's is really pretty much a policy guideline. It wasn't legislative edict. And that we would create a budget. We would authorize the moneys, 302s and 302bs, and all these things. And we would have a budget produced so that we knew what our spending was going to be on October 1; is that correct?

Dr. SWAGEL. That is correct.

Mr. HERN. How many times has that been done since 1974?

Dr. SWAGEL. Boy.

Mr. HERN. Let me help you, four times.

Dr. SWAGEL. Four times. OK.

Mr. HERN. Do you know when the last time was—it was done?

Dr. SWAGEL. I don't know.

Mr. HERN. 1996. So the—Congress has failed. This Committee has failed to do its job and get—the House on both sides of the aisle have failed to get that done in the last 30—24 years. Twenty-four years, we have not done our job.

So we have together to get a budget. There is no body in this room personally or if you are a businessperson that runs a business or your personal life without a budget. And we shouldn't come in here and be political. And I get that done as well.

Again, I applaud you for the work you do and staying out of the policy world, but we need to collect them to come and do our job. This is not the President's fault. This is not the Senate's fault. We have to originate a budget out of here. And we have to come together, get the leaders of our respective Houses—majority get that done.

So Mr. Chairman, I appreciate it. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Virginia, Mr. Scott, for five minutes.

Mr. SCOTT. Thank you, Mr. Chairman. Mr. Chairman, it is not equal blame. We have a chart that is coming up that just reminds people. It is all the Houses fault. No, before you can spend, you have to pass the House and the Senate and be signed by the President. The President has outsized power on this.

And we will notice that from Nixon and Ford all the way through President Trump, every Republican President has come in and made the budget deficit worse. And since Carter every Democratic President has come in and made the deficit position better without exception.

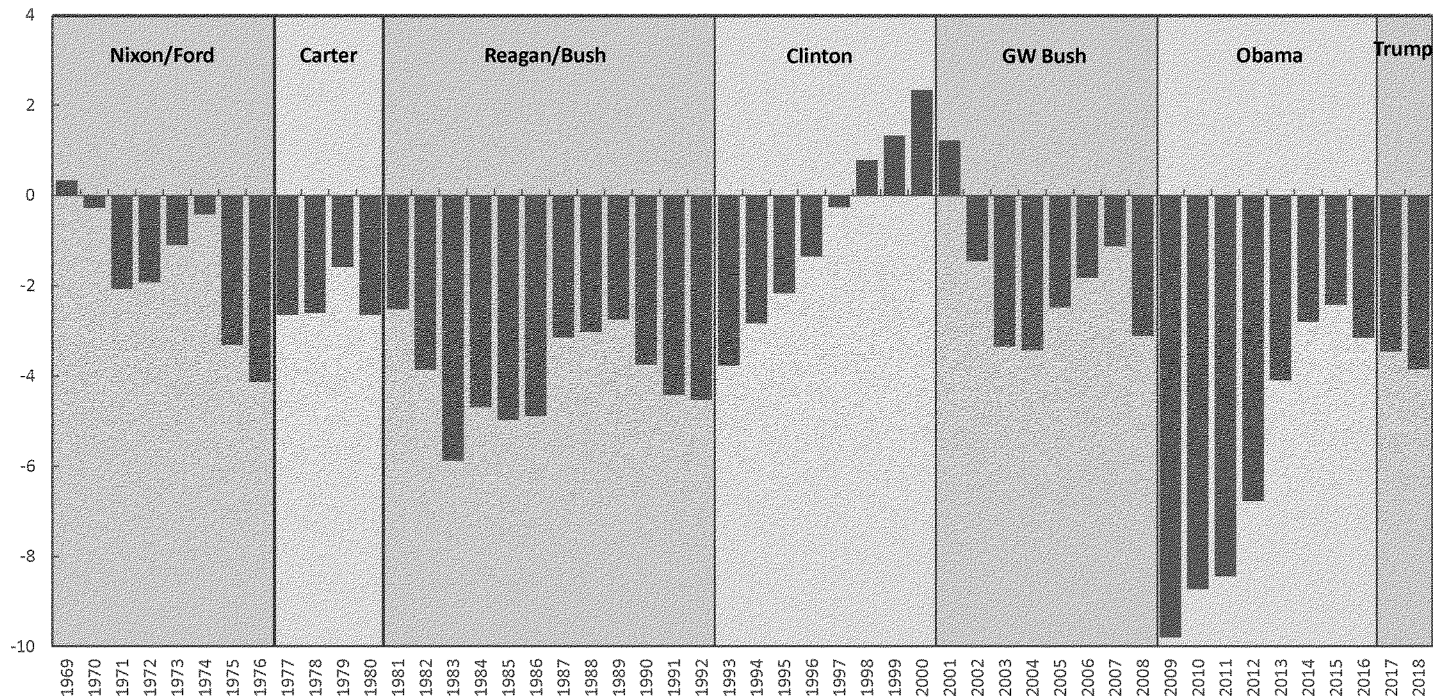
The next chart shows that the $1.5 trillion dollar tax cut plus interest brings it up to closer to $2 trillion. When President Obama's economic plan was passed it was at the top of the unemployment.

And you can see that there—it reduced the unemployment rate. And when a plan twice as big came in, you don't see a wrinkle in the trend line.

The next is in the jobs. We will notice this is in October—the last 33 months of the Trump Administration—first 33 months—189 thousand jobs a month, 240—224 thousand jobs under Obama—again, not a wrinkle.

[Charts.]

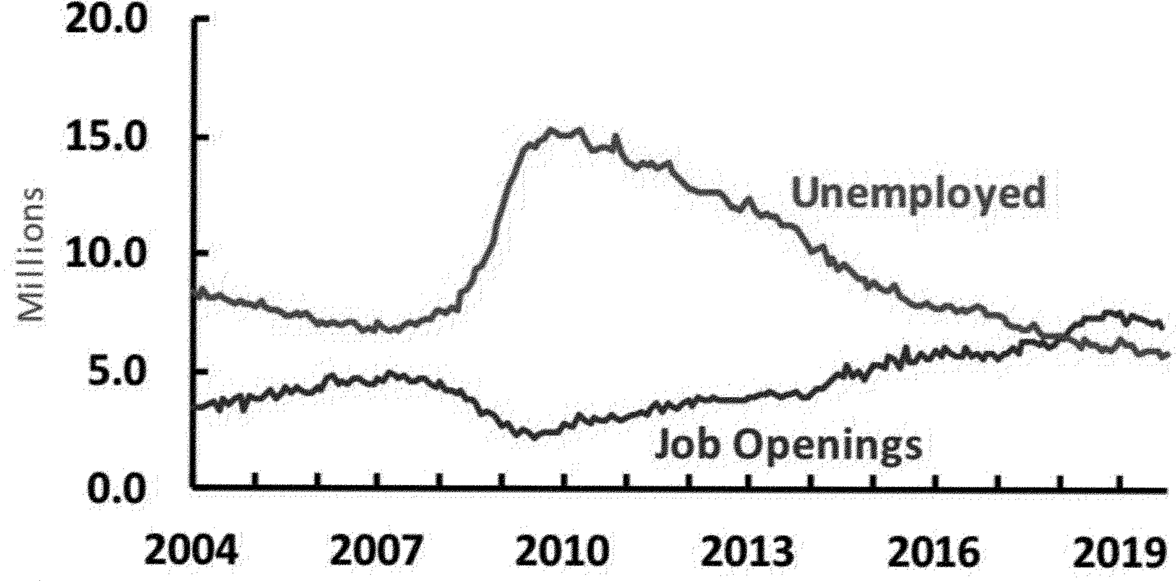
Federal Budget Deficit as a Percent of GDP. 1969-2018



Source: Congressional Budget Office, The Budget and Economic Outlook, 2019-2029, January 2019

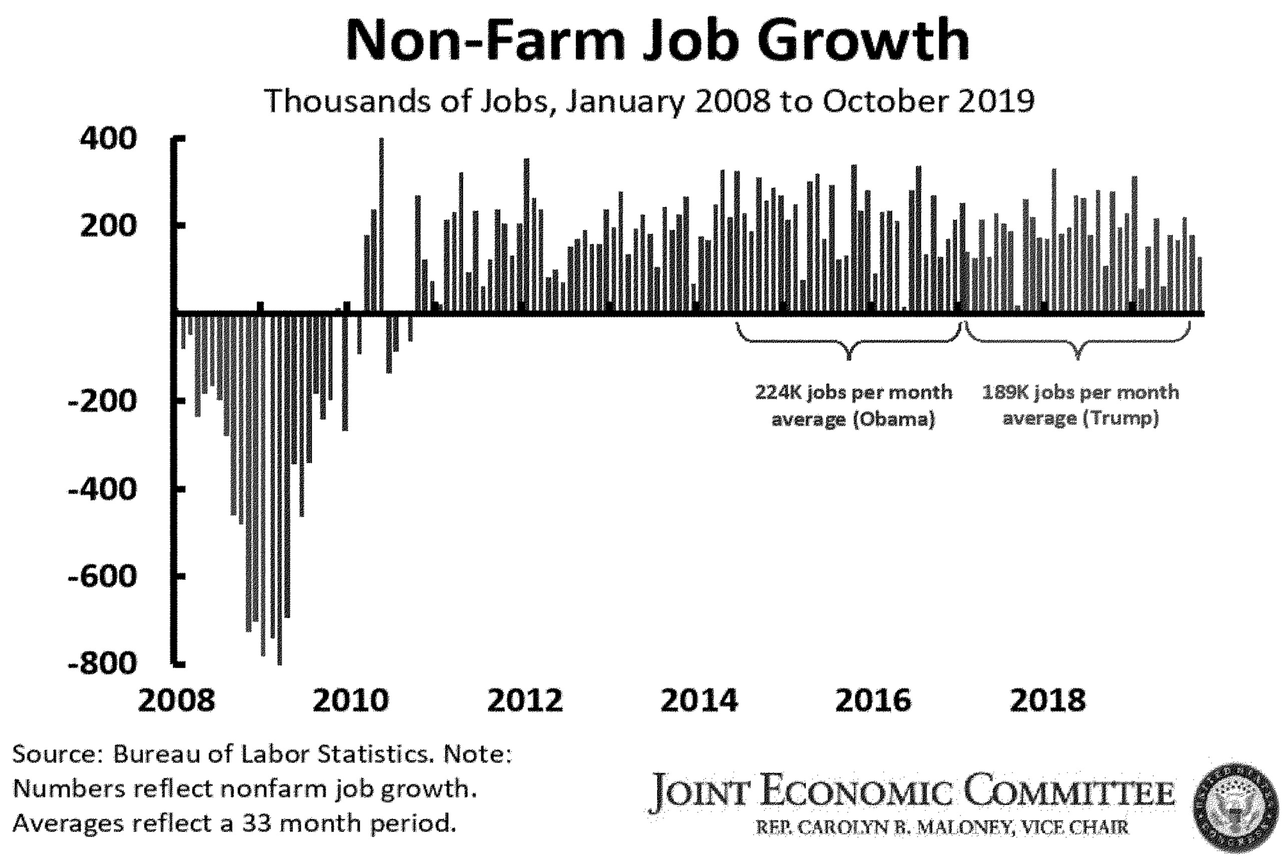
Job Openings vs. Unemployment

In millions, January 2004 - September 2019



Source: Bureau of Labor Statistics

Note: Job openings refer to nonfarm job openings.


Non-Farm Job Growth
Thousands of Jobs, January 2008 to October 2019
400
200
-200
-400
-600
-800
2008
2010
2012
2014
2016
2018
224K jobs per month average (Obama)
189K jobs per month average (Trump)
Source: Bureau of Labor Statistics. Note: Numbers reflect nonfarm job growth. Averages reflect a 33 month period.
JOINT ECONOMIC COMMITTEE
REP. CAROLYN B. MALONEY, VICE CHAIR

Obama vs. Trump: Dow

Percentage increase in Dow by day in office

Chart: Fortune • SOURCE: Yahoo Finance

FORTUNE

In terms of economy by the Dow, Dow has gone up significantly more under Obama than under Trump. And Mr. Chairman, I would ask unanimous consent to introduce into the record an article in Fortune magazine entitled “The S&P 500 is at an all-time high, but markets still performed far better under Obama than Trump.”

Chairman YARMUTH. Without objection, so ordered.

[The information referred to follows:]

The S&P 500 Is at an All Time High—But Markets Still Performed Far Better Under Obama Than Trump

BY
ERIK SHERMAN

November 1, 2019 3:24 PM EST

Before the Fed lowered its target interest rate range on Wednesday, Donald Trump was already on Twitter, touching on two of his favorite topics: how the Fed doesn't lower interest rates enough and that the stock market's performance is thanks to him and his Republican pals.

The connection between a president and equity markets isn't straightforward. Many factors—the general health of the economy, investors sentiment, interest rates, financial stimulus, and global business conditions, for example—affect how stocks perform. But presidents also aren't unimportant.

"Policies may or may not be helpful for economic growth," says Kenneth Orr, CEO of investment research firm and value investment fund manager KORR Acquisitions Group. "Policies are led by the President and his Administration, but Congress must pass laws and budgets to affect those policies."

And so, as *Fortune* did in early June, we decided to take a look at how the markets performed during the Administrations of Barack Obama and Trump. We downloaded historical information on the Dow, S&P 500, Nasdaq, and Russell 2000 indexes from Yahoo Finance. Then we compared the same periods for both presidents: from inauguration on January 20 to Oct. 31 in their third year of office.

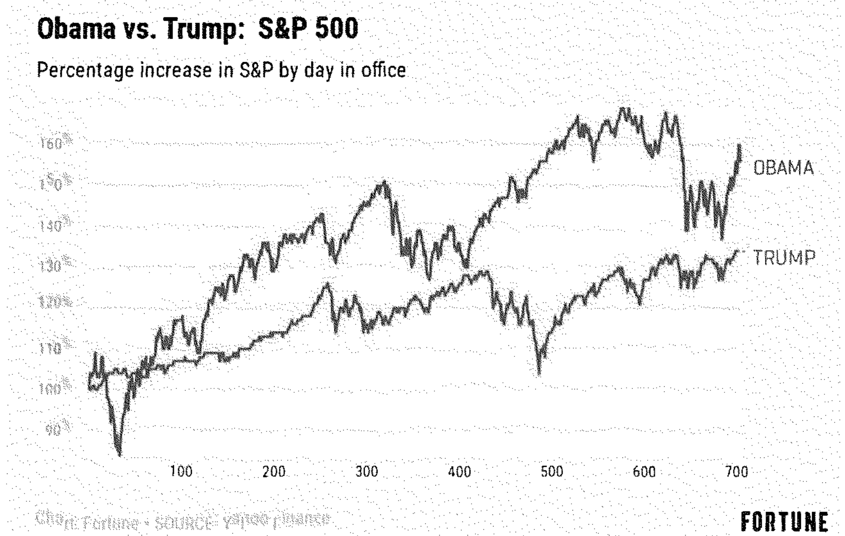
Because the market had already run up a long way before Trump was elected, the absolute numbers would be misleading. Instead, *Fortune* compared the performance under each president to his initial inauguration day to get an accurate comparison of growth under each.

Below are graphs and analysis for each of the sectors. For those who want the quick answer, market growth was considerably stronger under Obama, but there is an important caveat. The financial crash that occurred immediately before

Obama took office left markets reeling, so there was a lot of room for them to move. Also, the massive financial stimulus enabled by Congress helped drive growth.

S&P 500

The S&P 500 is all about large companies: the 500 largest public companies on either the New York Stock Exchange (NYSE) or Nasdaq exchange as measured by market capitalization. Here is a graph showing the index's progress under each president, again normalized so both can be compared on the same scales.



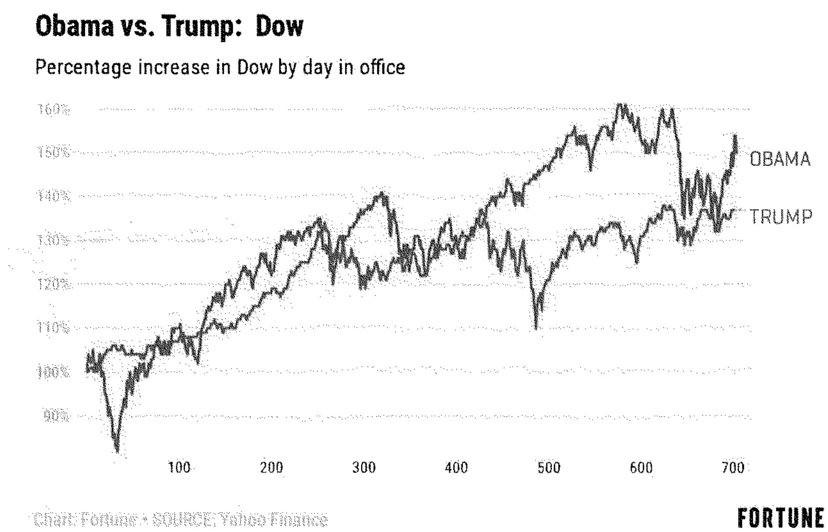
*100% equals full market value on first day in office

Each horizontal axis shows the number of days in office. On the vertical axis, 100% means the same value on the first day in office, which is why each line starts at 100%. Any value over 100% shows an increase (122% means 22% higher than the first day, for example) and a value under 100% shows a decrease (84% means 16% less than the first day).

The downward dip about a month in under the Obama administration is a general blow the entire market took and which appears in each graph. By the end of October 2011, the S&P 500 hit 156% of the value it had on Obama's first day, which means the index increased by 56%. Under Trump, the increase was 34%, or 22 percentage points lower than the gain under Obama.

Dow

While the Dow (or Dow Jones Industrial Average) consists of 30 large cap companies, they are chosen specifically by Dow Jones & Company in an attempt to represent the broader economy. They are all large public companies with stable earnings that are on the NYSE or Nasdaq.

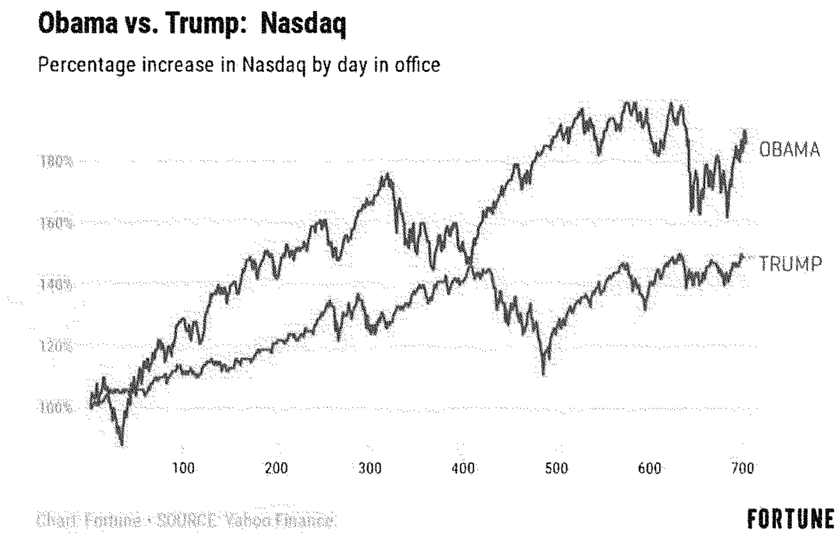


*100% equals full market value on first day in office

The difference in the Dow between the two administrations is significantly smaller. The percentage change under Obama was roughly 150%, meaning a 50% increase over the initial value. Under Trump, the 136% change, or 36% gain in value, was 14 percentage points less.

Nasdaq

Nasdaq means two things. Like the NYSE, it's a stock exchange where people can buy and sell shares. But it is also an index of stocks, many of which are high tech companies. So the Nasdaq index has come to be considered a quick way for investors to check the pulse of companies that depend heavily on innovation.

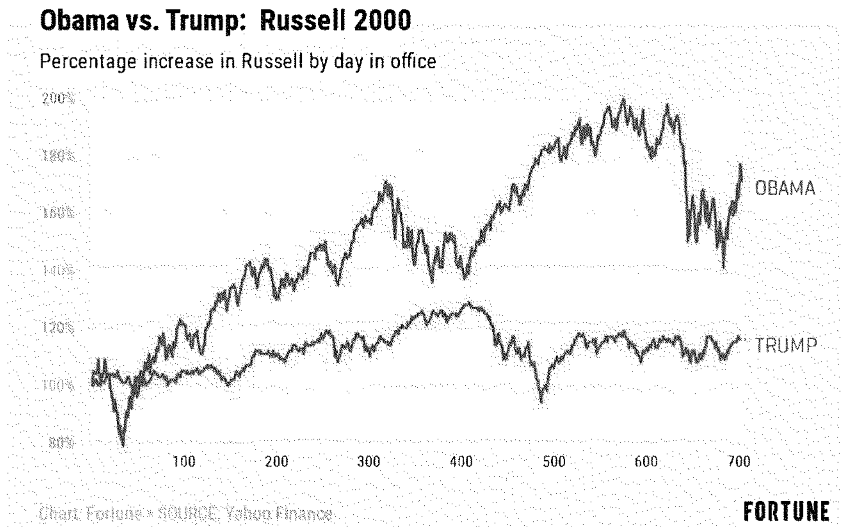


*100% equals full market value on first day in office

The difference here is strong. Up to now, measured from Trump's first day, the Nasdaq has seen a 149% change for an increase of 49%. At the same point under Obama, it was a change of 186%—an icrease of 86%, or 37 percentage points more than for Trump.

Russell 2000

All of the above indexes are either entirely or heavily large cap stocks. The Russell 2000 is the opposite: 2000 of the smallest public companies. Investors use this index to monitor the progress of smaller companies.



*100% equals full market value on first day in office

The Russell showed the largest difference under the two presidents. A change of 171%—a gain of 71%— during the Obama administration was a whopping 55 percentage points more than Trump's 116% change, only a 16% increase.

But the economy climate and particulars for each president vary widely. Such factors as a generally acknowledged slowing business cycle now and the massive stimulus packages put into place as Obama took office have impacts on results. Still, it's been a long and strong ride for the last ten years.

"Each president deserves a win," says financial advisor and former currency trader Morris Armstrong. "I think that the government deserves collective credit for keeping our economy afloat, that the early bounce is easier than the mature bounce."

As to whoever wins in 2020? "The next president will likely have a recession as an inauguration gift," Armstrong says.

Mr. SCOTT. Thank you. Mr. Swagel, we have heard a lot of comment about bills that have been introduced on the Democratic side without a comment that under the Democratic protocol anything would have to be paid for before it got passed.

Let me talk about an unpaid for a tax cut that actually passed under the Republicans. You mentioned that there were investment as—of the benefits of that tax cut where 80 percent of the benefits went to the top 1 percent incorporations.

How much of those benefits to corporations were invested in stock buy backs and dividends compared to increased jobs and higher salaries?

Dr. SWAGEL. So we don't have a precise parsing of what went into, you know as you said, buy backs and investment. We do see an investment response, but we don't—we can't divvy that up——

Mr. SCOTT. Isn't it true that a substantial portion went to stock buy backs and dividends?

Dr. SWAGEL. So we have tracked that, that corporations have returned capital to their shareholders including through stock buy backs.

Mr. SCOTT. OK. And that—that is not like more jobs and higher salaries. Can you comment on the projected interest we are going to be paying in 2030 at the rate we are going compared to discretionary spending?

Dr. SWAGEL. And we saw that on the chart that the net interest at the end of our budget window will be nearly half of discretionary spending.

Mr. SCOTT. That would be more than non-defense discretionary spending in total?

Dr. SWAGEL. It would be certainly more than defense discretionary spending. That is right.

Mr. SCOTT. And at the end—in 2001 there was a projection—you weren't here then but under—when President Clinton left office, we were supposed to pay off the entire debt held by the public by 2008; is that right?

Dr. SWAGEL. Yes, I do—I wasn't here, but I do remember that.

Mr. SCOTT. Which means that we would be paying zero interest, not more than the entire non-defense discretionary spending?

Dr. SWAGEL. That is right. And of course, there is the recession and subsequent legislation that have changed that. That was the estimate.

Mr. SCOTT. Well, yes, we messed it up because we passed two tax cuts without paying for it, prescription drug benefit without paying for it—for two wars without paying it. And all of a sudden guess what, we are back in the ditch. None of that paid for.

Under the Democratic leadership, we had PAYGO. If you want a new plan, you got to pay for it. Can you say a word about what income inequality does to our budget—to your budget projections?

Dr. SWAGEL. So income inequality is part of our budget. It affects both spending and revenue. And so rising inequality in some sense affects what is happening at the bottom of the distribution with more entitlement spending. And that flows through into the fiscal situation.

It poses a challenge for the long-term budget that we know that increasing inequality has particular effects on families, on children, and in some sense on the intergenerational transmission of poverty to the future, which again feeds back to the economy.

So in some sense—I am sorry. I am—I will bring this together. There is both the immediate impacts on the, you know, spending programs from inequality and then I have in mind the longer-term impacts on what does it mean for us as a nation and our growth trajectory.

Mr. SCOTT. And the more inequality, the worse it is for the budget?

Dr. SWAGEL. That is a good question. I don't know actually because——

Mr. SCOTT. Well—that is what you just said. I mean——

Dr. SWAGEL. You know, the challenges that—because of the progressive nature of tax system that, you know, income at the top is taxed by more than income at the bottom. So I can't in my head say offhand. So that is why I am—I am not sure, but I know it is an economic challenge if—if I can't parse out the fiscal impact right away.

Chairman YARMUTH. The gentleman's time is expired. I now recognize the gentleman from Pennsylvania, Mr. Meuser, for five minutes.

Mr. MEUSER. Thank you, Mr. Chairman. Dr. Swagel, do you agree our labor market is strong, our unemployment rate is at historic lows of 3.5 percent, wages are rising? Despite this extremely robust economy, our country is still on very concerning financial path due to excessive spending habits?

Dr. SWAGEL. Yes. So as you said, the economy has pretty good growth, and the unemployment rate is low, and the labor market is strong with rising wages throughout the distribution and especially strong wage growth at the bottom of the distribution even—as we said before, the deficit remains wide even as the economy looks to be in pretty good shape.

Mr. MEUSER. Revenues are up 5 percent, 2019; projected the same in 2020. Spending is up quite a bit more in 2019 and projected for 2020. And is—spending is dramatically projected to increase over the next 10 years. But revenues are up 5 percent.

I was a former revenues secretary for the Commonwealth of Pennsylvania. The best growth year in revenues we ever had was 2.9 percent. We ended up having quite a surplus without tax increases. So 5 percent increase in revenues after——

Dr. SWAGEL. Mm-hmm.

Mr. MEUSER [continuing]. the Trump Jobs Act and Tax Cuts is still a very healthy revenue growth rate, would you say, compared to other countries?

Dr. SWAGEL. It is a good question. I don't know about compared to other countries, but it is—I mean revenues are growing as you said by 5 percent. And at the end of our projection, we are going to be right back to the historical average for revenues as a shared GDP.

Mr. MEUSER. So I am going to continue. The federal budget cumulative deficit is projected as you have said at 1 trillion in 2020. That is an increase of $31 billion from 19 to 20. It is not an increase from year to year of $1 trillion as some people try to make it out or maybe misunderstand.

Dr. SWAGEL. Mm-hmm.

Mr. MEUSER. Now, let's just compare to the Obama Administration strictly for the purpose of comparing. Revenues—let's use 2015, the heyday when the Obama economy was at its best. Revenues were at 5 percent growth, same as they are now. That is after the Obama tax increases. They were at 5 percent growth.

Mandatory spending, however, that year did go up $200 billion—$200 billion year to year. That is more than this year. And discretionary was flat largely due to sequester-ship and some can claim the good work of Republican Congress.

So the point is we have without casting blame we have a mandatory spending problem. And trying to place blame on a tax cut—OK—is truly intellectual dishonesty, would you agree?

Dr. SWAGEL. And so the way that I would analyze it is to say this year—you know, once the tax cut is a share of GDP, 1, 1.2 percent just for this year. It is 1 percent over 10 years, but just this year say 1.2. And the deficit we project this year is 4.6. So that is—this year as you are focusing, 1.2 percentage points out of 4.6 would be the part I would allocate to the December 2017——

Mr. MEUSER. OK.

Dr. SWAGEL [continuing]. Tax Act.

Mr. MEUSER. But we have created millions of jobs, 7.3 million over the last three years. If you factor in approximately $9,000 at an average family tax rate federal revenue that is $63 billion right there. Add in what the savings is from entitlements that is well over a $100 billion.

And it is impossible—let's face it, it is impossible to measure the—for instance the small business tax cut where you give approximately 20 percent tax rate cut to a small business who then adds an employee and that continues compound the following year because business increasing.

And then with trade agreements they are actually picking up added market share in other nations and in other states and throughout the world. Over a five-year period, how can that—that new revenue that comes in be calculated?

Dr. SWAGEL. Mm-hmm.

Mr. MEUSER. Right? I mean that is what has made—put America on the fast track from 1945 to 1990 versus Europe, for instance. We grew our economy 40 percent plus, where the European's economies were because we were in—in more of a competitive—we created a more competitive environment for our businesses. Even though we reduced our corporate tax rates to 21 percent, Ireland is far less than us——

Dr. SWAGEL. Mm-hmm.

Mr. MEUSER [continuing]. 12.5 percent. The UK is 19 percent. Wouldn't you agree that competitive tax rates are essential to the long-term growth of our economy?

And we owe it to the people of America not to accumulate their money, those tax dollars, but provide it back to them so they can spend rather than the federal government spend it for them. And we should at the same time focus on more fiscal responsibility when it comes to spending.

Dr. SWAGEL. OK. So we—our analysis of the December 2017 Tax Act looked at the effect on the attractiveness of the U.S. for global investment, the competitiveness.

At least we—our analysis said that the overall tax act, including all of the international provisions and the domestic, the lower corporate rate, made the United States a more attractive place for global investment. You know, that is based on our analysis. That is what I would—that is——

Mr. MEUSER. Thank you, Mr. Chairman. My apologies for going over my time.

Chairman YARMUTH. All right. The gentleman's time has expired. I now recognize the gentlelady from California, Ms. Lee, for five minutes.

Ms. LEE. Thank you very much. Thank you for being here. And thank you, Mr. Chairman. Let me say this first of all. I am glad you are here. And looking at a lot of the economic data, you lay out the numbers——

Dr. SWAGEL. Mm-hmm.

Ms. LEE [continuing]. and the projections, but I don't see any—much reference to the issue of race and gender.

Dr. SWAGEL. Mm-hmm.

Ms. LEE. And the data is not just disaggregated at all. And so I am trying to unpeel this onion a little bit as it relates to communities of color, African American, Latino, and the Asian-Pacific American, and Native communities.

Because it is no secret that economic inequality disproportionately impacts women and communities of color, but I can't find any of the data in here as to the impact.

So we have a couple of numbers and references I would like to ask you about. Latino, Black, and indigenous households, they each make $20,000 less than white households. Women bring home about $200 less a week than men.

So I am not sure if you have done any economic outlook, surveys, assessments, data collection that will impact to tell us how the economic outlook really addresses income inequality for woman and communities of color——

Dr. SWAGEL. Mm-hmm.

Ms. LEE [continuing]. specifically and what the economic case for reducing high levels of inequality for a specific population what that looks like. Second, this CBO report that was issued last month, it projected that income inequality will be greater in 2021 than it was in 2016. And it shows that federal tax and transfer policies will be less effective in reducing inequality in 2021 than five years before. And so I am wondering how the tax—the 2017 Tax Law plays a role in that?

And then the final question again related to these two is that the economic—well, unemployment forecast. First of all, the unemployment rate for African Americans still is double that of their white—our white counterparts. And so how do you lay that out in terms of what that means as it relates to wage growth——

Dr. SWAGEL. Mm-hmm. OK. OK.

Ms. LEE [continuing]. going forward and how you close that gap?

Dr. SWAGEL. OK.

Ms. LEE. Because many—because I know this unemployment rate also reflects—even though it is double that of our white counterparts——

Dr. SWAGEL. Mm-hmm.

Mr. LEE [continuing]. people of color, American Americans are working two and three and four jobs just to be able to barely survive.

Dr. SWAGEL. Mm-hmm.

Mr. LEE. And I don't see any of this noted in any of these reports that you issued.

Dr. SWAGEL. OK. No very good. I will say a few words on a couple of these topics. And in some substance, you have put your finger on this report that this is CBO with our budget blinders on. And we focus, as you said, very narrowly.

And I am the first to say that the budget is important. That is what—we are here to support the Committee and the Congress, but by far it doesn't address every important issue facing the nation and the Congress by far. So I am the first to agree with you.

On income distribution, we have done important work at the Congressional Budget Office. You mentioned the report looking at the change in the distribution from 2016 to 2021. That looks at the effect of the tax and transfer system in affecting distribution.

And the taxes and transfers do reduce and mitigate inequality, but what we show in that report is that our projection is that they will do less to attenuate inequality, both the transfer system and the tax system. And this is the characteristics of the 2017 Tax Act. And as the economy improves means tested transfers will tend to fall away.

So there is some good news that stronger growth at the bottom of the distribution means people are getting fewer benefits, but it means the transfer system is doing less. And we are doing other work on distribution where I would be happy to come and talk to you, talk to your staff about what we have in training over the coming year.

We should come talk to you also about work we could do that is focused on the communities of color as you say. We have some. We are working housing where affordable housing is a particular challenge. We have work on healthcare.

We don't—I am trying to think of what we have in the pipeline that is public. I can't think of anything in particular focused on the communities you say, and that is—it is a gap.

Ms. LEE. Well——

Dr. SWAGEL [continuing]. so——

Ms. LEE [continuing]. I would like to suggest that either we have a hearing on this issue or have a meeting or something to drill down because—thank you for being so candid and so honest because I think we are leaving out—there is a gap——

Dr. SWAGEL. Yes.

Ms. LEE [continuing]. that we need to understand and fill. If we truly are going to close the racial inequality gap and there is a huge gap based on race and income. And we can't ignore that if we really want to ensure economic equality for all in our country.

Dr. SWAGEL. Can I add one—just one more sentence here?

Chairman YARMUTH. Please go ahead.

Dr. SWAGEL. Which is in some substance that is the—that is the striking thing about the economic situation today—I talked about the budget, but the economy is doing pretty well. The unemployment rate is low.

And yet there are tens of millions of American adults, not to mention children, on the sidelines not employed. We know there is challenges of homelessness of addiction. There is issues with opioids, mental illness.

There is a lot of challenges that affect the bottom of the distribution. We have not looked that, but that is—if that support the Committee, we certainly could.

Ms. LEE. Yes. Because a lot of those challenge though are directly related to economic inequality and the lack of a decent wage and affordable healthcare and adequate housing. And so—it is not—these challenges aren't separate from economic growth or economic inequality.

Dr. SWAGEL. OK. And we have the expertise to take this on so——

Chairman YARMUTH. Great. Wonderful. We will——

Ms. LEE. Thank you.

Chairman YARMUTH. We will followup on that.

Ms. LEE. Thank you.

Chairman YARMUTH. The gentlelady's time has expired. I now recognize the gentleman from South Carolina, Mr. Norman, for five minutes.

Mr. NORMAN. Thank you, Mr. Chairman. Thank you, Director Swagel for coming. You know, I know in South Carolina our—my constituents, they don't—you know, they are not worried about 10 year budgets. They are not worried about 10 year projections. They just want to fix the spending problem.

We don't have an income problem. We have a spending problem. I think that you would agree to that. In the private sector when you have a problem in your particular business, whatever that is, you deal with it at that time and it involves cuts and it involves a realistic look at where you are.

You said earlier the CBO was—provides a roadmap to the policies that the House of Representatives as it relates to a budget comes up with. You evaluate where we are.

Dr. SWAGEL. That is right.

Mr. NORMAN. It doesn't take a rocket scientist to know that we have got a financial cliff that you have eluded to. Social Security, I think is insolvent in 2035. Medicare—Social Security in 2032.

Dr. SWAGEL. 2032. That is right.

Mr. NORMAN. Medicare, 2025.

Dr. SWAGEL. That is right.

Mr. NORMAN. Two countries, basically China and Japan, own 60 percent of our—41 percent of our debt. China is not so much a friend for our way of life or militarily. What is it going to take to rattle the changes of this—of I guess young people. I mean a lot of them I see here today to put pressure on Congress to make some meaningful inroads into the problem we have got right now, which is spending?

Dr. SWAGEL. Mm-hmm.

Mr. NORMAN. Let me just tell you, you alluded to it is going to take a financial crisis. Define for me what that financial crisis is and how it will get people activated to know it affects their pocketbook.

Dr. SWAGEL. OK. And I certainly hope it doesn't take a crisis and that is—as I think has been said a couple times that is the challenge of acting that there is a problem that is decades in the making and decades in solving and making—taking he first step.

When interest rates are low as they are today, the cost of not acting is pretty modest. And so it might be that we—until interest rates starting inflecting upward that it is difficult to garner support for the difficult decisions involved.

Mr. NORMAN. Yes, but the issue with it—if rates tick up, you are going to trigger inflation.

Dr. SWAGEL. In some sense, that—those would be the dangers of higher interest rates, inflation, the sort of negative economic impacts.

And it doesn't—I mean I worry about a crisis, you know, again not today, not—you know, not even within our 10 years, but over the oncoming decades there could be slower moving negative impacts if interest rates move up some, not to crisis, but some. Inflation moves up.

The fiscal space as it has been alluded to several times diminishes. That would have a slower moving but certainly negative impact on the nation as well.

Mr. NORMAN. And it can't really get any lower. The rates are very low as they sit right now. And really the only issue we face is most likely they are going up which is going to trigger inflation which is going to trigger—it is going to affect people's pocketbooks.

Dr. SWAGEL. That is right. The challenge—I mean there is both the good and the bad. And by far the good is that the United States is still the economy that around world people want to be in and want to invest in. People want dollar assets. We are the safe currency. When there is a problem around the world, people want dollars. People want Treasury bonds.

Mr. NORMAN. And the trainloads of people, they are not going to Cuba. They are coming to America.

Dr. SWAGEL. Right.

Mr. NORMAN. The train loads of people are not going to Venezuela. They are coming to America. They are coming here for a reason because it represents freedom and it represents a lifestyle that they have not seen anywhere and any other country.

Thank you for what you are doing. I hope you can concentrate on things that make a real difference and urge to the best of your ability for us to have a spine and to really have some financial accountability like we do in a small business. Thank you so much.

Dr. SWAGEL. Thank you.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Nevada, Mr. Horsford, for five minutes.

Mr. HORSFORD. Thank you very much, Mr. Chairman. And thank you, Director, for being here. Federal Chairman Powell cited income inequality as the biggest economic challenge facing the United States in the next 10 years. And I want to build off of my colleague, Congresswoman Lee and Congressman's Scott's questions around this.

According to the Brookings Institution, a recent report 53 million American workers, 44 percent of the entire work force of our country earn barely enough to live with the median annual income of $18,000 a year. Are you aware of that?

Dr. SWAGEL. I haven't seen that number, but in some sense a reflection of the inequality in income in our society.

Mr. HORSFORD. And so when we reference this unemployment rate in your budget and economic outlook——

Dr. SWAGEL. Mm-hmm.

Mr. HORSFORD [continuing]. it is imperative to this point. And thank you for agreeing to work with our Committee because income inequality is a top issue that we are trying to address throughout all of our policies.

And so when my colleagues on the other side prioritize tax cuts and we are prioritizing closing income inequality for the American people that is the choice that we are trying to make in our policy. And we look forward to working with you.

I want to ask about the tax cuts bill. The tax cuts for small businesses and middle-class families were those permanent or temporary?

Dr. SWAGEL. On the personal side, essentially all the personal provisions expire in 2025 and that would include the small business—the S corporations, the path through entities—at the end of 2025 those would expire.

Mr. HORSFORD. And the tax cuts for big corporations and the very wealthy, those are permanent, correct?

Dr. SWAGEL. The corporate tax cut that was a permanent. The corporate tax provisions were permanent.

Mr. HORSFORD. So maybe we should refer to this as the Trump's billionaire and big corporation tax cut and not an America tax cut because it really doesn't help the average small business owner, the average person—those 53 million Americans that I just referenced who make $18,000 a year who represent 44 percent of our economy.

So the issue of income inequality is very important. And another area that is very important to me personally is making sure that we are providing investments for skills training, expanding our work force, and creating job opportunities.

It is going to be real hard to move those 53 million people into better paying jobs if they don't have the skills, the work force, the education, and the training to pursue those jobs. And we are now investing less in work force training than we have historically.

Another area that I believe—so do you believe that we still have room to invest in our nation's future around training and work force despite some of these economic projections?

Dr. SWAGEL. That is right that—the budget challenge is there, but it is not immediate, and that Congress has the ability to undertake initiatives such as you have set out.

Mr. HORSFORD. So if we prioritize American workers, those who are struggling the most over big corporations than maybe we can improve those economic outlooks for those individuals that all of represent regardless of what part of the country.

Let me turn to another area which you have talked about which is your report on lowering prescription drug costs.

Dr. SWAGEL. Mm-hmm.

Mr. HORSFORD. As you know, the House has passed H.R. 3, the Elijah E. Cummings, Lowering Drug Costs Now Act. This legislation empowers the Secretary of Health and Human Services to directly negotiate to lower the price of drugs. And it requires companies to pay rebates if price increases faster than inflation.

Based on CBO's analysis of H.R. 3, how can this legislation achieve lower drug prices and reduce federal spending over the next 10 years?

Dr. SWAGEL. So as you said, it requires the Secretary to negotiate with drug companies. We modeled that negotiation process and found that it would reduce drug prices and lead to federal savings on the order of $500 billion dollars over 10 years. And then those——

Mr. HORSFORD. $500 billion?

Dr. SWAGEL [continuing]. billion dollars. Yes, sir. Over 10 years. And then in H.R. 3, those resources are then used to expand dental, vision, hearing coverage to provide some money for opioid treatment, for research at NIH, and so on. So it is used in a variety of ways.

Mr. HORSFORD. So we take those savings by allowing Medicare to negotiate with drug companies, and we invest in increased services to Medicare beneficiaries thereby shoring up their care and their healthcare?

Dr. SWAGEL. That is—that is what our estimate of H.R. 3 shows——

Mr. HORSFORD. Thank you very much. Mr. Chairman, those are the priorities that I am continuing to fight for, not big corporate tax breaks that add more to our deficit and do not improve our economic outlook in the long term. Thank you.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Texas, Mr. Crenshaw, for five minutes.

Mr. CRENSHAW. Thank you, Mr. Chairman. And thank you for being here. I am glad—I am going to pick up on H.R. 3. What else did CBO say about H.R. 3 about how many fewer cures there would be because of those price controls? It is not a negotiation. Let's not call it. We know it is not. It is a formal for price controls on drug prices. So what did CBO say that would do to innovation?

Dr. SWAGEL. Right. So we also carefully modeled that as well using the economic research literature and showed that over the ensuing several decades something on the order of 30 fewer drugs would be produced, about——

Mr. CRENSHAW. Yes.

Dr. SWAGEL [continuing]. 10th of production.

Mr. CRENSHAW. So we can afford the drugs, but they won't exist so it doesn't really matter if you can afford them because they won't exist. That is not a really good tradeoff.

So we are back at this conversation about the debt. And it is a good conversation to have. I am glad we are—we continue to have these kinds of hearings. $23 trillion in debt. And then we come here, and we argue incessantly about what is causing it whether it is mandatory spending, a lack of revenue, or discretionary spending.

It seems to be a pretty broad agreement that discretionary spending is going down as a share of GDP. We don't hear a whole lot of that in this room. What we do hear is—are two potential causes, mandatory spending and Trump's tax cuts—the tax cuts for the rich as my colleagues call them.

Well, they weren't just for the rich, of course. They were for everybody. When a corporation gets a tax cut, they can do things like contribute to the highest growth that we have seen a long time and the lowest income workers' wages, things like that—things like business investment.

So of course that kind of rhetoric is unhelpful and untrue, but we also found just by some graphs that we have seen today was—and from the CBO's own reporting is that revenue as a share of GDP will be increasing and continue to increase in line with more or less what is historical averages as a share of GDP for revenue.

So what is skyrocketing? It is mandatory spending, Social Security, Medicare, and Medicaid and interest on the debt. And that is what we need to be having a conversation on. And that has come up, of course.

And so let's talk about that because there seems to be some agreement. But then that agreement quickly falls away into disingenuous rhetoric. Every time we talk about reasonable reforms to these programs, my colleagues accuse us of cutting them.

There was a colleague from Michigan earlier who just couldn't help himself, had to talk about how we planned to cut Medicare and Medicaid. It is not true. I don't know what these proposals—what they are talking about—or Social Security.

Reforms are absolutely needed, but the Democrats plan at reform—and when they refer to Social Security 2100, they want to raise taxes via payroll taxes and then increase benefits to seniors.

So you want to take money from millennials and Gen Z, and you want to transfer that directly to people who have had their entire lives to save and build businesses. We talk a lot about some of the issues—the economic issues facing this country.

My generation is facing those issues with rising housing costs, things like that, that are making it more difficult for millennials to prosper than prior generations, would you agree with that general assessment?

Dr. SWAGEL. I do. Yes.

Mr. CRENSHAW. And do you think it is economically efficient to have a wealth transfer from the young to the old? Is that the most efficient?

Dr. SWAGEL. Yes, it is—in some ways the issue of the fairness is the difficult one. And you put your finger right on it with the Social Security. And that is what our analysis of the 2100 Act shows as well that the people closest to retirement would come off the best.

Mr. CRENSHAW. And what is the best indicator of wealth as far as immutable characteristics? Is it gender? Is it race? Or is it age?

Dr. SWAGEL. Wealth certainly increases with age. You know, education is tightly connected to income which over time connects to wealth. And that in some sense to build wealth, we want to build skills and education.

Mr. CRENSHAW. Yes. And I will answer it for you. Age is by far the best indicator. Like if you are older than me, there is a really good chance you have more wealth——

Dr. SWAGEL. Mm-hmm.

Mr. CRENSHAW [continuing]. right, just from a probability standpoint. So we are never saying we want to cut senior's benefits. That is not what we are saying. But we do have to slow the growth.

And what is my generation have to give? Well, maybe I should retire later. I am going to live longer. These are reasonable discussions to have. But taxing my generation when we are already facing things like higher housing costs and other issues that is deeply immoral.

It is also counterproductive when we are talking about growth. Maybe you could help me with this one. If we are concerned about the debt, should we do pro-growth policies or anti-growth policies? I mean if we reduced—if we implemented policies that reduced our GDP growth, could we ever have a chance of solving our debt crisis?

Dr. SWAGEL. It would make it more difficult, you know, both having a low growth environment and the debt relative to GDP would go up if the denominator is smaller. That is for sure.

Mr. CRENSHAW. Well, I am out of time, but I had a lot of followups. Thank you, Mr. Chairman.

Chairman YARMUTH. OK. The gentleman time has expired. I now recognize the gentlelady from Texas, Ms. Jackson Lee, for——

Ms. JACKSON LEE. I thank you, Mr. Chairman and to the Ranking Member for holding this hearing and as likewise all of my good colleagues with their different perspectives. I am sure my good friend from Texas is not suggesting that we wage a generational warfare.

It is clear, however, that the issue of the discretionary, non-discretionary spending is one that I have seen millennials and Generation X and other really comprehend as an important contribution to the actual survival of this nation. So let me just say that the President's proposed budget projects Fiscal Year 2020 revenues of $3.645 trillion, outlays of $4.76 trillion——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——leaving a deficit of $1.101 trillion. Over the last—next 10 years, the President's proposed—proposes budgets that would cumulatively increase the national debt by $7 trillion and does not even come close to ever balancing. America's top 10 percent now average more than nine times as much income as the bottom 90 percent. Now, I will suggest to you—to the director——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——entrepreneurial millennials and other are in the bottom 90 percent. They are not benefiting, and they are not in the top 10 percent——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——most often, would you say that millennials are not in the top 10 percent income——

Dr. SWAGEL. Yes, in general that is for sure. Correct.

Ms. JACKSON LEE. In general. I know that the nation's top 0.1 percent are taking in over 198 times the income of the bottom 90 percent. Does that seem like reasonable numbers that you——

Dr. SWAGEL. I——

Ms. JACKSON LEE.——contended?

Dr. SWAGEL. So I am sorry. I don't have the precise numbers, but certainly that disparity——

Ms. JACKSON LEE. It is enormously——

Dr. SWAGEL [continuing]. in broad terms is right?

Ms. JACKSON LEE.——different——

Dr. SWAGEL. Right.

Ms. JACKSON LEE.——from the bottom.

Dr. SWAGEL. Absolutely.

Ms. JACKSON LEE. And that has continued under the leadership of this administration. So from my perspective we are going the complete wrong way. That is mine. But let me pose some questions. I talk fast because I am trying to get your answers in.

Anyhow, by the Joint Economic Committee, let me show people that under President Obama we were doing 227 jobs per month average than under this President, 191K jobs month per average. Good. He inherited the excellence of the work that was done by President Obama and the Democratic Congress. Unemployment rate, we came in bad shape. Do you remember those years?

You might not have been in, but '09—you remember the debacle that we were engaged in? We were literally going on the flat earth and coming down. Obama than rose—or raised——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——those numbers.

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE. And might I just get a yes to say that I didn't write these.

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE. This is Joint Economic Committee. Does that look pretty accurate? That it went up and then sort of continued. Does that look right, Mr. Director?

Dr. SWAGEL. Absolutely. That is——

Ms. JACKSON LEE. All right. I just want you to be on the record. And of course, you can see that is Obama and then there is Trump.

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE. So fiscal policies that take into consideration debt and also providing for those who are need is important. Medium income, we were not doing well, and then we managed to keep going up——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——and blue went all the way up under Obama, and then we had another President come in and take the credit. That is my words, but I just want to note that you saw the blue going up or holding steady——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——during those years from 2010 on to 2016; is that accurate?

Dr. SWAGEL. Yes. That looks accurate. We have seen rising incomes——

Ms. JACKSON LEE. Yes.

Dr. SWAGEL [continuing]. over the past few years.

Ms. JACKSON LEE. So let me find out the present situation that we are in. What is the status of Medicaid, Social Security, and Medicare? What is the status——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——and then let me add this other question.

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE. What would be the value of adding to our portfolio, building up on affordable housing——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——building up on public housing? That is one of the elements of the millennials doing that. And if you can—I have another question—and I am at 1:04——

Dr. SWAGEL. OK.

Ms. JACKSON LEE. 1:03. Go ahead.

Dr. SWAGEL. Sure. And I will be fast. The challenges you have pointed at are the ones facing millennials and young people, affordable housing, in some sense, education, how to get on the rising ladder.

Housing is one that is particularly pernicious because zoning regulations—it is not a federal issue. It is a state one, but it prices people out of the market. And there is some local initiatives they are trying to get.

There is a St. Paul, Minnesota, for example, has an initiative to get at this. It is not—it is too soon to know whether it is working, but that—but we are looking at that to say what are the policies that will get at the challenges facing younger——

Ms. JACKSON LEE. So likely to say to answer those concerns about millennials, a federal embrace dealing with affordable housing and public housing——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——would be a very important asset for them?

Dr. SWAGEL. It could be. Of course, the particular program would—you know would be important.

Ms. JACKSON LEE. As well as the fact that continuing to have tax cuts for the rich doesn't help them either?

Dr. SWAGEL. It is a bigger question, of course. Right, it affects the overall economy and then it affects different people differently.

Ms. JACKSON LEE. Let me just pose this question for the record. Have you ever—the CBO was started in 1974.

Dr. SWAGEL. Yes.

Ms. JACKSON LEE. That is just a few short years ago. Have you ever thought of the question of the African American community in particular and the long-term impact—maybe this will be your research? I will get back with you on this—of the unpaid history of slavery so that the CBO would consider a question of reparations in terms of a commission——

Dr. SWAGEL. Mm-hmm.

Ms. JACKSON LEE.——that would even study what that long-term impact is in light of the sharp disparities in the African American community and immigrant community in particular now into the 21st Century. Have you ever thought about that, Mr. Director?

Dr. SWAGEL. I don't think we have. I don't—you know, I don't know all of the work that has been done before me, but I will go back and find out and we will tell you.

Ms. JACKSON LEE. I will engage on that and my word to you is that there may be a connection——

Dr. SWAGEL. OK.

Ms. JACKSON LEE.——with the sharp disparities that you see in the African American population—is that——

Dr. SWAGEL. We will certainly look at that.

Ms. JACKSON LEE. All right.

Dr. SWAGEL. Absolutely.

Ms. JACKSON LEE. Thank you so very much, Mr. Chairman. I will yield back.

Chairman YARMUTH. The gentlelady's time has expired. I now recognize the gentlelady from Minnesota, Ms. Omar, for five minutes.

Ms. OMAR. Thank you, Chairman. As you might have noticed, there is a lot of anxiety that is expressed by many of my colleagues when it comes to the income inequality and the disparities that continue to persist in or communities and in our country.

We know that over the last 50 years, income inequality has gotten significantly worse. We know that wages have grown stagnant and the richest Americans are the only ones that have been able to reap the benefits of the economic growth that we have seen in the country. In your report last month, you projected that income inequality will be greater in 2021 than it was in 2016.

Dr. SWAGEL. Yes.

Ms. OMAR. And so I wanted to see if you can give us an idea of how do the growing levels of income inequality affect consumption? And how would this affect the budget outlooks that you have?

Dr. SWAGEL. Yes. Absolutely. And what you said is correct about our report. We show greater inequality in 2021. That has different effects on the economy and the budget. The budget is a little difficult to parse out, just because the progressive nature of our tax code means that income at the top is taxed more than income at the bottom.

So I can't—I can't off the top of my head say what it means for the fiscal situation. And of course, there is negatives, right? Inequality means more spending on transfers and things like that.

For the economy, it is a challenge and it is an important long-term challenge. That we know that inequality doesn't have just these short-term affects, but overtime it means a weaker economy and a weaker society. The children of, you know, families at the bottom have more difficult situations and worse trajectories.

Ms. OMAR. Mm-hmm.

Dr. SWAGEL. And that in some sense is an intergenerational transmission of inequality and of poverty that is a key challenge for the nation.

Ms. OMAR. Yes. And as a millennial—speaking of millennials, I am the sponsor of a bill to cancel out student debt.

Dr. SWAGEL. Mm-hmm.

Ms. OMAR. And I recently saw that one of the ways that we can increase income inequality by like 50 percent was getting rid of student debt. What are other ways that we can increase—decrease income inequality——

Dr. SWAGEL. Mm-hmm.

Ms. OMAR [continuing]. and increase the ability for millennials to be able to have the ability to have an input in our economy?

Dr. SWAGEL. OK. So I would look in some sense at the short term and the longer term. The short term that the tax and transfer system effects in inequality—the taxes and transfer reduce inequality, but as you pointed out in 2021 less than in the—in 2016. So more could be done in the short term with either taxes or transfers.

Over a longer horizon, the challenges are in some sense more difficult and slower. Education would be a key one. And then all the challenges that in some sense help people use their education for their future, housing, transportation, child care, elder care, all the things that would make it possible for people at the bottom to work and to have a rising wage profile.

Ms. OMAR. And then the ability to stimulate the economy——

Dr. SWAGEL. Exactly. Exactly.

Ms. OMAR. It was really unfortunate to see many of my colleagues using this hearing to be able to go after Social Security, Medicare, Medicaid and to advocate for us to utilize our resources in putting more money in the pockets of the wealthy. I know that we have a national debt problem.

Dr. SWAGEL. Mm-hmm.

Ms. OMAR. And if we are not being creative in the ways that we are prioritizing our resources, we will continue to be in trouble. And so there is an opportunity for us to create a priority where we are lifting people up in order for us to avoid the kind of crisis that we can foresee. So thank you for being here.

Dr. SWAGEL. Thank you.

Ms. OMAR. Thank you for having this hearing, Chairman.

Chairman YARMUTH. The gentlelady's time has expired. And now the moment we have all been waiting, the Ranking Member is recognized for 10 minutes.

Dr. SWAGEL. I have to admit I forgot—you had said at the beginning that you would go last, and I have to admit I forgot that until just now so——

A Voice. You were looking forward to leaving.

Mr. WOMACK. Well, thank you, Mr. Chairman again for having the hearing. Dr. Swagel, thank you so much for your willingness to do this work of the Congressional Budget Office.

And let me be the first here today to point out this staff over here—these reliable people that occupy the floor over there in the Ford building that do such a great job. And we are just honored to have you and doing this work.

I know you get maligned sometimes. And if Members of Congress don't agree with whatever you produce, you know, you take all the arrows. But I for one, and I know I speak for my Chairman here, we just appreciate the work of the CBO.

As I was sitting here, it was apparent to me that you are kind of like the creamy part of the cookie getting squeezed by both sides.

Dr. SWAGEL. I see. I see.

Mr. WOMACK. And I love Oreos so—but your willingness to do that a bit unfair. There is enough stink on this deficit and debt issue to go around this room and around the Congress and around previous Congresses and previous Presidents, left and right. We have all on both sides of the aisle failed and on the Congress side in our Article I responsibility, and we continue to do that.

But it is not my point necessarily to sit up here and throw arrows at the other side. There is a plenty of things that we have done over time that have contributed to this problem. But deficit and debt has been the constant theme in this hearing today.

And there is a lot of things contributing to it to include the fact that when our friends on the other side took control of the House of Representatives a little over a year ago, they said they were going to reinstitute PAYGO. And PAYGO has been waived now how many times——

Dr. SWAGEL. I——

Mr. WOMACK [continuing]. Mr. Director?

Dr. SWAGEL. I don't know, but——

Mr. WOMACK. Let me help you.

Dr. SWAGEL. I signed the cost estimates and I see its——

Mr. WOMACK. Twenty-four.

Dr. SWAGEL. Yes.

Mr. WOMACK. Twenty-four times. And here just a moment ago in this very hearing with deficit and debt being the central theme of what we are talking about here today, here is one of our colleagues on the other side that is talking about a bill that she has sponsored to just basically allow the taxpayers to pay all the student debt. You know how much that is?

Dr. SWAGEL. It is multiple tens of billions at least, if not hundreds of billions.

Mr. WOMACK. It is a pretty sizable bubble.

Dr. SWAGEL. Yes.

Mr. WOMACK. Would that help or hurt the deficit and the debt situation that we have today?

Dr. SWAGEL. It would make it much larger.

Mr. WOMACK. It would make it a lot larger—exponentially larger. So the point of my remarks here is to call on the Congress to do its job. And that begins with doing a budget resolution and putting the entire package on the table. It is not just discretionary spending.

As I said in my opening today, in 1965 discretionary spending was about 34 percent or about 6—mandatory spending was about 34 percent of the federal pie. Today it is about 70 percent, so it is double that.

And that is what is squeezing all of the opportunities for this Congress to fund the national priorities to include national security which I would argue is—it is in the Constitution, so we have to do that.

We can debate how much, but our ability to make—to fund transformative research, to do all of the things that the Congress would like to do is dependent on us being able to solve for this whole deficit and debt issue.

And—so mandatory spending as a percentage of GDP continues to grow higher. Discretionary spending as a percentage of GDP continues to go lower. And I don't think you need a better metric than that to explain as old Willie Sutton said when he was robbing those banks back in the 1950's, you got to go where the money is.

And the money is on the mandatory side of spending. So I just want to make sure that, that point is in the record. And obviously the Tax Cuts and Jobs Act has been a central focus of some of the arrows thrown our way here.

And I am not going to delve too deeply into that, but to say that—you have to—in terms of economic productivity, you got to put a lot of things in that basket to include regulatory programs, policy issues voted on by Congress, taxes, and on and on and on.

So unfortunately, we are in an extremely good position right now with the economy growing the way it is. But relative to the Tax Cuts and Job Act, I want you to comment specifically on what it has done to impact in my judgment positively on the entitlement programs that we pay into. So can you explain very briefly how the creation of new jobs——

Dr. SWAGEL. Mm-hmm.

Mr. WOMACK [continuing]. has allowed for us to buy a little bit more time in these social safety net programs because they are the ones paying into them.

Dr. SWAGEL. Yes. And we see that in a variety of ways. I will just—I will start with one particular one and that is on disability. The disability trust fund a couple years ago was projected to expire—expire if you want to run out within the next few years.

And now it has been pushed back. It is outside of our budget window. It is outside the 10-year window. And that is because disability claims—the rate has gone down.

The number might be up, but the rate has gone down is probably a reflection of the strong economy that has drawn people back in. So in some sense where these kinds of micro effects and then of course the stronger economy leads to higher wages and more contributions to the various programs, trust funds as well.

Mr. WOMACK. What about low income workers?

Dr. SWAGEL. So we have seen particularly strong wage growth at the bottom of the distribution. And then we have seen——

Mr. WOMACK. Woah. Woah.

Dr. SWAGEL. Yes.

Mr. WOMACK. Wait a minute. Wait a minute. I believe I have heard from more than one of my colleagues on the other side that it only helped the millionaires and the billionaires. I am hearing the CBO Director say that maybe the lowest quintile of workers are benefiting?

Dr. SWAGEL. We are seeing the strong job market. One particularly noteworthy aspect of it is at the bottom, the strong wage growth. There is different measures, but we are seeing wages rise, you know, at various times, different measures—anywhere from 4 percent to 5 percent, which we haven't—you know, we haven't seen in sometime.

Mr. WOMACK. Yes, well, I make my point. And I am going to yield here back to the Chairman here in just a minute. I just want to make this last comment that there is a reason why we are in this fix right now.

And we can blame it on taxes. And we can blame it on a lot of other things. I certainly think that the metrics show that spending is out of control particularly when you look at the revenues of the federal government being within that like—what did you say—30 or 40 or 50 year average.

Dr. SWAGEL. Mm-hmm.

Mr. WOMACK. And that spending is outside that window on the—particularly on the mandatory side. It is possible maybe that we have overpromised our country to its people.

Dr. SWAGEL. And that is one of the challenges that we face that is something one of my predecessors, Doug Elmendorf used to focus on as well is that the tension between what we are willing to pay and what we as a society expect out of our government. And that is the challenge.

Mr. WOMACK. So most politicians don't like to raise taxes. And most politicians don't like to cut benefits that have currently accrued a certain people, but at the end of the day when you have a trillion dollar deficit as far as the eye can see, something has got to give.

And if there is one part of that equation that seems to be growing exponentially out of control which is now commanding 70 percent of all federal spending—mandatory spending—it tells me that we have got to muster the courage and the will as a Congress to put those solutions on the table, have a robust debate on them, and do—make the decisions today that can save these programs and future generations.

And let me just add, Mr. Chairman—if the whole plan was to cut Medicare as has been advanced by some critics, then the best thing to do is do nothing because it gets cut on its own in about five or six short years.

Dr. SWAGEL. That is right.

Mr. WOMACK. If the plan is to cut Social Security, then the best plan would be to do nothing because in 2032 or 2033 which is before my youngest grandson is even going to have a driver's license, the program is going to get cut on its own.

The fact is Republicans and Democrats have to start behaving more like Americans in deciding what we have got to do now to solve the problems today rather than kick those—that can down the road and put it on future generations. And with that I will yield back my time.

Chairman YARMUTH. I thank the Ranking Member. I now yield myself 10 minutes. And I would like to begin also—thank you, Dr. Swagel for your time and your responsiveness.

And as I mentioned in my opening statement, thanks again to all the great people doing the work at—important work at CBO. I am going to address this at a later date more extensively but since my colleagues continually bring up the fact that we have not passed a budget resolution, which is true, and by the way the Republican Senate has not passed a budget resolution either and doesn't intend to.

But we did pass a budget last year. We passed a two-year budget, the bipartisan budget act of 2019. We headed off a threat of austerity cuts that were in the budget act of 2011. And I think we set the stage for some strategic investments in our nation's future.

So, you know, my question would be to those who worry about the fact that we haven't passed a budget resolution, how would the world be different if we had from what it is today. And now again I am going to address that at a further date. But I want to continue the discussion of mandatory spending because I take a little bit of a different perspective on it.

There is no question that it is the biggest driver of our deficit right now all the mandatory spending categories, but we tend to forget that mandatory spending goes into the economy. And Medicare and Medicaid, it supports our hospitals. It pays our nurses. It pays our doctors. It pays pharmacies.

It does a lot of things that would have to be done at some—in some other way if we didn't—if it weren't—the money didn't come through the government. We know that is roughly 18 percent. All healthcare spending is 18 percent of the economy.

In my district, for instance, Humana is based in my district. They have one of the biggest Medicare advantage providers. It is about 65 percent of their revenue and most of their profit. They employ 12,000 people in my district. So it is not that money that is thrown away. This is money that goes into the economy.

And I am going to get to a point. But say as some people might prescribe, and I know in the President's budget and prior Republican budget there was a notion to cut Medicaid by 30 percent and so forth. If you were to cut mandatory spending by 30 percent, what would that do to the economy?

Dr. SWAGEL. Right. So there would be the—the negative impacts that you have highlighted, the sort of near term—you know, it is like the opposite of a Keynesian stimulus. It would be taking support out of the economy.

That would be offset to some extent by a lower interest rates and, you know, sort of the opposite of the crowding out we might expect with budget deficits. But a large abrupt change like that would certainly have a negative effect in the near term.

Chairman YARMUTH. All right. So when you look at the biggest problems with those mandatory programs, the way I look at it, people are living longer.

Dr. SWAGEL. Mm-hmm.

Chairman YARMUTH. More people are living longer because we have got the baby boomers who are now in retirement age. And the structure of the programs was established at a time when the demographic situation was much different, and the employment situation was much different.

So when Social Security was created, the average life expectancy was right at 62, as I recall, so on average nobody got their benefits. There were 13 people working for every beneficiary.

Now, that number is around two and dropping. And the age—average life expectancy is much higher. And the tax rates were set at a time when if you are at 65 now and you are going to receive on an average $11,000 or $12,000 worth of benefits a year, healthcare benefits. That is what the average expenditure per person is, you didn't pay anything near that over your working life.

So when we talk about reforming the mandatory programs, one area we can't do anything about—we are not going to have mass euthanasia in the country, and we don't want to do that.

So we are talking about the structure. That is what Simpson-Bowels tried to get at some years ago and politically that was untenable.

But just to put that in perspective, it is not just—it is not simple, saying we are going to do something about mandatory spending in this country, because it is an essential part of the economy and the life of many of our citizens. I also want to address the issue of the income growth level. And I have a question here.

Dr. SWAGEL. Mm-hmm.

Chairman YARMUTH. The figures are the lower quintile of the population has seen their incomes rise at a very high rate. Of course, they are starting from a very low rate.

And my question is have you been able to ascertain whether that growth had—what component of that growth was due to tax cuts and demand—versus just demand—natural demand for labor and shortage in labor in those categories and also the fact that a lot of jurisdictions around the country, state and localities, have raised their minimum wage.

Dr. SWAGEL. Right. Right. So we have not parsed that out. We know the overall strong economy has created labor shortages that—you know, in a good way drive up wages for the benefit of workers. We can't parse out how much is the tax cut. And it varies by locality as well as does the minimum wage.

So we haven't parsed out how much is the increases in minimum wage and what is going on at the bottom. I think we know that it is real. In some sense, a strong economy is driving incomes at the bottom, but we can't—we just can't parse out the different factors.

Chairman YARMUTH. Have you done any work as to what a raise in the national minimum wage—an increase in the national minimum wage would mean to the economy and to the deficit if you raised it to $12 or 15?

Dr. SWAGEL. We have not. We have done an analysis on the impact on employment and on poverty and things like that. And there is some, you know, good and bad that would, you know, bring us, you know, several million people out of poverty, probably reduce employment by several million jobs—you know, so some back and forth.

We haven't done the kind of dynamic—or the macro analysis that you are point at. It is something we have been thinking about, but, you know, that kind of dynamic analysis is very intensive in our resources. And we just haven't—we haven't gotten there yet.

Chairman YARMUTH. Well, I think we are going to need to do that because eventually we are going to raise the minimum wage——

Dr. SWAGEL. Yes. OK.

Chairman YARMUTH [continuing]. the national level at some point. We have heard the word sustainable from both sides throughout this hearing today and sustainable is not a precise term. I don't think it is a precise term.

We had a hearing not too long ago with four economists and the issue of, you know, what is a sustainable debt level, how much does debt matter, was—made it clear that nobody really knows what sustainable means.

But does putting on—take your concept—whatever it is—of sustainability. Does putting our budget on a sustainable path require balancing the budget?

Dr. SWAGEL. No, it doesn't. It means bringing the deficit down low enough so that the debt level doesn't continue to rise. And that does not require a balanced budget because as long as GDP is growing, we can run a deficit without increasing the debt to GDP level which is probably what matters. That is the best measure for capacity.

Chairman YARMUTH. Two specific things that were in your report that I want to just mention. One is that you said—you calculated the loss in corporate revenue. You have revised your estimate as to how much corporate tax revenue will be lost under the 17 Act.

Dr. SWAGEL. That is right.

Chairman YARMUTH. Is that right? Would you tell us what that was?

Dr. SWAGEL. It is about $110 billion over 10 years. And that it is partly from changes in the data that—the macroeconomic data on, you know, what of our overall GDP is wages and what is corporate profits was changed in a way that looks like there is more wages and less profits—corporate profits are the base for the corporate tax. So just knowing there is less corporate profits means our estimate of future revenue will be lower.

And then there is some on the international side that Mr. Doggett alluded to where the guidance from the Administration, the IRS, and the Treasury. And so it was more taxpayer friendly than had been anticipated in our initial estimates.

Chairman YARMUTH. Thanks. And finally, you made a calculation as to what effect on the average citizen the tariff policy of this Administration or the tariff actions—I should say—of this Administration have made—their disposable income.

Dr. SWAGEL. We have. Yes.

Chairman YARMUTH. What was that number?

Dr. SWAGEL. So we see that as this year 2020 the tariffs put in place since 2018 are costing each American family about $1,277. So this comes from higher prices feeding into the economy is the equivalent of taking away $1,277.

Chairman YARMUTH. Well, the Chinese did not pay for the tariffs?

Dr. SWAGEL. The impacts are many, but that is the impact on the American family.

Chairman YARMUTH. Well, I thank you. I am going to surrender a few seconds of my time. And once again thank you for your——

Dr. SWAGEL. Thank you.

Chairman YARMUTH [continuing]. your candor and your responsiveness and your time and your work on an ongoing basis.

So unless there is any further business, this hearing stands adjourned.

Dr. SWAGEL. OK. Thank you.

[Whereupon, the hearing was adjourned at 12:35 p.m.]

SHEILA JACKSON LEE
18TH DISTRICT, TEXAS

WASHINGTON OFFICE:
2160 Rayburn House Office Building
Washington, DC 20515
(202) 225-3816

DISTRICT OFFICE:
1919 SMITH STREET, SUITE 1180
THE GEORGE "MICKEY" LELAND FEDERAL BUILDING
HOUSTON, TX 77002
(713) 655-0050

ACRES HOME OFFICE:
6719 WEST MONTGOMERY, SUITE 204
HOUSTON, TX 77019
(713) 691-4882

HEIGHTS OFFICE:
420 WEST 19TH STREET
HOUSTON, TX 77008
(713) 861-4070

FIFTH WARD OFFICE:
4300 LYONS AVENUE, SUITE 200
HOUSTON, TX 77020
(713) 227-7740

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House of Representatives
Washington, DC 20515

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CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

HEARING STATEMENT:
"CBO'S BUDGET AND ECONOMIC OUTLOOK"

COMMITTEE ON THE BUDGET
210 CANNON
JANUARY 29, 2020
10:00 A.M.

- Thank you Chairman Yarmuth and Ranking Member Womack for convening this hearing on the Congressional Budget Office's Budget and Economic Outlook for Fiscal Years 2020-2030.

- Let me also welcome and thank our witness, CBO Director Phillip Swagel, Ph.D.

- Mr. Chairman, before we discuss the projected budget and economic outlook for the next ten years, it is useful to look back at the last ten years, covering the economic records of the current occupant of the White House and his predecessor.

- Two years after its enactment, the verdict on the Trump-GOP TaxScam is now end and it leads to the inescapable conclusion that the Trump TaxScam has not accelerated the economy, rather it is a significant drag on the booming economy President Barack Obama bequeathed to his successor, the current occupant of the office.

- Specifically, two points cannot be stressed enough.
- First, President Trump did not create the strong economy; he inherited it.
- Second, we paid an extremely high price – $1.9 trillion – for tax cuts that have done so little for the economy.
- Mr. Chairman, most of President Trump's claims about the economy are false or highly misleading.
- There is no such thing as a "Trump bump" – key economic indicators are the same or worse.
- The President's signature economic policy – the $1.9 trillion tax cut – has failed to deliver the promised economic boost and his second major economic policy – the trade war – is a self-inflicted wound, hurting farmers, consumers, businesses and the economy.
- Mr. Chairman, those of us who were there remember well that the morning of January 20, 2009, which was one of the coldest days on record in Washington, DC.
- But it was nothing compared to the chill wind blowing through the American economy and body politic because at that time the nation was facing economic challenges unseen since the Great Depression: Americans were losing their jobs at a frightening rate of 800,000 per month; the national unemployment rate had risen to 7.8 percent and would continue to climb until reaching its peak of 10.0 percent in October 2009.
- For African Americans, the numbers were much grimmer, a jobless rate of 13.5 percent in January 2009 which would grow to 16.5 percent by the end of the year.
- And on top of this, tens of thousands of American families each month were losing their health insurance and their homes to foreclosure.

- And the average price of gas exceeded $4 per gallon.
- It was against this backdrop that the new President of the United States, Barack Obama, rose to take the oath of office.
- After being sworn in as the nation's 44th President, President Obama reassured an anxious but hopeful nation, saying:

  "*Today I say to you that the challenges we face are real.* They are serious and they are many. They will not be met easily or in a short span of time. *But know this America: They will be met."*

- Because of the actions President Obama took, not to further the interests of himself but of the American people, these challenges were more than met and overcome and for that Barack Obama's presidency is regarded by historians as a *consequential presidency* that changed America for the better.
- Mr. Chairman, before Trump took office in January 2017, the economy had recovered from the Great Recession and overall economic indicators were already strong and were trending stronger.
- Unemployment had been cut by more than half during the Obama administration, from a peak of 10 percent to 4.7 percent.
- The economy had experienced 76 consecutive months of job growth, the longest sustained period of growth in American history.
- GDP growth was strong, average of 2.6 percent annually in the last 11 quarters of the Obama Administration and median household income growth was strong and trending upward, increasing $4,800 during in last two years of the Obama administration.
- Even Dr. Greg Mankiw, chairman of the Council of Economic Advisers under President George W. Bush, had to admit that "the economy was in fine shape at the end of the Obama administration, despite what the current President falsely asserts.

- Mr. Chairman, I ask unanimous consent to place into the record and op-ed published on February 17, 2016 in the Washington Examiner, entitled *"Seven Years of Change You Can See and Feel."*

- President Obama actually had a plan to tackle the economic woes that were affecting the American people.

- Working with the Democratic-controlled Congress, the President signed into law the *American Recovery and Reinvestment Act*, which created 3.7 million jobs and saved the jobs of millions of teachers, firefighters, police officers, and social service providers.

- The *Recovery Act* also cut taxes for working families, extended unemployment insurance, and expanded the Earned Income and Child tax credits, which disproportionately benefit African American families.

- The *Recovery Act* ended the Great Recession, transformed the economy from one hemorrhaging jobs to one that has created over 16 million new jobs over a record 71 consecutive months.

- The national unemployment rate has dipped under 5% for the first time since President Clinton left office, the deficit has been cut by 71%, and the Dow Jones stock market index topped 18,000 in 2015, an increase of 177% over where it stood the day President Obama took office.

- And, as an added benefit, the average price of gasoline has been reduced from more than $4.11 per gallon to $1.80, the lowest price since before the tragedy of September 11.

- In short, Mr. Chairman, President Obama bequeathed a booming and vibrant economy to his successor, who promptly took actions to undermine it and explode the national debt.

- Mr. Chairman, the GOP TaxScam was the wrong policy at the wrong time because it showered benefits on the top 1% and large multinational corporations while doing little for everyday working Americans and Main Street small business owners.

- GOP TaxScam also raises the nation's debt by $1.9 trillion at a time when the economy was already strong, and when we are facing major long-term budgetary challenges driven by our aging population.

- And rather than devoting resources to wise investments in our workers and small businesses, the GOP TaxScam further burdens working families, endangers Americans' retirement security, and worsens our budgetary outlook.

- Our long-term economic growth trajectory is unchanged and there is no sign of an investment boom.

- Real wage growth for workers remains modest and factories and jobs are more likely to go overseas.

- The federal deficit is soaring as corporate tax receipts plummet and the tax code is riddled with even more special-interest tax breaks and loopholes.

THE GOP TAXSCAM LED TO A RECORD-SETTING $1 TRILLION IN STOCK BUYBACKS.

- The GOP TaxScam delivered huge benefits to rich investors and CEOs through record-setting stock buybacks in 2018 while average workers struggle to pay for rising health care and living costs.

- Stock buybacks do nothing to improve business operations or help workers.

THE GOP TAXSCAM SHOWERS BENEFITS ON THE WEALTHY AND LARGE CORPORATIONS WHILE DOING LITTLE FOR WORKERS AND MAIN STREET SMALL BUSINESSES.

- The GOP tax cut is heavily tilted toward the wealthy and corporations and exacerbates the stagnation of wages for the vast majority of workers and worsens income and wealth inequality.

- The GOP tax law does nothing to help small businesses gain access to capital and grow their receipts.

- Only 5 percent of small businesses pay taxes at the corporate level and most of the pass-through tax cuts go to the largest 2.6 percent of businesses.

THE GOP TAX LAW ENCOURAGES COMPANIES TO SEND FACTORIES AND JOBS OVERSEAS:

- Under the GOP tax law, income generated by American companies abroad face tax rates that are half the new top corporate rate of 21 percent.

- Some companies may be able to avoid tax altogether on tangible investments made offshore.

- This further incentivizes companies to move tangible assets, such as factories and machinery, overseas.

- Rather than protecting workers and their families, the GOP tax law tilts the playing field against American workers.

THE GOP TAX LAW INCREASES DEFICITS BY $1.9 TRILLION WHEN WE ARE FACING MAJOR BUDGETARY CHALLENGES DRIVEN BY OUR AGING POPULATION

- Even after accounting for any economic growth effects, the Congressional Budget Office (CBO) estimates the GOP tax scam increases deficits by $1.9 trillion over the ten years 2018 to 2028 – hardly the "pay for itself" message we heard from the Administration and Republicans in Congress.

- Our Republican friends promised the GOP TaxScam would boost economic growth significantly, spur an investment boom, drive unemployment down to the lowest level since the 1960s, create jobs for millions of workers, and help middle-class families keep more of their paychecks.

- All of these claims have collapsed in the crucible of actual experience.

THE GOP TAXSCAM DID NOT SIGNIFICANTLY BOOSTS THE ECONOMY.

- In the seven quarters before and after passage of the Trump TaxScam, GDP growth is unchanged from the Obama economy, averaging 2.5 percent.

- By 2023, the tax law's positive effect on economic growth will fade away entirely.

THE GOP TAXSCAM DOES NOT SPUR BUSINESS INVESTMENT

- There is no evidence of an investment boom, which Republicans promised would be the key to unleashing unprecedented economic growth and wage gains.

- Nonresidential business investment grew by less than 1 percent in the third quarter of last year, while business' orders for durable goods (another measure of investment) fell in December for the fourth time in five months.

- Instead of encouraging investment, the tax cut triggered a record level of stock buybacks.

GOP TAXSCAM NOT CAUSE OF LOWEST UNEMPLOYMENT SINCE 1968.

- President Trump is coasting on an economic expansion – now the second-longest on record – that began under President Obama.

- The law has not changed the unemployment trend.

- The unemployment rate has fallen steadily since the end of the Great Recession.

THE GOP TAXSCAM HAS NOT CREATED JOBS FOR MILLIONS OF WORKERS.

- More jobs were created in President Obama's last two years in office than President Trump's first two years, a monthly average of 227,00 for Obama contrasted to an average of 191,000 for Trump.

- Monthly non-farm job growth has slowed in the first 35 months of the Trump administration compared to the last 35 months of the Obama administration – 36,000 fewer jobs per month under Trump.

- The tax law also encourages companies to send factories and jobs overseas rather than protecting jobs at home.

THE GOP TAXSCAM IS NOT HELPING MIDDLE-CLASS FAMILIES KEEP MORE OF THEIR PAYCHECKS.

- There has been very little increase in private sector compensation or wages since the tax law passed.
- Real wage growth continues to be disappointingly modest, and real bonuses increased by just 2 cents per hour between December 2017 and September 2018.
- The law ignores the stagnation of working-class wages and worsens income and wealth inequality.
- In fact, only 35 percent of the tax law's benefits in 2018 will go to the bottom 80 percent of households making less than approximately $150,000 per year.

EVEN THOUGH FEDERAL REVENUES HAVE RISEN, THE GOP TAXSCAM HAS CREATED A MAJOR REVENUE DEFICIENCY PROBLEM.

- Corporate tax receipts dropped an astounding 31 percent drop in 2018, with total receipts as a share of GDP falling to the lowest levels since the end of the Great Recession despite healthy economic growth and a tight labor market.
- Revenue last year was 16.4 percent of the economy, almost two percentage points below the 50-year average of 18.3 percent in years in which unemployment fell below 5 percent.
- By contrast, spending as a share of GDP last year fell right at the historical average.
- Predictably, the President and our Republican friends seeks to evade blame and responsibility for the fiscal mess and exploding debt they have created.

- Instead of redressing the harm caused by the Trump TaxScam, Republicans resort again to their past practice of blaming the deficit on the entitlement programs such as Social Security, Medicare, SNAP, and veterans benefits and seek to slash these programs to the barebones.

- For example the President sought to cut non-defense discretionary (NDD) programs by $1.4 trillion, including cuts to Medicare and Medicaid, reduce funding for SNAP by $220 billion or 22 percent, and deny infrastructure funding for cash-strapped state and local governments; and pile more hardships on struggling Americans with $327 billion in cuts to direct spending programs that safeguard basic living standards they need to get by.

- The President is obsessed with dismantling and destabilizing health care for millions of Americans by making yet another attempt to "repeal and replace" the Affordable Care Act passed under the extraordinary leadership of President Barack Obama which provided health security to more than 20 million Americans.

- Mr. Chairman, we now entering Act III of the immorality play we predicted the President would write.

- Act I was the cutting of taxes for the rich; Act II was the inevitable exploding of the deficit we predicted would result and our Republican friends denied would ever happen.

- And now we have Act III, in which Republicans claim to have newly rediscovered their horror over the deficits created by their fiscal irresponsibility and insist that the mess they created but be cleaned up by slashing investments in the programs relied upon by the 90-95 percent of Americans who were made worse off by the GOP TaxScam.

- The President should be embarrassed and ashamed of his economic stewardship and thankful every day to President Obama for tackling and solving the major economic challenges facing Americans.

- Thank you, I yield back my time.

QUESTIONS FOR THE RECORD
CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS
FOR DR. PHILLIP SWAGEL, CBO DIRECTOR
JANUARY 29, 2020

QUESTION 1:
Has the Congressional Budget Office (CBO) ever studied and documented the impact on the national economy of the United States and of the African American community of what President Lincoln said was the "250 years of unrequited toil," that was the cause of the Civil War?

QUESTION 2:
Would a report of a truth and reconciliation commission that was created to explore whether it would be appropriate and warranted to recommend reparative relief to compensate the descendants of those persons held in bondage assist the CBO in documenting the economic impact of the uncompensated labor of slaves on racial disparities that are so evident today in the economic circumstances of communities of color? If so, how? If not, why? What would you recommend as an alternative?

CONGRESSMAN SETH MOULTON
QUESTIONS FOR THE RECORD
THE CONGRESSIONAL BUDGET OFFICE'S
BUDGET AND ECONOMIC OUTLOOK HEARING

Director Swagel, I think every member of this Committee recognizes the importance of the Congressional Budget Office in ensuring we can accurately assess the current and future budgetary and economic trends in the U.S. It should be a bipartisan priority to minimize the barriers to your work, so I want to spend a little time understanding what those might be. At the end of last August, the "Update to the Budget and Economic Outlook: 2019 to 2029" increased deficit projections for 2019 and the 10-year period ending in 2029 by $63 billion and $809 billion, respectively. In this revision, the federal deficit was expected to be $960 billion for fiscal year 2019. Then, in October, the U.S. Treasury reported the final deficit total for fiscal year 2019 to be $984 billion.

- I understand that there are uncertainties in the work that you do. What accounts for the gap between your revised estimate at the end of August and the U.S. Treasury's final deficit total?

- The CBO needs timely and reliable data from federal executive agencies in order to complete its reports and analyses. What does the process of obtaining that information from another agency look like, and are there any impediments to your getting the data you want?

- I understand that the CBO must on occasion enter into MOUs with federal agencies prior to an agency providing access to certain data, and that negotiations over an MOU can be lengthy. How would your work, in both its efficiency and its accuracy, be improved if there were a standard, preset agreement that CBO could enter into with an agency--in other words, an agreement where there was no need for CBO to negotiate with an agency over its terms?

- Have you encountered times when CBO has relied upon a particular agency report or agency data source that any agency has discontinued producing? Are there examples you can share?

- How did that impact your ongoing mission? Are there things agencies could better do to help you meet your mission?

House Budget Committee
Representative Scott Peters – Questions for the Record
Full Committee Hearing: CBO Economic Outlook
Wednesday, January 29, 2020 at 10:00 am

Climate

The benefits of investing in climate-smart policies and solutions are large and increasingly clear, but they often span sectors and extend well beyond the 10-year budget window.

- Given this complexity, how can CBO best help the Congress analyze major legislative proposals for their near- and long-term impacts on climate-related metrics?
- Such metrics could include, for example, U.S. greenhouse gas emissions, sea-level rise, health and loss-of-life, weather- and climate-related disaster risks, and agricultural productivity.

Trade

Your report suggests that the President's tariffs on imports will reduce real GDP by about 0.5 percent in 2020. One concern is that general uncertainty and pessimism over the Administration's trade policy may be shaking business confidence and stifling investment.

- Does your forecast reflect the impact of trade policy uncertainty on the economy?
- In what ways do trade tensions factor into the CBO's baseline?

Congressional Budget Office

FEBRUARY 27, 2020

Answers to Questions for the Record Following a Hearing Conducted by the House Committee on the Budget on *The Budget and Economic Outlook: 2020 to 2030*

On January 29, 2020, the House Committee on the Budget convened a hearing at which Phillip L. Swagel, the Congressional Budget Office's Director, testified about the agency's report The Budget and Economic Outlook: 2020 to 2030.[1] *After the hearing, three Members of the Committee submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/56167.*

Congresswoman Jackson Lee

Question. Has the Congressional Budget Office (CBO) ever studied and documented the impact on the national economy of the United States and on the African American community of what President Lincoln said was the "250 years of unrequited toil," that was the cause of the Civil War?

Answer. CBO has not studied the economic impact on the United States of what President Lincoln described as "250 years of unrequited toil," nor has it explored the economic repercussions of slavery on the African American community.

Question. Would a report of a truth and reconciliation commission that was created to explore whether it would be appropriate and warranted to recommend reparative relief to compensate the descendants of those persons held in bondage assist the CBO in documenting the economic impact of the uncompensated labor of slaves on racial disparities that are so evident today in the economic circumstances of communities of color? If so, how? If not, why? What would you recommend as an alternative?

Answer. CBO anticipates that it would be assisted by information from a report exploring potential reparative relief if the leadership of the Congress or its committees asked the agency to study the impact that the uncompensated labor of enslaved African Americans has had on the economic circumstances of communities of color. Estimating that impact would be very difficult.

1. See Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030* (January 2020), www.cbo.gov/publication/56020.

Congressman Moulton

Question. At the end of last August, the "Update to the Budget and Economic Outlook: 2019 to 2029" increased deficit projections for 2019 and the 10-year period ending in 2029 by $63 billion and $809 billion, respectively.[2] In this revision, the federal deficit was expected to be $960 billion for fiscal year 2019. Then, in October, the U.S. Treasury reported the final deficit total for fiscal year 2019 to be $984 billion. I understand that there are uncertainties in the work that you do. What accounts for the gap between your revised estimate at the end of August and the U.S. Treasury's final deficit total?

Answer. The differences between CBO's revised August projection for 2019 and the actual deficit total reported by the Treasury in October stemmed from outlays that were $31 billion more than the agency estimated in August, partly offset by revenues that were $11 billion higher. Earlier in the year, the Administration announced that it would provide a total of $28 billion to farmers affected by trade disputes.[3] In August, CBO anticipated that much of the spending related to that announcement would occur in fiscal year 2020; however, about $9 billion more of that anticipated spending occurred before September 30, in fiscal year 2019. In addition, outlays for both Medicare and Medicaid were higher than CBO estimated in August, as was spending for defense.

Question. The CBO needs timely and reliable data from federal executive agencies in order to complete its reports and analyses. What does the process of obtaining that information from another agency look like, and are there any impediments to your getting the data you want?

Answer. Typically, CBO's analysts and managers talk with their counterparts at executive branch agencies to understand what information is available. Some of the most important information comes from agency experts who have a "boots-on-the-ground" perspective about how a proposed policy will be implemented. CBO's interaction with other agencies often consists of a series of emails and phone calls. If a data use agreement is required, CBO's attorneys and IT staff work with the executive branch agency to determine how the data will be transferred, used, and protected. Time is the greatest challenge when CBO prepares cost estimates because legislation frequently moves faster than a data use agreement can be negotiated. For long-term studies and recurring needs, or when CBO has anticipated the Congress's interest, negotiation works well.

Question. I understand that the CBO must, on occasion, enter into MOUs with federal agencies prior to an agency providing access to certain data and that negotiations over an MOU can be lengthy. How would your work, in both its efficiency and its accuracy, be improved if there were a standard, preset agreement that CBO could enter into with an agency—in other words, an agreement where there was no need for CBO to negotiate with an agency over its terms?

Answer. The accuracy of CBO's estimates depends in part on receiving information from agencies in a timely manner. Most of CBO's interactions with executive branch agencies have

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2. See Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2019 to 2029* (August 2019), www.cbo.gov/publication/55551.

3. See Congressional Budget Office, *The Accuracy of CBO's Baseline Estimates for Fiscal Year 2019* (December 2019), www.cbo.gov/publication/55927.

been cooperative and productive. CBO has sometimes faced delays in obtaining information from agencies while negotiating memorandums of understanding.

Having a standard agreement might help CBO obtain information more quickly. The Congressional Budget and Impoundment Control Act of 1974 already provides the essential terms of CBO's agreements. CBO must provide the same level of confidentiality as the agency providing the data. In addition, if there was an unauthorized disclosure, CBO's employees would face the same penalties as employees of the agency providing the data. A challenge to having a standard agreement is that the protocols that agencies follow to protect data from unauthorized disclosure change with technology and the threat environment.

Question. Have you encountered times when CBO has relied upon a particular agency report or agency data source that any agency has discontinued producing? Are there examples you can share?

Answer. There have been times when CBO has stopped getting information because an agency updated its systems or streamlined its reports. For example, in the past, the Department of Health and Human Services has produced reports that provide immigration statistics, but some of those reports have not been continued or have contained only a subset of information from the previous year. When such data are not available, CBO must use less recent data to produce estimates until new data become available. The most common reason information is not available is that the data CBO needs were never collected—such as information about people with temporary visas who leave the country.

Question. How did that impact your ongoing mission? Are there things agencies could better do to help you meet your mission?

Answer. Most agencies have been cooperative and have tried to provide CBO with information when it was needed. In response to the Foundations for Evidence-Based Policymaking Act of 2018, CBO expects that, in the future, agencies will make more administrative data available that will prove useful for policy analysis.

Congressman Peters

Question. The benefits of investing in climate-smart policies and solutions are large and increasingly clear, but they often span sectors and extend well beyond the 10-year budget window. Given this complexity, how can CBO best help the Congress analyze major legislative proposals for their near- and long-term impacts on climate-related metrics? Such metrics could include, for example, U.S. greenhouse gas emissions, sea-level rise, health and loss-of-life, weather- and climate-related disaster risks, and agricultural productivity.

Answer. CBO is in the process of consulting with the Congress to explore ways to analyze policy proposals that would reduce the effects of greenhouse gas emissions on the economy; such efforts would serve as a complement to its budgetary analyses. At this time, the agency has not yet determined how to best implement such procedures. In related work, CBO has previously examined expected annual economic losses from most types of damage caused by hurricane winds and storm-related flooding and projected increases in hurricane damage caused by climate change and coastal development.[4] Those reports examined the implications for the federal budget of such damage and explored three approaches to ease the pressure to spend federal discretionary funds on relief and recovery from that damage, including limiting greenhouse gas emissions, expanding requirements for obtaining flood insurance, and increasing the share of disaster assistance paid for by state and local governments. CBO's capacity to undertake such analysis is currently limited, but the agency is working to expand that capacity.

Question. Your report suggests that the President's tariffs on imports will reduce real GDP by about 0.5 percent in 2020. One concern is that general uncertainty and pessimism over the Administration's trade policy may be shaking business confidence and stifling investment. Does your forecast reflect the impact of trade policy uncertainty on the economy? In what ways do trade tensions factor into the CBO's baseline?

Answer. Yes, CBO's baseline reflects the impact on the economy of uncertainty surrounding trade policy.[5] Changes in trade policy have increased businesses' uncertainty about future barriers to trade. CBO expects that such uncertainty would lead some U.S. businesses to delay or forgo new investments or make costly adjustments to their supply chains. Taken together, those effects would lower U.S. output. Some of the effects would be offset as U.S. consumers and businesses replaced certain imported goods with goods produced in the United States, and as tariff revenues, by reducing the deficit, increased the resources available for private investment in later years. CBO projects that, on net, trade barriers imposed since January 2018 would reduce the level of real (inflation-adjusted) gross domestic product by roughly 0.5 percent and reduce average real household income by $1,277 (in 2019 dollars) in 2020.

4. See Congressional Budget Office, *Expected Costs of Damage From Hurricane Winds and Storm-Related Flooding* (April 2019), www.cbo.gov/publication/55019; and *Potential Increases in Hurricane Damage in the United States: Implications for the Federal Budget* (June 2016), www.cbo.gov/publication/51518.

5. See Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030* (January 2020), www.cbo.gov/publication/56020.