

**COUNTING THE COSTS: HOW A U.S. DEFAULT  
CRISIS HARMS AMERICAN FAMILIES AND BUSI-  
NESSES**

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**HEARING**

BEFORE THE

**JOINT ECONOMIC COMMITTEE**

OF THE

**CONGRESS OF THE UNITED STATES**

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

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MAY 17, 2023  
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# COUNTING THE COSTS: HOW A U.S. DEFAULT CRISIS HARMS AMERICAN FAMILIES AND BUSINESSES

WEDNESDAY, MAY 17, 2023

UNITED STATES CONGRESS,  
JOINT ECONOMIC COMMITTEE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 2:32 p.m. in 216 Hart Senate Office Building, before the Joint Economic Committee Chairman, Martin Heinrich.

**Senators:** Hassan, Heinrich, Klobuchar, Lee, and Schmitt.

**Representatives:** Arrington, Beyer, Estes, Ferguson, Moore, Porter, Schweikert, and Smucker.

**Staff:** Nicolas Aguelakakis, Christina Carr, Tess Carter, Sebi Devlin-Foltz, Ron Donado, Michael Farren, Tomas Gallegos, Owen Haaga, Colleen J. Healy, Jeremy Johnson, Jessica Martinez, Michael Pearson, Elisabeth Raczek, Christopher Russo, Jeff Schlagenhauf, Alex Schunk, Nita Somasundaram, and Garrett Wilbanks.

## OPENING STATEMENT OF THE HON. MARTIN HEINRICH, A U.S. SENATOR FROM NEW MEXICO, CHAIRMAN, JOINT ECONOMIC COMMITTEE

**Chairman Heinrich.** This hearing will come to order. I'd like to welcome everyone to the Joint Economic Committee's first hearing in this Congress. It's an honor to lead this Committee and I'm excited to build on the success of former Chairman Beyer's leadership this last Congress and I'm also looking forward to working with my fellow Committee members, including our new Vice Chairman. Congratulations, Congressman Schweikert.

I want to welcome the new members of the Joint Economic Committee, Senators Welch, Fetterman, Schmitt, and Vance and Representatives Ferguson, Smucker, and Malliotakis, is that how you say it?

More important, today's hearing will begin with five-minute opening statements from myself and Vice Chairman Schweikert and each of our three witnesses. We will then proceed with questions, alternating between parties, and in order of member arrival. Members are reminded to keep their questions to no more than five minutes. Now for opening statements.

By most estimates, we are now less than one month from a default on our obligations as a nation. This is unacceptable. It's unprecedented and it's caused by too many members putting politics

ahead of people. The United States simply does not skip out on its bill. The United States pays its bills. And when we do, like when we voted to do so since 1960, including, I would point out three times under President Trump, we don't just signal to the world that we are a responsible nation. We also avoid economic catastrophe for the people who sent us to Congress in the first place.

Let's be clear. A default will drive up costs for working families, for mortgages, car loans, student loans, and small business loans to the cost of consumer goods and it will cost jobs, millions of them. Nationwide, Moody's Analytics predicts a drawn-out default would cost us between seven and eight million jobs, and that includes as many as 38,000 jobs lost in my home state of New Mexico.

For two years now Republicans have been predicting a recession. Now they have manufactured a default crisis that could actually cause that recession. Using the economic wellbeing of the entire nation as a bargaining chip is wrong and shouldn't be condoned. Democrats, Republicans, and Independents should all absolutely negotiate on our annual appropriation bills and as a member of the Senate Appropriations Committee, I've been part of these negotiations.

I know how opinionated we can all be and how hard we fight for our constituents and the issues that we believe in and that's exactly what we should do in our appropriations process, but holding the economic wellbeing of our country hostage over appropriations and legislation we have already negotiated and passed is wrong.

For one thing, I would welcome revisiting the Bush and Trump Administration's tax cuts for the wealthiest of the wealthy which contributed \$10 trillion to our national debt. But that is not the question at hand. The question now is will Congress avoid default and with it save the American economy. The answer must be yes. We must pass a clean debt limit increase and continue our economic recovery. The danger we are putting our constituents in if we fail to deliver on this fundamental responsibility is what we will explore in this hearing. And I will now turn things over to Vice Chairman Schweikert for his opening statement.

[The prepared statement of Chairman Heinrich appears in the Submissions for the Record on page 33.]

**OPENING STATEMENT OF THE HON. DAVID SCHWEIKERT, A REPRESENTATIVE FROM ARIZONA, VICE-CHAIRMAN, JOINT ECONOMIC COMMITTEE**

**Vice Chairman Schweikert.** Thank you, Mr. Chairman. First, just an off the script comment. Senator Heinrich and I are fairly friendly with each other. We are going to have these moments where we will differ, but in my early days of being on the Joint Economic Committee this was actually an intellectually credible committee.

Yes, we have partisan views. We have supply side, Keynesian whatever your underlying philosophy. I'm hoping, as we continue to move forward, when it's our turn to choose a hearing, their turn to choose, that we continue to try to step up the quality because at some point we have a moral obligation as well as a technical obligation to provide information for the construction of a debt and policy.

I do want to make it absolutely perfectly clear, Republicans are not walking us to default. We're misusing that definition, as I fear, a scare tactic. Please understand 2011, and I have the quotes here if you want to read them. Standard & Poors lowered the U.S. credit rating to AA+ based on the fiscal consolidation plan negotiated between the White House and Congress because it fell short. The actual quote was "necessary to stabilize medium and long-term debt." That was 2011. The debt today is dramatically worse, dramatically worse. If you do understand since January 20, 2021, when the new Administration took place, we are now borrowing \$4.4 billion a day. That's \$50,000 a second since the new Presidency. In nine years the math says over 90,000 a second.

If you start to layout the cruelty that means to retirees and most likely coming inflation, but also what we're doing to our young people. Mr. Chairman and to everyone, the other thing is the discussion about Social Security. We need to actually have it. The math says in now eight and a half years, according to CBO's report six weeks ago, the Social Security Trust Fund is gone. CBO says a 25 percent cut to seniors. Is this Committee, of all the committees, ready to deal with the moral implications of doubling senior poverty?

I will argue that absolutely moral and my heartbreak of the President's State of the Union speech where many of us had spent a year quietly negotiating to see if there was a fix we could bring to the table and then to stand up and give a speech to the American people saying don't touch it and we all applaud with understanding that was signing a contract on doubling senior poverty in this country in eight and a half years. That is cruel and unacceptable.

The other point I really, really want us to understand is my personal sort of rage at the theater that has been this debt ceiling. And having read both your testimonies, I appreciate the partisanship, but there are some things that are technically absolutely incorrect. Please take a look at what happened in this body 2017, 2019. Are you telling me that the \$620 billion of additional spending and the lifting of spending caps that was absolutely required in dealing with Democrats at that time on the debt ceiling was a clean debt ceiling? If we're going to judge each other, let's be honest and judge each other by the same standards.

We have incredible concern on the scale and growth of this debt and the stresses that puts on society and ultimately the crushing of the poor by not dealing with these things. To pretend that the other side, my brothers and sisters on the left, have stood up and said let's do clean debt clean debt ceilings that's intellectually dishonest as well as just factually not true.

Please let this hearing be about where we're at, how we mechanically do this, and how we meet the morality of the crushing debt that is coming to this society.

Last thing also the Chairman in his opening statement said the 2017 tax reform and threw out the number of \$10 trillion. We have vetted that number multiple, multiple times when we do the growth effects and we can't find that number anywhere in the actual literature. We'd love to see it. And with that, Mr. Chairman, I yield back.

**Chairman Heinrich.** Now I'd like to introduce our three distinguished witnesses. Dr. Wendy Edelberg is the Director of the Hamilton Project and a Senior Fellow in Economic Studies at the Brookings Institution. Dr. Edelberg is a macroeconomist whose research spans a wide array of topics from household spending and savings decisions to economic effects in fiscal policy to systemic risks in the financial system.

She frequently writes reports and articles for the Hamilton Project on a variety of macroeconomic topics, most recently with a focus on issues affecting the post-pandemic labor force and the debt ceiling. Prior to her time at the Hamilton Project, Dr. Edelberg spent more than 15 years working in the public sector, including as Chief Economist at the Congressional Budget Office and also served at the Council of Economic Advisers and the Federal Reserve Board.

Mr. Indivar Dutta-Gupta is the President and Executive Director of the Center for Law and Social Policy. Prior to that, Mr. Dutta-Gupta, was the Co-Executive Director of the Georgetown Center on Poverty and Inequality where he lead work to develop and advance policy recommendations that elevate poverty and inequality, advance racial and gender equity and expand economic inclusion for all people.

He also previous served as the Senior Policy Advisor at the Center on Budget and Policy Priorities and as a professional staff member on the House Ways and Means Subcommittee on Income Security and Family Support.

The Honorable Mick Mulvaney is a Co-Chair at Hatem, LLC, a global consultancy designed to solve diverse public and private sector challenges. Mr. Mulvaney previously served as Acting White House Chief of Staff and as Director of the Office of Management and Budget under the Trump Administration. Prior to that, Mr. Mulvaney represented the Fifth Congressional District of South Carolina in Congress.

Dr. Edelberg, let's begin with your testimony and then we'll continue in the order of introductions. The floor is yours.

**OPENING STATEMENT OF DR. WENDY EDELBERG, DIRECTOR,  
THE HAMILTON PROJECT, SENIOR FELLOW IN ECONOMIC  
STUDIES, BROOKINGS INSTITUTE, WASHINGTON, DC**

**Dr. Edelberg.** Thank you, Chairman Heinrich, Vice Chairman Schweikert, and members of the Committee, my name is Wendy Edelberg and I'm Director of the Hamilton Project and a Senior Fellow at the Brookings Institution.

The effects of the debt ceiling crisis are unambiguously negative and they could be quite severe for families, businesses, and the health of the economy even if Treasury continued to make timely principal and interest payments. To do that, Treasury would likely need to cut non-interest payments by 35 percent.

Proposed workarounds such as increasing borrowing despite the debt limit or priorities some non-interest payments would bring chaos and create legal uncertainty and are not sustainable. The only effective solution is for Congress to increase the debt ceiling without delay or better yet abolish it.

In my remarks I will make three points. First, raising the debt ceiling gives Treasury the means to pay obligations that result from already enacted laws. It is not about allowing future obligations to be incurred. Second, if Treasury were forced to delay payments, the negative economic effects would be swift and would escalate. Third, the only solution is to raise or eliminate the debt ceiling.

U.S. taxpayers owe people money because of legislation enacted in the past. In some cases, 90 years ago. We owe interest to those who have lent to the U.S. by purchasing Treasury securities. We owe doctors and hospitals who've treated Medicare and Medicaid patients and millions of people are entitled to benefits, including four million disabled veterans whose payments scheduled for June 1st are now uncertain.

Because the U.S. runs a deficit, Treasury needs to increase federal debt to meet these obligations. Should the debt ceiling bind the negative economic effects would risk triggering a deep recession. How bad it could get depends on how long the situation lasts, how it is managed, and how much investors lose their faith in Treasury securities with a Stock Market crash the first day that a payment is delayed.

Would the Treasury's securities market, the world's most important, function smoothly? Would there be a run on money market funds that hold Treasury securities? If people expected a short-lived impasse with full and timely payments on Treasury securities, it is possible that the initial response could be muted. However, even if the crisis only lasted a few days, the damage could be lasting.

At the very least, investors would likely anticipate short-term interruptions in federal payments each time the debt ceiling nears a signification escalation from their current expectations for negotiations to run right up to the last minute. If the impasse were to drag on, market conditions would likely worsen with each passing day as optimism about resolving the crisis wanes and pessimism about a deep recession expands.

Entitlement beneficiaries could face trouble with expenses such as rent and utilities. Government agencies' work could be disrupted and federal employees required to work because the federal government would not be shutdown, wouldn't know how long their paycheck would be delayed. Moreover, because tax revenues would be dampened, the fiscal outlook and necessary cuts to spending would be exacerbated.

The reputation of the Treasury securities market would be undermined. Up until now, the U.S. Government has enjoyed a borrowing rate that has estimated to be lowered by roughly one-quarter percentage, meaning interest savings of more than \$750 billion over the next decade. If just a portion of that advantage were lost by allowing the debt ceiling to bind, the cost to the taxpayer could be significant and already financial markets are concerned.

For Treasury bills that are scheduled to mature in June, investors are demanding a significant premium of nearly 1 percentage point for the risk of not being paid on time.

I want to be clear that none of the proposed workarounds would avoid the chaos that would ensue if the debt ceiling were to be

bind. If Treasury used a workaround to make all payments. It would be viewed as circumventing the will of Congress. It would bring legal challenges that would add to uncertainty and it would roil financial markets. Indeed, legal challenges are likely no matter what Treasury does as the law imposes contradictory requirements.

Treasury is required to make payments, honor the debt, and not go above the debt limit, three things that cannot happen all at once. No action other than raising or eliminating the debt ceiling will prevent a debt ceiling crisis.

[The prepared statement of Dr. Edelberg appears in the Submissions for the Record on page 38.]

**Chairman Heinrich.** Mr. Dutta-Gupta.

**OPENING STATEMENT OF MR. INDIVAR DUTTA-GUPTA, PRESIDENT & EXECUTIVE DIRECTOR, CENTER FOR LAW AND SOCIAL POLICY, WASHINGTON, DC**

**Mr. Dutta-Gupta.** Thank you Chairman Heinrich and Vice Chairman Schweikert and members of the Committee. My name is Indivar Dutta-Gupta and I'm President and Executive Director of the Center for Law and Social Policy or CLASP. CLASP is a national, nonpartisan nonprofit using research and analysis to promote effective policy solutions to end poverty and advance racial and gender equity.

I'm honored to discuss why many people rely on federal programs to achieve a basic living standard. Why the deep cuts mandated under the McCarthy Debt Ceiling bill would undermine the wellbeing of the nation's people and the importance of raising revenues alongside the dangers of failing to raise the debt limit. So first, why do people rely on federal programs to achieve a basic living standard? The United States suffers from an unusual number of low-paid jobs, ranking 39th out of 42 OECD countries. As a result, many who benefit from support programs are simply workers paid too little to make ends meet.

This is particularly true for many women, Black and Latino working people who are disproportionately employed in low-paid jobs. Others experience low incomes due to the hazards of life including illness, disability, death of a family member, outliving savings, under employment, intimate partner violence, and caring for a loved one. These life events are experienced across all races and classes, if unevenly due to unequal wealth, social and cultural expectations, labor market discrimination, mass incarceration, and more.

Now fortunately a vast array of empirical studies proves that individual programs like health coverage, food assistance, and cash assistance and our social protection system overall help families with low incomes stabilize their lives, maintain employment, and advance in the labor market as well as help their children thrive.

So unsurprisingly then, the McCarthy bill's deep cuts would undermine the nation's wellbeing. The House debt ceiling bill would set dangerously low caps on appropriations that would grow harsher over time. If House Republicans later allow spending on defense, border security, and veterans medical care to grow virtually all other appropriated spending would need to be eliminated under the caps.

So of course, supports on the chopping block include childcare which helps parents while they work or go to school to improve their employment prospects, post-secondary education and workforce development, which can offer credentials required for better jobs and support our small businesses, and food safety, public health, basic transportation programs that benefit everyone.

The bill also would use work reporting requirements to limit access to Medicaid, SNAP, and TANF, programs that help families, including more than one million veterans access opportunity and thrive. Extensive evidence proves that such requirements do little to promote work, but do increase hardship harming many who merely failed to overcome the red tape that these requirements create.

So instead, revenues must be a major part of the answer. The United States is a relatively low tax country, ranking 32 out of 38 OECD countries in total government revenues as a share of GDP while total government spending is also low compared to other wealthy countries, recent tax cuts have helped propel us to our current debt levels. The Bush tax cuts, their extensions, and the Trump tax cuts alone are responsible for most of the increase in the ratio to debt to economic output since 2001, adding trillions to deficits.

The McCarthy bill would actually reduce revenues by cutting the IRS budget and making it harder to collect taxes owed by the wealthy and corporations. Now we face serious dangers if we fail to raise our arbitrary debt limit. A default could spark a financial crisis causing millions of job losses and decimating retirement savings for people of all income levels. It would make borrowing more expensive and reduce families' ability to build wealth through home ownership, education, or entrepreneurship.

Millions of people would immediately feel the impact of a stop in government spending through delays in Social Security, veterans' disability payments, and more. A recession, which the proposed cuts could trigger, could harm everyone, particularly workers paid the lowest wages, young people and communities of color, many of whom are among the last hired and first fired.

The House passed bill tells American families heads you lose, tails you lose. Tying passage of debt limit bill cuts is dangerous and would increase costs, deprivation, and suffering for American families or gutting investments that ensure our nation's long-term competitiveness. Congress should not pass any deal that increases hardship, never mind one that asks struggling families to foot the bill so the richest corporations and households can evade their taxes. Thank you.

[The prepared statement of Mr. Dutta-Gupta appears in the Submissions for the Record on page 45.]

**Chairman Heinrich.** Director.

**OPENING STATEMENT OF MR. MICK MULVANEY, FORMER DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, CHARLOTTE, NORTH CAROLINA**

**Director Mulvaney.** Thank you. Thank you for the invite. It's nice to be back in the room. As a former House member, I always like to comment that you all's meeting rooms are a lot nicer than

ours, so it's always nice to be over on this side of the building and it's welcomed to have the chance to talk about the debt and the deficits.

We don't do that enough. The last time I was in this room having that conversation was in the spring of 2011. I was sitting where Ms. Moore is sitting right now and the debt was \$14.3 trillion and we did very little about it. Today it's \$31.4 trillion. We got there, in large part, because we don't have these discussions. There's never a good time to have these discussions.

If you try to have discussions about the debt around the debt ceiling, people cry default. If you try and have a discussion about the debt around appropriations, as the Chairman suggested at the outset, people don't want to have that discussion. They cry government shutdown. It seems there's never a good time to talk about how and why we got \$31 trillion into debt and how we might get out of it. In fact, ignoring it is how you get where we are.

And my fear is we'll continue to ignore it. We're having the hearing. I understand the Senate majority leader asked for these hearings. I appreciate that, but we'll probably ignore it again. We'll probably ignore Social Security, which is a complete travesty. What, we've got nine years left before there's 24 percent across the board cuts and we're not having hearings today on Social Security? The same is true with Medicare. Ignoring these problems won't make them go away. If we need proof of that look at what's happened since we sat in this room in the spring of 2011.

Mr. Schweikert said something that caught my attention in his opening statement about the intellectual credibility of this Committee. I loved serving on this Committee. I served under both Senator Casey from Pennsylvania and Congressman Brady from Texas and we prided ourselves on having really good and meaty intellectual conversations. We all know that hearings in this place can tend to become sensationalized. They can tend to be the type of things that people only go to in order to get their social media clips, to get their input that they need to raise money. It's one giant charade after another.

This Committee was always different and I hope it continues to be the case. We need to have intelligent conversation about the debt. There's not a single person in this room that I know of who is arguing for default, not one. In fact, of all the people sitting in this room, there's a couple who've actually voted not to default, not everybody, but some.

I don't know of a single person here who says, you know what, I think default would be a great idea. There are folks having discussions about what is a default. Is not paying the employees of the Department of Education, is that a default? Is that a default of an obligation as the Chairman mentioned, or is not paying your interest on your debt a default as defined by the rating agencies? Those are the types of differentiations or distinctions that I think is important for this Committee to make because no other committee will make them.

You can get away with saying, oh, not paying the Department of Education is a default in other committees. You shouldn't be able to get away with it here. This has always been one of the most reputable committees in Congress. I hope it continues to be. We need

to have conversations about tough, important issues and this may be the only place we can do it. I hope we have a chance to have those types of conversations today about the fact that we are \$31.4 trillion in debt and that we have to have a discussion about how to raise the debt ceiling between now and sometime in June. With that, thank you, Mr. Chairman.

**Chairman Heinrich.** Thank you all for your testimony today. Director Mulvaney brought up the issue of the debt. I'm curious to hear from all three of you actually. There are multiple ways that you can get at the debt. You can cut spending. You can grow the economy and you can raise revenues. Obviously, this broader body has chosen several times in recent years to cut revenues. I'd love to know from each of you what your opinion is of whether or not revenues should be part of this conversation as well as cutting spending and what the relationship between those two things and growing the broader economy is, starting with Dr. Edelberg and we'll go straight across.

**Dr. Edelberg.** I'm absolutely sympathetic to the concerns about the fiscal trajectory. It's unsustainable. When you look at the spending pressures on the U.S. economy over the next 30 years, they're significant. They are largely a result of the aging population and rising healthcare costs. And those are going to be demands on the U.S. population whether the federal government meets those demands or the private sector meets those demands. But of course, if we got the route that the federal government meets those demands, then I think it requires more revenue.

So I think that the difficult question before you is what do we want our federal government to do for us and then how do we want to pay for it. I think revenues should absolutely be on the table and I think thinking about all of the tradeoffs for who gets harmed by spending cuts and how incentives change from increasing revenues. All of those tradeoffs have to be considered, but there is no shortage of ideas. They're just difficult political questions that have to be dealt with.

**Mr. Dutta-Gupta.** Thank you, Senator Heinrich. Sorry for my volume earlier, so let me just note that the U.S. again is a relatively low tax country compared to other countries with comparable or sometimes higher living standards and our spending is relatively low, but not as low, so there's a gap. So we're towards the top of the bottom on spending and we're at the bottom on taxes. So it seems to me that it's quite clear that what other countries with comparable living standards have figured out is that you need more revenues.

The U.S. obviously had a benefit with being able to borrow more cheaply than other countries, but I think we need more revenues. The final thing I'll just note is that those revenues can be used for obviously meeting the nation's needs, including some investments that have extraordinary ROI that we're talking about things like the expanded child tax credit we had before which had an 8 to 1 ROI that no other stakeholder could make such an investment but the United States Government, so there are things we can do. It's not that everything needs to pay for itself. Sometimes we just care for people. We live our values. I appreciate Vice Chairman Schweikert's commitment to addressing poverty among the elderly

and others, but there are also a lot of fantastic uses for revenues that could be cost beneficial.

**Chairman Heinrich.** Director.

**Director Mulvaney.** I think traditionally we pull between like 18 and 20 percentage GDP in revenues. I think we're at the high end of that right now. Even when you say it's low, it's low compared to other countries. We're at the fairly high end of scale right now for us. To answer your question, Mr. Chairman, if you go back and look—and we did this back in the Budget Committee back in 2011 and '12. We did a pretty decent investigation into fiscal consolidations. Other countries, smaller countries without a reserve currency that had been through what we anticipated then that we were going to go through and I think the two examples we used were Canada and Australia. And what you saw that they used—successful fiscal consolidations tend to have a mix of cost reduction versus revenue enhancement of about 85 percent to 15 percent. And every time I say that people say, oh, well let's raise taxes by 15 percent. That's not the point. You can get all sorts of revenue enhancement from other things such as changing deductions and so forth.

We did this in the 2017 Tax Act by limiting the state and local tax deductions and so forth. So the answer to your question is, is everything part of the discussion? I think traditionally successful fiscal consolidations are 85 to 15 spending versus revenue.

**Chairman Heinrich.** So whether you define those as taxes or other revenues, as you pointed out, they should be on the table as part of an overall package?

**Director Mulvaney.** I don't remember why Canada did it the way that they did. It may simply be that there was the political expediency and it worked. Keep in mind those are also democracies and they probably had to get parties from both sides to agree to something, so I don't know if it was the math and the economics that was driving it or if it was politics. I'm just telling you that if you look historically to the fiscal consolidations that seems to be the blend.

**Chairman Heinrich.** Vice Chairman.

**Vice Chairman Schweikert.** Thank you, Chairman Heinrich. I was so engrossed in the discussion, I was losing myself there. And to the doctor, thank you. Actually, you get a brownie point, if there's such a thing. Having a seven-year-old we do lots of little gold stars for being actually intellectually credible on the willingness to point out Social Security and Medicare, some of the things in just that it's a shame that even our side, but in reaction to the politics, is no longer talking about some of our major drivers.

Obviously, I'm going to ask Mr. Mulvaney one or two things and then we'll bounce around. But for my brothers and sisters on the Committee, between today and 30 years from now, back of the napkin math of \$128 trillion of borrowing. One hundred percent of that borrowing, 75 percent Medicare, 25 percent if we backfill Social Security. The rest of the budget actually is deemed to actually have somewhat of a positive balance.

Nine years, actually, less than nine years, we can get rid of all discretionary, including Defense. All discretionary is gone and we still have to borrow hundreds of billions of dollars just to cover the

mandatory spending; Social Security, Medicare, Medicaid, and that's actually without Social Security. I don't think we understand the driver of our incredible growth in borrowing, turns out it's really not Democrats or Republicans. It's demographics. We got old and we're often unwilling to talk about that. But first a fixation just because it's important that we get this on the record.

And as some of you know, I have a compulsion with boards, try not to hit the Chairman with this, but Mr. Mulvaney, you may actually remember some of this discussion because you and I were around for this. We were downgraded as a nation by Standards & Poors in 2011 and we were downgraded not because of the fight over the debt ceiling. We were downgraded, for those who would like to actually read it, we were downgraded because we didn't demonstrate credibility on how we were going to manage the future.

A couple of your comments, the numbers are dramatically worse today than 2011. Is this possibly coming back at us because you've actually had conversations with some of the rating agencies?

**Director Mulvaney.** Sure. And the conversations I'm having are quite interesting because I asked them again what is default and you ask a rating agency what a default is. Default is non-payment of your interest—principal and interest. But principal is easy because we borrow money to pay it back. We take new debt to pay it off old debt, but we have to also borrow money to pay off interest.

They do not consider not paying doctors for Medicare to be a default. It could be something that looks bad, but it's not a technical default. What was really eye-opening to me when I had the conversation was that I remember when that happened in 2011 our borrowing costs actually went down for a period of time and it turns out there was actually other stuff happening around the world that created a flight to Treasury that drove down our interest rates.

And we're having that conversation and one of the rating agencies pointed out to me—I honestly can't remember which one it was—said if it happens again then—there's three rating agencies. You've been downgraded by one. If you're downgraded by two of the three, then there's all sorts of financial institutions that aren't allowed to hold our debt and that that could be absolutely traumatic. There's no question about it. And my fear is they do it for that reason that you just mentioned.

So let's say that we go out and we raise the debt ceiling tomorrow. Let's say you have a clean debt ceiling vote tomorrow. Everybody votes for it, okay, all 435 of you in the House, all 100 of you in the Senate, do you really think that's going to solve the problem? Do you think that would cause the rating agencies to go, wow, that's just great. This is absolutely Triple A. They didn't have a discussion about what was happening, don't have a plan to solve the problem. It's just going to get worse, and in fact, probably makes a downgrade more likely if you just stick your head in the sand and vote for a clean debt ceiling and it would cause the rating agencies to look at us and say they're never going to deal with it. If they won't deal with it now, they're never going to deal with it. We're going to put them on negative outlook and we're going to

downgrade them. That's what frightens me is that the same thing that happens now that happened in 2011 and that people decide to get in the political blame game on one party over the other over realizing that it's our fiscal situation that is driving that downgrade, not necessarily our politics.

**Vice Chairman Schweikert.** And we've seen some of the subscription issues on some of the recent debt options. The other thing, and just because it's important, is as members of Congress and the Senate, we seem incapable of actually doing things unless we live in a stressor. Avoidances, let's be honest. It's like our term paper at the end of the session, we stall and stall and stall until we're being screamed at.

The fact of the matter is if you look at when we have actually done something, it's been moments of stress. It has been being up against the debt ceiling. It has been we're up against we don't have appropriations documents. I'm not thrilled that those of us as board members of the largest economy in the world—we can't do our homework until we're fearful, but this is a list and the fact of the matter is when we've made differences, whether it be with the Clinton Administration all the way back to Reagan, to others, when we've actually done something adult-like it's been inflection moments like this. And with that, I yield back, Mr. Chairman.

**Chairman Heinrich.** Representative Porter.

**Representative Porter.** Whether you're the United States Government or a single mom like me, we all have things that we need to buy. Just like my kids need food and clothes, our country can't live without public safety, roads and bridges, and services like veterans' healthcare and senior food assistance.

There's another thing that I have in common with our government. I buy on credit and I've never defaulted on my debt. Dr. Edelberg, given my credit history and that I've never defaulted, how many credit card companies assess my creditworthiness?

**Dr. Edelberg.** You sound like a good risk.

**Representative Porter.** So let's say my credit card company has given me a card that allows me to buy everything that I could ever possibly want, but because I'm fiscally responsible I'm going to create a debt ceiling for myself. It's modeled on Congress. So I set my personal debt ceiling on a thousand dollars. I don't want more than a thousand dollars of debt. I want to be fiscally responsible no matter how much my credit card company is willing to loan me because of my stellar credit card history.

So I go to the store and I have a lot I need to buy for my family. I fill my cart to the top, I get to the front of the store and I ring up \$500. I look at the bill, I reach for my card, I worry because I know I've already spent probably a thousand dollars in the last few weeks because of an ER visit, braces for my daughter, Dr. Edelberg, will my credit card company respect my personal \$1,000 debt ceiling or will this transaction go through?

**Dr. Edelberg.** The transaction will go through.

**Representative Porter.** I hate to disrespect my debt ceiling, but my kids have to eat, they need their school supplies, their feet keep growing, so I swipe the credit card. The charge goes through. Now fast forward. My credit card bill arrives. It's more than my \$1,000 debt ceiling. I call up my credit card company and I tell

them I've exceeded my debt ceiling. I'm not going to pay back the \$500 above my debt ceiling even though I've already spent it, even though my kids have already eaten the food, worn the clothes. Dr. Edelberg, will my credit card company accept this, my personal debt ceiling, as an excuse for why I'm not paying my bills.

**Dr. Edelberg.** They will consider you in default.

**Representative Porter.** So my lender expects to be repaid no matter I set as my debt ceiling. If I decide to stick with my debt ceiling and I do default—you said they'll consider me in default. What's going to happen to me?

**Dr. Edelberg.** They'll lower your credit limit. They'll raise your interest rate. They might even cancel the card.

**Representative Porter.** So I really have no choice here as a consumer, as a mom to suspend my \$1,000 debt ceiling and pay off the debt that I've taken. Buy the ticket, pay the ride. I did the spending. I've got to pay it back. Dr. Edelberg, I'm confused because I thought if I created a debt ceiling that would make me fiscally responsible. Did it change my spending in this hypothetical?

**Dr. Edelberg.** It might've slowed you down, but at the end of the day, you blew through your debt ceiling.

**Representative Porter.** Did it make me have less debt somehow to announce that I had a debt ceiling to the credit card company? Did that help me get my debt forgiven?

**Dr. Edelberg.** It did not help you get your debt forgiven.

**Representative Porter.** Did it make me fiscally responsible? Did it help lenders think, at least, that I'm a good credit risk?

**Dr. Edelberg.** Only if they thought it was credible that you were going to keep your spending under the debt limit, which apparently would've been a good assumption.

**Representative Porter.** Wow. This didn't work out for me, but Congress swears by this debt ceiling. In fact, it has gone through this exercise of changing or suspending the debt ceiling 78 times since 1960. Dr. Edelberg, given 78 times of this debt ceiling that we think is going to somehow curve our budget decisions has the United States lowered its debt? This didn't work for me in this hypothetical, has it worked for the U.S.?

**Dr. Edelberg.** There's no evidence that the debt ceiling has led to lower federal borrowing. No.

**Representative Porter.** So I must be missing something. If having a debt ceiling didn't do anything for me and it hasn't worked for the United States, what is its purpose?

**Dr. Edelberg.** It served a purpose a long time ago to actually try to make things easier, not harder for Treasury to pay the obligations on time without jumping through hoops. It now serves no purpose. It should be abolished.

**Representative Porter.** So you're saying that now that we actually have computers and can keep track of what we owe and when we're going to owe it and model to anticipate revenue and when it's coming and how we're going to meet our bills, this is just doing as little good as my personal hypothetical \$1,000 debt ceiling?

**Dr. Edelberg.** We now have extraordinary transparency over how much Treasury is borrowing, what securities they're issuing or

what their timetable is for issuing those that the debt limit does not serve a useful purpose.

**Representative Porter.** Thank you. I yield back.

**Chairman Heinrich.** Representative Estes.

**Representative Estes.** Thank you, Mr. Chairman, and thank you to our witnesses for being here today. You know our country today is again racing towards a debt ceiling. You'd think that President Biden would take the negotiations seriously, but unfortunately, he's taken 97 days to get together with Speaker McCarthy.

As of right now the only plan passed by either chamber to raise the debt limit is the House Republicans' Limit Save Pro Act. Unfortunately, reaching the debt limit, as mentioned earlier, isn't a new problem. It's one we repeatedly face and will face again unless we act to get our spending under control.

Let's start with some basic facts we can all agree on. Our national debt's \$31.4 trillion. We're borrowing one out of every five dollars the federal government spends, which means we're borrowing about \$50,000 a second. When my time at the hearing is done, we'll accumulated nearly \$14 million more in debt and every taxpayer is on the hook for over \$250,000 of debt. These are the facts.

I'm glad that we are talking about an agreement. As stated earlier, we don't want the United States to default. I'm so glad, Director Mulvaney, you helped to clarify the definition of what a default was because that sometimes gets thrown around loosely and it's really not the best way to describe our situation since we do have revenue coming in we're just spending more than what the revenue is.

And the budget proposed by President Biden adds another \$17 trillion to the deficit over 10 years. Think about that. Another \$17 (sic) over the 10 years would make our debt about \$50 trillion. The sticker shock of deficit spending only gets worse. If the government borrows a million dollars today, the total cost to the American taxpayers is more than \$2.3 million by the time that 10 years is up because there is no plan to repay that money.

And while the President proposes borrowing in mass sums of money, he's also included taxes as part of that, which is going to slow down the economy which will impact the amount of tax revenue that comes in. Even one of the Democrat witnesses in the House Budget Committee hearing last week admitted that people making less than \$40,000 would need to pay more in taxes to help cover the cost of some of those wide-ranging spending policies from the Biden Administration.

And as we talked about earlier with the tax cuts, one of the things I want to mention is thank goodness for the Tax Cut Jobs Act in 2017. As we've seen now actual tax revenues are coming in higher than what the Congressional Budget Office projected. In 2022, it was over \$900 billion more than the CBO projected when the bill was passed in 2017. In 2021, it was roughly \$200 billion more and so actually the economy is turning in more tax revenue for us.

So let's think about the federal spending sort of like a personal budget. If someone is making \$48,000 a year, but spends \$63,000 a year and carrying a \$314,000 on a credit card, do you think it's

fiscally responsible for that person to go get another \$15,000 on the credit card just to spend over the next year just so they can overspend their debt limit.

Now the first place we need to start looking at is how do we reduce our spending so that we can match that up with the revenue. If we don't, we'll get back in the same point of where we are today. So the only responsible plan we have out there is the Limit Save and Grow Act that's been passed by the House Republicans. I'll note that this hearing today is how a U.S. default crisis harms American families and businesses.

Nobody wants the U.S. to default and we want to make sure that the bill that the House Republicans passed helps prevent that and it's the only bill that's going to do that and it helps strengthen our financial footing for the future.

Mr. Mulvaney, when I came to Congress six years ago, the estimate was that if we could save about six trillion dollars in a 10-year period we'd have a balance budget. Now that's roughly \$16 trillion, based on where we're at today. How do we address our out-of-control spending to actually make sure that we get back in right direction?

**Director Mulvaney.** How do you address out-of-control spending? You try and convince in the other party and your own party, by the way, that spending is a problem. Face it. You don't get \$31 trillion in debt by one party doing it to you. There are folks in my own party who are just as eager to spend as some Democrats are. So yes, you've got to fight to do it. It's always easier to say yes. It's always easier to say yes. I can't tell you what we went through when I was in the OMB. I know I'm over time. I'll tell you a story. When I was down there one day when I was writing the first version of one of the budgets and we were cutting pretty heavily and then we got some instructions from up above to sort of spend a little bit more money and I want you to know the meetings were a lot easier after that.

When you can tell people, oh yeah, we'll spend more on this. Spend more on this. It's really easy to spend other people's money, which is what you all do, right? So you have to sort of figure out how to do the right thing and realize that you're spending your grandkids' money and not your own.

**Representative Estes.** Make those tough choices. Thank you. I yield back, Mr. Chairman.

**Chairman Heinrich.** Senator Klobuchar.

**Senator Klobuchar.** Thank you very much, Mr. Chair. I started my day today meeting with small businesses. And Dr. Edelberg, could you talk about what a default would mean for small businesses and access to credit?

**Dr. Edelberg.** I can. And I should say when I use the word "default," I really do actually think it can be used in two different ways. I try to be very clear when I mean defaulting on the national debt. I think that that would have extraordinary effects on financial markets and quite immediate. I think also defaulting on obligations would also have an effect.

**Senator Klobuchar.** I just have only five minutes.

**Dr. Edelberg.** Yes. Sorry. So that's what I mean by default. I think, yes, we would see a sharp loss of confidence. I suspect that

small and large businesses would immediately postpone any plans that they had to expand or hire.

**Senator Klobuchar.** Okay. Very good but not very good for them. Why don't we turn to the bank failures that we've seen recently. Another shock to the financial system could further destabilize the banking system, cause panic from depositors. How could a default, as you defined it, impact the banking and financial system and what would a default effect access to credit for consumers?

**Dr. Edelberg.** Absolutely. So commercial banks, the deposit institutions, have about two trillion dollars of U.S. treasuries on their balance sheets. Financial institutions more generally have four trillion dollars. If the value of those securities were sharply hit after a default just on obligations on non-interest payments, that could have cataclysmic effects on our banking system.

**Senator Klobuchar.** Okay. And then, Mr. Dutta-Gupta, on Monday Secretary Yellen updated Congress. She said the federal government were run out of funding as soon as June 1st. That's in just 15 days. In your testimony you state that a default would likely trigger a recession. What factors from the default do you think would be most harmful to the economy and could you explain how even what they call a short-term default if then something changed in even a few days or a week how that could still impact the economy and the financial system.

**Mr. Dutta-Gupta.** Yes, thank you, Senator Klobuchar. So according to estimates from the Council of Economic Advisors, a default could result in the loss of over eight million jobs by the end of summer. The employment rate could more than double to 8.4 percent and \$10 trillion in household wealth could be wiped out. Real GDP could shrink by 6 percent and the stock market could plummet by nearly half of its current value.

**Senator Klobuchar.** In the short-term, I talked to Mark Zandi this morning and he was stressing how even this brinkmanship can start causing problems if we're unable to reach some kind of an agreement or simply reach an agreement that we will discuss this on the budget, which is where it belongs.

**Mr. Dutta-Gupta.** That's right. We saw Vice Chairman Schweikert's quote from before that used the word "brinkmanship," which can cause a lot of uncertainty. People will be reluctant to take measures they would've otherwise invest in, whether it's a small business or even families potentially, so you would see effects sort of pervasively throughout the economy even for a short-term default.

**Senator Klobuchar.** And do you want to address that, Dr. Edelberg when it comes to say mortgage rates or the like?

**Dr. Edelberg.** So I mean we already see that anyone who's holding a Treasury bill that is scheduled to mature in the first half of June is now demanding a premium of nearly 1 percentage point and that's just what brinkmanship would bring about. If this crisis were to actually reach the day where the debt ceiling binds the effects on interest rates I think would be more chaotic and more abrupt.

**Senator Klobuchar.** Yes. I mean our nation right now our bonds are viewed as safe, correct, safe, liquid, backed by full faith and credit of the U.S. I just remember back in 2011 when Congress

waited until the last possible day to avoid a default. One of the credit rating agencies downgraded the U.S. from Triple A to Double A Plus, which cost the country nearly 20 billion in increased borrowing costs; is that correct?

**Dr. Edelberg.** That sounds right.

**Senator Klobuchar.** And can you explain how an actual default would impact the credit rating and borrowing costs?

**Dr. Edelberg.** So I think even if Treasury were able to make the principal and interest payments, I think financial markets would be roiled for several reasons. One, it's not at all clear that Treasury is legally allowed to prioritize principal and interest payments over non-interest payments, so I think the legal challenges would come right away. So I don't think anybody holding a Treasury security would feel terribly comforted that at least for now they were getting paid. I think the credit rating agencies would have no choice but to re-estimate how safe they think U.S. Treasury securities are, again, simply if non-interest payments were delayed.

**Senator Klobuchar.** Thank you.

**Chairman Heinrich.** Representative Smucker.

**Representative Smucker.** Thank you. Thank you, Mr. Chairman. I appreciate the opportunity to be a member of this Committee. This is my first hearing with the Committee. I think this is a potential forum where we can come together, as Mr. Schweikert said, have intellectual real discussions about both the state of the economy and steps that we can take to improve the economy to ensure that all Americans can live their own American dream.

It's one of the reasons I ran for Congress is to ensure that we put policies in place to lift people out of poverty and ensure that they can do well in this great country of ours. I hope that's what this Committee is and so I was disappointed, Mr. Chairman, when I saw the title of the first hearing. How a U.S. Default Crisis Harms.

And then after hearing some of the opening comments, it's clear this is an attempt to smear Republicans with some—what's the word I just heard—brinkmanship that would lead us to a default. There is no argument on my side that there should be default or at least in my point. It would be terrible for the future of the country. It would be terrible for American citizens. And so then you say, well, we should just do a clean debt ceiling, but I want to remind folks that's a hollow argument because in seven of the last ten debt ceiling increases there were changes, there were budget reforms made. Thirteen times since 1985 that happened. That's the norm, not the exception. I also want to remind folks that the only group, the only party in this discussion that has done anything to raise the debt ceiling has been the House where we have a bill in the Senate now that could be advanced that would raise the debt ceiling, could be signed by the President today within the next hour if they chose to do so.

If you don't like the provisions of the bill, then tell us what you do like and that's what we've been asking the President to do for the last months. And after he said he won't negotiate now negotiations are taking place, as they should be, and as is the norm. You know I serve on the Budget Committee as well, serve on Ways and

Means Committee and am focused on trying to correct the trajectory that we're on.

I was encouraged when we quickly got to a discussion in this hearing today about that trajectory and the impact that will have if we don't change it because today we are the highest level debt compared to GDP than since World War II when we had ramped up after a national crisis and we're in an uncertain world right now and in a bad position to be able to take on any crisis that may come along.

Projected to grow to double GDP in the next 30 years. I'd like a hearing, Mr. Chairman, on what that means for the American people, on what that means for people in poverty and people in the middle class if we don't change the trajectory. You know a sovereign debt crisis will occur when our creditors no longer believe in the faith or the ability of the U.S. Government make good on its debt or when they believe policymakers cannot take the actions necessary and that's why the work of this Committee is so important.

At least the Limit, Save, Grow Act begins to change that trajectory. I want to show a chart here. It just starts to change the trajectory; it would start to build confidence in our creditors that we can move in the right direction. It's just a start. It's just a start, but we have to get started. So let's come together on this. We're going to raise the debt ceiling. We need to, but it's an inflection point when we should be talking about putting the country on the right path.

Mr. Mulvaney, I appreciate your perspective. The House passed the debt ceiling increase in April. When did the Senate vote to raise the debt ceiling?

**Director Mulvaney.** This afternoon. No, I'm joking of course. They haven't voted yet. I think they haven't voted because they know they can't pass it.

**Representative Smucker.** Would you talk about the trajectory we're on and the dangers to the country going forward if we don't take this opportunity to being to change that?

**Director Mulvaney.** The bottom line, in 23 seconds or less, inflation. That's it. That's what you're looking at, right, is because the only way you're going to be able to function is to print the money. Whether or not you create it down at the Fed and they put it on a computer screen or actually run the machine, it doesn't make any difference. This is going to be inflationary. That's what you are looking at, not only this year, but for the next 30, 50 years. That's the only way this gets solved and that is not much of a solution.

**Representative Smucker.** Thank you. Thank you, Mr. Chairman.

**Chairman Heinrich.** Representative Moore.

**Representative Moore.** Thank you so much, Mr. Chairman, and I do want to thank our panel for appearing today. I've been in Congress for a little while. I remember serving with Mr. Mulvaney and I've been around during some of this and I guess I won't call it brinkmanship in order not to incur any wrath of anyone, but these so-called debt negotiations. And I do remember when Barack Obama was around really sort of being forced to restore

some of the Bush tax cuts in order to come to an agreement on raising the debt ceiling.

You know under former President Trump we raised the debt ceiling by \$10 trillion just under him. And then with the Bush era tax cuts, the unpaid for wars, we have really increased the debt a lot for things like that.

The question I guess I have for you, Dr. Edelberg, is had the tax cuts that have promised so much in terms of trickle down and in terms of revenue raising have they been commensurate with the GDP, with the growth in GDP?

**Dr. Edelberg.** So the tax cuts that were in the 2017 Tax Act, on net, increased the deficit by about two trillion dollars.

**Representative Moore.** So the claims that they just somehow just lifted our country have not borne themselves out yet. All right.

The question that I have for you, Mr. Dutta-Gupta, I'm just trying to recall what you said about the United States being 39 out of 42 in the OECD countries in terms of—you talked about it in terms of work requirements. Can you please remind me of what you said?

**Mr. Dutta-Gupta.** Absolutely, Congresswoman Moore. So in terms of the share of jobs that are considered low-paid or low-wage jobs, among high income and some middle-income countries, the OECD in the United States ranks very close to the bottom, so we have a very large share of jobs that do not pay well in this country.

**Representative Moore.** So when we start talking about work requirements as a solution to our spending problems, forcing people into the low-wage workforce is that not a solution?

**Mr. Dutta-Gupta.** Well, it turns out it doesn't even do that, so it doesn't really do much to increase employment and earnings you're going to mostly kick people off essential benefits like Medicaid, SNAP, and TANIF, who actually could benefit from those programs and then do better in the labor market.

**Representative Moore.** Thank you. And so, Mr. Mulvaney, I was very eager to hear your testimony, given your tremendous role that you have played in our government and I was really surprised to hear that you thought that the downgrade of S&P in 2011 was related to just uncertainty and not directly related to the brinksmanship—I can't think of any other word. The Government Accounting Office says that \$1.3 billion just in that one year it costs us increased borrowing costs. The Bipartisan Policy Center said that the 10-year cost would be \$18.9 billion and GAO also found that in 2013 the federal government borrowing costs increased by 38 to \$70 million and I could go on, but my time would expire and I do want to give you an opportunity to respond to this.

I do understand that confidence is a really big part of investing, but doesn't it seem curious to you that for the very time in history that this occurred after this brinksmanship?

**Director Mulvaney.** No, because I read the report.

**Representative Moore.** They said it was because of partisan brinksmanship.

**Director Mulvaney.** Mr. Schweikert's got the language. I mean you could look at it. Yes, actually it does. It mentions a bunch of different things, but the narrative has become that it was because of the brinksmanship and that's just false. They did mention the

fact that Congress couldn't get along. There was dysfunction in Washington, D.C. and that was concerning to them.

**Representative Moore.** Well, it was curious coincidence. Okay. I have 25 seconds left and so I just want to point out that one of the features of the bill that the Republicans are so proud that they passed regarding the debt ceiling includes repealing something like the Inflation Reduction Act which, in fact, reduced our deficit by some \$350 billion, if I'm remembering it correctly. Something the Republicans have not done, although they talk on and on and on about reducing deficits.

President Biden and the Democrats have been the only ones who's done it. I just want to thank you, Mr. Chairman, for your indulgence and I would yield back. And thank all of you all for your very candid answers.

**Chairman Heinrich.** Representative Ferguson.

**Representative Ferguson.** Thank you, Mr. Chairman, and thank you to our panelists. Again, it's been said many times here, but I think it's worth reiterating. We've done something to avoid the debt limit in the House and we've passed a bill. And to my colleague, Mr. Smucker, had a great comment. If you don't like that, we call on our Senators to pass something else over here that we can then get into conference and move ahead. But we'll continue to do this and these things that we did are common sense, thoughtful ways to get this country back on track. It's not final, but it's a step in the right direction.

Encouraging people to go to work is pretty meaningful. Look, I've lived in a community where we saw the evisceration of a manufacturing base of the textile industry following NAFTA and we saw a generation move into poverty and on government assistance and it wasn't until actually we revitalized our area, brought in an automotive plant and people went back to work that they actually got out of poverty. Okay? So jobs count, jobs matter, and getting people back engaged is important.

Rescinding money for a pandemic that is no longer here and a public health emergency that has been declared over, that's pretty common sense, right? I mean why would we keep that money there when the pandemic is over and that's what the money was for. Let's pull that back. And when you look at the spending levels that we're recommending, the first step of that is fiscal year '24 spending would be at fiscal year '22 levels, which is exactly where we are right now and the world has not fallen apart.

And I think when I look at where we are with our energy policy, it makes no sense to continue to burden and punish American families with high energy costs when there are some very thoughtful, bipartisan things that we can do with permitting reform that makes sense to get our country back on track from an energy perspective.

And then when I look at those things, these are things that make sense to Americans. And by the way, putting in something like the Reins Act which simply says that if an agency puts in a regulation that has more than \$100,000 impact on the economy we should have a say in that. It's pretty common-sense stuff. These aren't Draconian cuts. This isn't crazy stuff that folks have been talking about it, but I think that the House plan is something that, if

again, to my colleague on the Senate side, please send us something else. If you don't like that, sitting there saying the clean debt limit, if you can pass that, pass it. We'll have a discussion about it. But make no mistake, House Republicans have voted to raise the debt ceiling. We're just simply waiting on the rest of Washington to catch up with us.

Mr. Mulvaney, we've heard a lot about raising revenue. One of the proposals in the President's budget, President Biden's budget is to raise the corporate tax rate from 21 to 28 percent. How much revenue would that raise over a 10-year period?

**Director Mulvaney.** I have no idea. My guess is probably zero.

**Representative Ferguson.** Dr. Edelberg, real quickly, you got a number of how much money that would raise going from 21 to 28 percent over a decade? Is that a hundred billion dollars, is that a trillion, 1.2 trillion?

**Dr. Edelberg.** I don't have the number with me, but there are certainly estimates out there.

**Representative Ferguson.** Okay.

**Dr. Edelberg.** And I think that change was also proposed to be made alongside a host of other changes that would—

**Representative Ferguson.** I'm reclaiming my time. I'm just saying you're talking about raising revenue here, right?

**Dr. Edelberg.** That would raise revenue. Yes.

**Representative Ferguson.** All right. So if we're talking about raising revenue and going up from 21 to 28 percent probably raised, what, about 1.2, 1.5 trillion dollars. I'm looking down at my colleague from Arizona who does a whole lot of math real quickly in his head, but it's probably about a trillion and a half dollars, right? So if we're asking our job creators and our innovators, our companies in America to pay a 28 percent rate in order to raise revenue, then why in the world would we turn around and allow them to escape their tax liability by giving them a \$1.2 trillion green energy tax credit?

Director Mulvaney, is this something that makes sense?

**Director Mulvaney.** That's why I get you to zero. I mean you're playing with tiny numbers. The corporate tax doesn't generate enough money to worry about. It doesn't. Where's the money? The money is on income taxes on the middle class. That's where the money is, right? There's an old saying, "Why do you rob banks?" Because there's where the money is.

If you're going to do this by raising taxes, you have to do it on the middle class and nobody wants to do that and you shouldn't do that, right?

**Representative Ferguson.** And the downside of doing that is it makes of raising it on our job creator is it makes us less competitive in the global economy.

**Director Mulvaney.** Which also makes the middle class less able to pay taxes, so yeah.

**Representative Ferguson.** Mr. Chairman, I yield back.

**Chairman Heinrich.** So I am going to pass the gavel over to Representative Beyer, who is going to preside as I go to the Senate floor to vote. Thank you.

**Representative Beyer.** Thank you for being here and I really appreciate it. It's been fascinating listening to you all and also listening to my friends here on the Dias.

Director Mulvaney, I was fascinated by your comment that every time we get to a debt limit we cried default and every time we get a budget omnibus we cry shutdown. So let me make a couple quick points and move on. Number one is there is a solution on Social Security. In fact, there are a number of solutions. The one that I favor is John Larson's Social Security 2100 that he's been pushing for a number of years that makes it viable through the end of the century and raises benefits for the people at the very lowest end. It does increase the 6.2 percent by a measly 400th of 1 percent per year over 25 years, so completely invisible to the taxpayer.

The second thing is the tax surge. 2022 was very good for taxes, 19.2 percent, but you can ascribe an awful lot of that to the American Rescue Plan, to the economic impact payments, to the CARES Act, to the \$800 billion unemployment insurance, and they've been following it pretty precipitously in 2023.

The third point I'd like to make is we're 34th out of 38 in the OECD in terms of taxes to GDP. Our ratio is 26.6 percent. Theirs is 34.1, on average. And yet, American citizens want the same benefits as those people in the OECD countries. We're not a cutting back on the safety net. In fact, our safety net is smaller than most of those countries.

And as Donald Trump points out again and again, it's difficult to touch that safety net. People don't want us to cut Social Security. They don't want us to cut Medicare. And he realizes it's the wrong thing to do and he encourages all of our friends, Republican and Democrat not to touch it.

And then, fourth, and Director you know very well that the critical issue here is the mandatory spending, the Medicare, the Medicaid, Social Security and let's assume we can solve. And yet, with all that mandatory spending, we have the lowest life span of any of those OECD countries. We're failing our citizens. I look at the 17 and 18 percent of our GDP that we're spending on healthcare and with the next highest, 12 percent, most of them are 10 or 11 percent.

We look at diabetes where 25 percent of our Medicare budget, maybe it's 20. The last number I heard was 25 percent. It's just on in-stage renal disease, so that's just on diabetes treatment. With dental care, which is terrible for most American with the consequent impact. Tele-Health, a big move forward in a bipartisan way.

I'm very optimistic that Artificial Intelligence may give us a way to move forward on a lot of those healthcare issues. But now let me move to my question.

One party doesn't want any new revenues. The other party is critical aware that we don't want to cut any benefits. We had Simpson Bowles. You were there for that nice Commission, 18 people. It needed 12 votes to approve it. We had five Democrats vote yes, five Republicans vote yes, one Independent, but we couldn't get the last vote and it didn't happen.

So Dr. Edelberg, here we are with a \$31 trillion deficit that's going to go way up, over the debt. What do we do? How do we in this difficult political world, what's the way forward?

**Dr. Edelberg.** There are a host of ideas. The problem here is not a shortage of ideas. There are many ideas for how most effectively to raise tax revenue while minimizing any kind of negative incentive effects. There's a whole host of ideas of where we can cut spending. I think one of the reasons why this is so politically challenging is that the direct economic effects of having higher debt are actually rather modest.

So I believe the empirical models that show that higher debt as a share of GDP raises interest rates and crowds out private investment, but take the significant reduction in debt as a share of GDP under the GOP's plan where the sum was put up. CBO's projections are that GDP per person will rise from 78,000 to 88,000 per person in 2022 dollars under the baseline through 2033.

That very significant reduction in debt as a share of GDP would mean instead of rising to 88,000 per person, it would rise to 89,000 per person. These effects are moderate and so the tradeoffs are hard and it makes the politics hard.

**Representative Beyer.** Thank you. My friend, Mr. Schweikert's pointed out that 31 percent of medicare costs are diabetes right now. Astonishing. One last quick idea. I had dinner with Martin Wolfe the other night from the Financial Times, who in his latest book he's dedicated a whole chapter to citizen juries. The idea that in our very polarized political world it sometimes makes sense to go get a bunch of citizens randomly picked, put them together for a year of studying the thing and come up with a bipartisan—not even bipartisan—a citizen and then present it to the Congress where we get to vote yes or no on it as opposed to the internal fights that we always seem to have.

**Director Mulvaney.** I hate to interrupt, but wasn't there some famous American one time who said he'd rather be governed by a random selection of 400 people from the D.C. phone book than by the elected officials? Looking at Mr. Lee, who was that? It's a famous Libertarian. I can't remember who it was.

**Representative Beyer.** With that, I yield back to myself, and recognize Senator Lee.

**Senator Lee.** I think it might've been Bob Murray—not Bob Murray, Charles Murray.

**Director Mulvaney.** I'll look it up while you're doing, but yeah. I think it was Cato, yeah—but no. It might've been—well, anyway.

**Senator Lee.** We'll think about it. All right. Mr. Mulvaney, let's start with you. Back when you were Congressman Mulvaney, which was awesome in addition to the many other awesome hats you've worn, but in 2014, almost a decade ago, you had an exchange with then Treasury Secretary Jack Lew, do you remember this? You had an exchange with him in which you were asking him some questions about why the government was pretending to lack the capacity to prioritize income revenue to ensure that the first money in the door went out the door to cover interest on debt? Do you remember this exchange?

**Director Mulvaney.** I do.

**Senator Lee.** Now do you recall and can you provide some thoughts as to why Democratic appointees in both the Obama Administration and now the Biden Administration, particularly in their Treasury Departments, so consistently so defiantly refuse to state that bond holders will be paid in full if, in fact, we go past the X date?

**Director Mulvaney.** My professional opinion is that it's leverage politically.

**Senator Lee.** It's leverage politically. Did they provide you an answer at the time?

**Director Mulvaney.** I don't remember what the answer was.

**Senator Lee.** What you did not hear from them was any legal reason or any mathematical reason or any financial reason why they couldn't and shouldn't and under the 14th Amendment, wouldn't already be required to—pay first those creditors whose payments have become due.

**Director Mulvaney.** The explanation I've always heard, at least since—there used to be an argument back when I first got to Congress that it might not be legal, but I think we put that aside now. I heard Dr. Edelberg mention it, but I'm pretty sure there's a GAO report from the eighties that makes it clear it's okay to prioritize them, at least it's legal.

The argument I've heard ever since that is that they're simply not capable of doing it from a technological standpoint. Their systems don't allow it to do that, but they've taken no steps to change the systems.

**Senator Lee.** Now you referred a month ago to when you first got to Congress. I believe you and I were both elected in the same year, back in 2010. We arrived here, were sworn into office in our respective chambers in 2011. We had debt ceiling fight back in 2011. Remember that one?

**Director Mulvaney.** I do.

**Senator Lee.** That one was memorable. One of the many things that was interesting about it and somewhat memorable. It's been brought up here today is the downgrade, the downgrade that was issued. Do rating agencies downgrade people for not borrowing enough?

**Director Mulvaney.** No.

**Senator Lee.** Did they then?

**Director Mulvaney.** No.

**Senator Lee.** Did they downgrade us specifically because we were not eager to raise the debt ceiling without significant conditions attached to it?

**Director Mulvaney.** My understanding from reading the report is that the primary reason that they downgraded us was because we had no plan to fix our fiscal condition going forward, even though they—keep in mind they downgraded us after we cut the deal. So we had raised the debt ceiling and still got the downgrade because they looked at the deal we cut and said, you know what, that's not even close.

**Senator Lee.** So in other words, they weren't satisfied that we had an adequate plan moving forward to reduce overall debt.

**Director Mulvaney.** And we still don't.

**Senator Lee.** And yet, to this day, for the last 12 years it has become an almost accepted trope, an almost accepted narrative as if it were canonical scripture that we got downgraded because we were not so eager to increase the debt ceiling that we were willing to increase the debt ceiling without a plan moving forward. In fact, it's quite the opposite of how it's often characterized, isn't it?

**Director Mulvaney.** It is. In fact, I don't believe that any of the Democratic Committees have ever asked the rating agencies to come in and talk about why they gave the downgrade.

**Senator Lee.** Gee, I wonder why that is? Now there are reason of course why these things matter because what is it that happens to us if we continue to punt it, if we continue to kick it forward, we continue to increase the debt ceiling, continue to increase the debt as a percentage of GDP without addressing the underlying spending problem. What does that ultimately do and what does that do to our actual risk of an actual default?

**Director Mulvaney.** My fear is that the same thing happens to us on debt that has happened to us on modern monetary theory which you don't hear much about anymore the last couple of weeks or the last couple of months since we had inflation. Remember that theory that you can just spend as much money as you wanted to and it doesn't make any difference.

**Senator Lee.** I do. And I be darn it turned out not to be true.

**Director Mulvaney.** It's true until it's not. And all these theories about debt to GDP doesn't really make any difference, which Dr. Edelberg has mentioned here today, might be true until it's not and then what do you do? We have no plan to get out of the debt. Listen, I have nothing but respect for Mrs. Porter. I served with her, Representative Porter, as she told a wonderful little analogy about her credit card, but I'll bet you there's a significant difference. I bet she has a plan for how to pay off her credit card. We have none.

**Senator Lee.** Indeed. We do, however, have a plan. We have a plan that was passed by the House of Representatives, a plan that would bring down our debt by five trillion dollars over the 10-year budget window with something in the neighborhood of around a trillion dollars, depending on which accounting method you use, a little over or a little under a trillion the first year alone. It would do so in a way that would help us approach this debt issue more responsibly.

To date, it is the only plan on the table. It is the negotiation. People say, well, it still needs to be negotiated. Right now it is the negotiation because for 100 days President Biden refused to even to speak to Speaker of the House, Kevin McCarthy about this, insisting that all the time, all the while that he would take nothing less than a clean debt ceiling increase. Yet, another one of the same sorts of things that would predictably lead to a credit rating downgrade.

I urge all involved, including and especially President Biden, move forward with this. There is only one plan on the table and with as late you've waited, you need to move forward. Let's pass the House Pass bill. Thank you.

**Representative Beyer.** Thank you. And I recognize the Chairman of U.S. House of Representatives Budget Committee, Mr. Arrington.

**Representative Arrington.** Thank you, Mr. Beyer. Just to follow on Senator Lee's closing comments, I don't think it's too much to ask the President, who at one time as senator and most recently as Vice President, negotiated fiscal reforms and a debt ceiling negotiation. I am a little taken aback when people act like this is somehow unprecedented and wring their hands as if we're just completely out control or we can't raise the debt ceiling responsibly while dealing with this unsustainable deficit spending and debt.

Well, we've done it. In fact, some of the most significant fiscal reforms have come out of a debt ceiling legislation and negotiations and it only makes sense. I mean I really think most Americans say let me see, debt ceiling, evaluating the indebtedness of our country, it's impact on our financial health, and our future and then act responsibly.

I'm from Hale County and we say, hell, every American family is doing that, not necessarily because they want to, but because they have to. And they have to more today, my friend, than they have in the past because their wages and income are shrinking relative to inflation. It's a fact that since '21, January of '21, a family of four has lost \$13,000 over an entire year. Now that's, what, a thousand dollars a month. And six out of ten Americans live paycheck to paycheck. I don't know how in the world they're doing it.

But I think it is quite disconnected, and I appreciate that there are other ways to solve this than maybe the solutions that we've put forward, but to do nothing or to say or suggest that we have to do a clean debt ceiling or it's reckless is so out of touch with what the American people are having to do tighten their belts and change their spending habits.

That's why three out of four American says we expect the President and my Democratic colleagues and all political leaders of this greatest country in human history to come to the table and act like adults. I am the proud author of the Limit Save Grow Act. I think we have to limit spending by rightsizing a bureaucracy that's 40 percent bigger than it was in '19. Let's just start there. It's 30 percent bigger from a discretionary spending perspective than it was going into COVID.

CBO said that we'd be spending in '19 before COVID this year hundreds of billions of dollars less than we're spending today. We're suggesting we go back six months and apocalypse and people aren't buying that and they're imploring and praying that our leaders come together and do what the House did, which is past the debt ceiling. One that pay our bills and protect our good faith and credit while acting responsibly, acknowledging that \$10 trillion in two years.

And again, Republicans have contributed to these problems over the years, and I'm first to say it, and I'll say it at every meeting for credibility because it's true. But \$10 trillion in two years, six of which was added to the national debt a sustained record inflation, soaring interests, nosediving into recession, closer to the precipice of a debt crisis, which we don't know when it hits, but when it does you can't bail out of that one.

You can bail out of COVID and other crises. What if we have a war with China? How are we going to borrow the money at 123 percent debt to GDP? When we're paying \$600 billion in interest alone, not a single soldier, sailor safety net for seniors anti-poverty program, that's going to triple in 10 years. In two or three years, we'll spend more on interest than the entire budget of the Defense Department.

If that doesn't make you shutter to your core, and I don't care what your political views are or your affiliation, party affiliation, then you're not reading the same material I'm reading.

Mr. Mulvaney, I've said a lot. I just ask you to comment about a debt crisis. We talked a lot about default. We've remedy that with our legislation. Do you worry about a debt crisis down the road at some point that could be catastrophic, maybe irreparable? And I know my time's expired. If the Chairman would just indulge the answer.

**Director Mulvaney.** The short answer is yes. As the former budget director, it's the thing that keeps you up at night. Again, the comparison to monetary theory, it holds which is that, okay, it seems to explain things until it doesn't and right now we sort of assume that things are okay until they're not. And when they're not, I don't know what we do because we've got no plan to get out of debt. Our plan right now is to continue to add to the debt.

I think that the budget that I wrote in 2018 and maybe the one right after that Russ Vought wrote was the last proposed budget that we expect to balance in 10 years. You'd be hard pressed to balance the budget right now. You really would. It does worry me that we wake up one morning and people don't lend us money. And when that happens we will print money because we will continue to want to spend it and that's inflationary and that's how great countries fail and that's what worries me.

**Representative Arrington.** I thank Chairman Beyers for his indulgence.

**Representative Beyer.** Thank you, Mr. Arrington. Let me yield to my friend, Mr. Schweikert, for a few comments while we're waiting for Senator Schmitt.

**Vice Chairman Schweikert.** Thank you, reread Chairman Beyer. I don't know if that's polite, but it was meant to be funny. We will be working on I believe, the next hearing will be on the House side—I will work with Chairman Heinrich. We would actually like to have a discussion on some of the primary drivers of U.S. sovereign borrowing and we have to be honest here, it's healthcare.

Substantially, the single biggest input is diabetes. We will also, if we're going to be intellectually honest, we should also talk about some of the latest statistics on obesity in America. You take a look at how many of our brothers and sisters in America are dying early and how much of that is health, but it's also there's some back of the napkin math that says it could be the single greatest impact we have on U.S. sovereign debt, income inequality. From some of my Tribal groups, it is what would happen if we basically spent a decade taking on diabetes, whether it be from the new stem cell potential care to GLP-1s to the farm bill and other things.

There are ideas out there and the beauty of that discussion, we haven't turned that one partisan yet. It's caring about people and

obesity and diabetes is that Republican or Democrat? At this point it's just moral. So please, if anyone has input to those of us, please send it our way. Yield back.

**Representative Beyer.** Thank you, Representative Schweikert. I recognize Senator Schmitt for his comments and questions.

**Senator Schmitt.** Thank you. Mr. Dutta-Gupta, I wanted to follow up on a couple of things. I know in your written testimony it talked about you object to any repeal of the so-called Inflation Reduction Act is ill advised, is that accurate?

**Mr. Dutta-Gupta.** I think we're talking about energy provisions.

**Senator Schmitt.** Yes.

**Mr. Dutta-Gupta.** The tax provisions.

**Senator Schmitt.** Right.

**Mr. Dutta-Gupta.** They help us achieve our climate goals.

**Senator Schmitt.** Does that make things more expensive at all? Do you think those sorts of onerous regulations on, say, things like dishwashers or refrigerators make those items more expensive?

**Mr. Dutta-Gupta.** I'm not familiar with or did not focus on regulations.

**Senator Schmitt.** Okay. Let's look at—because I do want to talk about inflation. So I think there's no way you could argue that the amount of money that we have spent in the last couple years hasn't contributed to inflation. You would agree with that, right?

**Mr. Dutta-Gupta.** I think throughout the world. Yes.

**Senator Schmitt.** Well, no, I'm talking about the United States in this Congress or the previous Congress spending money in the United States. You would agree with that, right?

**Mr. Dutta-Gupta.** I think that among other factors there may have been more demand in the economy than the supply could meet, but in my view it's the supply that was the challenge, especially in the pandemic.

**Senator Schmitt.** So spending has helped lead to inflation. Correct?

**Mr. Dutta-Gupta.** Relative to the supply challenges. Yes.

**Senator Schmitt.** And you mentioned that one of your objections with any work requirement is that we shouldn't do anything to increase hardships. That was your testimony earlier, right?

**Mr. Dutta-Gupta.** That's right.

**Senator Schmitt.** Does the amount of spending that the federal government undertake, and thereby inflation, doesn't that lead to hardship for lower-income individuals?

**Mr. Dutta-Gupta.** All other things being equal, inflation can be harmful to lower-income individuals, but we also for the first time in recorded history completely closed the black/white employment gap and had the lowest unemployment rates in half a century.

**Senator Schmitt.** Well, I mean you also mentioned that communities of color are usually last in, first out, right?

**Mr. Dutta-Gupta.** In the labor market, yes.

**Senator Schmitt.** Right. But I just want to stay on the topic of hardship. If things are more expensive for lower-income individuals, if milk is more expensive or gas is more expensive, that disproportionately affects lower-income individuals. You would agree with that, right?

**Mr. Dutta-Gupta.** Yes.

**Senator Schmitt.** Yes. And I think that's the challenge, right, we're facing. That the sheer amount of money that's being spent, and including in the budget that the President has submitted, seven trillion dollars' worth of new spending, five trillion dollars' worth of revenue, it's deficit spending, number one. But the amount of money that's being pumped into the economy that and our energy policy I mean it's not a tornado or an act of God. Inflation there's a formula for it and if you have more expensive energy or less energy and you're spending trillions and trillions and trillions of dollars that the cost of everything is going to go up and I appreciate you advocating for disadvantaged communities.

I would think that that's exactly what I'm doing by—when we make things more expensive like we have.

**Mr. Dutta-Gupta.** We just don't want to cause mass unemployment. And of course the Federal Reserve will respond as prices go up.

**Senator Schmitt.** Right. Well, they raise interest rates, which makes things more expensive, right, and so that's one issue. And you talk about employment. I do want to talk about some other policies that have contributed to this, vaccine mandates, in particular. We saw millions of people displaced from their jobs from vaccine mandates and the Chairman had mentioned previously that we're talking about spending. We're talking about revenue. We're talking about overall economic growth. The idea that we were firing nurses because of vaccine mandates that's certainly didn't help the situation either, right?

**Mr. Dutta-Gupta.** For me?

**Senator Schmitt.** Yes.

**Mr. Dutta-Gupta.** I don't know. Probably protects public health, so that could keep more people able to work and well.

**Senator Schmitt.** So firing a nurse because she doesn't want to take a vaccine your argument is that protected public health?

**Mr. Dutta-Gupta.** That would be the argument for vaccine mandate. Yes.

**Senator Schmitt.** Right. Well, okay. Well, I would argue that didn't happen and we're talking about people who are disproportionately affected. I mean you're talking about advocating for communities of color probably had a lower vaccination rate, right?

**Mr. Dutta-Gupta.** Yes.

**Senator Schmitt.** Correct. So probably disproportionately more fired because they chose not to take a vaccine, right?

**Mr. Dutta-Gupta.** I don't know if it was for particular occupations. I don't know the data, but of course we kept people alive with those mandates.

**Senator Schmitt.** Okay. All right. I'm not going to get into a COVID debate with you, but I would argue that by forcing 80 million people through OSHA to have a medical procedure or lose your job was COVID tyranny and affected people. We're talking about advocating for people who already find it difficult to afford things by losing their job because they were making that decision I can't believe that that's the best policy for the United States of America. So anyway, all of these things in a vacuum don't make a lot of sense. The spending is out of control and I don't hear anything really in your testimony about controlling spending. It's about rev-

enue and it's about not creating any hardships, but inflation, in and of itself, has created a hardship.

**Mr. Dutta-Gupta.** I have lots of ideas about controlling spending if we have time.

**Senator Schmitt.** Well, I just want to ask one final question very quickly. Doctor, there was a scenario before I came back and I'm the last person to inquire, so I promise I'm going to wrap this up very quickly. But we went through the scenario of what happens if I overspend and what happens to the credit rating and that sort of scenario. I mean there's a new proposed rule by the Biden Administration to punish people who actually have a good credit rating, who played by the rules, who didn't go down that road, right, to actually pay more for their mortgage to subsidize mortgages for people who have lower credit scores. Do you think those are appropriate incentives that we ought to encourage?

**Dr. Edelberg.** I apologize. I'm not familiar with the Executive Order.

**Senator Schmitt.** So if you have a good credit rating you will pay more for your mortgage to subsidize mortgages for people with poor credit ratings. Do you think that's good policy?

**Dr. Edelberg.** So we use housing policy in this country and mortgage policy in this country in all sorts of complicated ways and part of it is redistributive. Think about the support that we offer to FHA. So I can believe that one of the policies that we would want to incorporate into the enormous federal support for mortgages and homeownership in this country includes redistribution to spur home ownership among lower-income communities. That would just be part of a panoply of policies.

**Senator Schmitt.** It's interesting. And I'll close with this. It's fascinating that you're here telling us that—which I agree with, by the way, this idea that we continue to deficit spend and this is terrible policy and it's irresponsible and then later on in your testimony you're now saying it's actually okay to punish people who played by the rules to have to pay more for their mortgage. I find that incredibly inconsistent, so I don't have any other questions, Mr. Chairman.

**Representative Beyer.** First of all, let me thank you all for being here. I'm eager to fact-check the million people that lost their jobs because of vaccine. I'm going to have to do that today.

**Senator Schmitt.** Love to do that. Yes.

**Representative Beyer.** Also in defense of Dr. Edelberg, that is not what she said. When you asked her about this new rule, she said she didn't know about the rule. I paid great attention and I've never heard of this rule either. This sounds like a QAnon rule, but we will—

**Senator Schmitt.** Excuse me, Mr. Chairman. What did you say?

**Representative Beyer.** I said that this sounds like a QAnon rule.

**Senator Schmitt.** Well, unless Joe Biden is a member of QAnon, I would encourage you to look at the rule.

**Representative Beyer.** Once again, I will look at it.

**Senator Schmitt.** Sure.

**Representative Beyer.** And with that, I would like to thank you for sitting here these two and a half hours to be part of this.

The risk to our country's wellbeing couldn't be greater and millions of American jobs are at risk if we don't solve this, as is our standing with the nation that pays its bills. Congress must act to raise the debt limit. I think we're all in agreement on that. And I would like to thank each of our panelists for their contribution to this ongoing discussion. And thank you to my colleagues for being part of this discussion, the ones who remain.

Questions for the record may be submitted after the hearing. The record will remain open for three business days and the hearing is now adjourned.

[Whereupon, at 4:08 p.m., Wednesday, May 17, 2023, the hearing was adjourned.]

**SUBMISSIONS FOR THE RECORD**

**Joint Economic Committee**  
**Opening Remarks for Hearing, “Counting the Costs: How a U.S. Default**  
**Crisis Harms American Families and Businesses”**  
**May 17, 2023**

This hearing will come to order.

I would like to welcome everyone to the Joint Economic Committee’s first hearing this Congress.

It’s an honor to lead this Committee, and I’m excited to build on the success of former-Chairman Beyer’s leadership last Congress.

I’m also looking forward to working with my fellow Committee members, including our new Vice Chairman, Congressman Schweikert.

I want to welcome the new Members of the Joint Economic Committee: Senators Welch, Fetterman, Schmitt, and Vance, and Representatives Ferguson, Smucker, Malliotakis, Moore, and Porter.

Today’s hearing will begin with five-minute opening statements from myself, Vice Chairman Schweikert, and each of our three witnesses.

We will then proceed with questions, alternating between parties and in order of Member arrival.

Members are reminded to keep their questions to no more than five minutes.

Now, for opening statements.

By most estimates, we are now less than one month from a default on our obligations as a nation.

This is unacceptable. It's unprecedented. And it's caused by too many Members putting politics ahead of people.

The United States doesn't skip out on its bill.

The United States pays its bills.

We do—and when we do—like we have voted to do 78 times since 1960, including 3 times under President Trump—we don't just signal to the world that we are a responsible nation.

We also avoid economic catastrophe for the people who sent us to Congress in the first place.

Let's be clear: A default will drive up costs for working families—from mortgages, car loans, student loans, and small business loans to the costs of consumer goods.

It will also cost jobs—millions of them.

Nationwide, Moody's Analytics predicts a drawn-out default would cost us between 7 and 8 million jobs.

That includes as many as 38,000 jobs lost in my home state of New Mexico.

For two years now, Republicans have been predicting a recession. Now, they have manufactured a default crisis that could cause that recession.

Using the economic wellbeing of the entire nation as a bargaining chip is wrong and should not be condoned.

Democrats, Republicans, and Independents should all absolutely negotiate on our annual appropriations bills.

As a member of the Senate Appropriations Committee, I've been a part of these negotiations. I know how opinionated we can all be and how hard we fight for our constituents and the issues we believe in.

And that's exactly what we should do—in our appropriations process.

But holding the economic wellbeing of our country hostage over appropriations and legislation we have already negotiated and passed is wrong.

For one thing, I would welcome revisiting the Bush and Trump administration's tax cuts for the wealthiest of the wealthy—which contributed \$10 trillion to our debt.

But that is not the question at hand. The question now is will Congress avoid default and, with it, save the American economy.

The answer must be, yes.

We must pass a clean debt limit increase and continue our economic recovery.

The danger we are putting our constituents in if we fail to deliver on this fundamental responsibility is what we will explore in this hearing.

I will now turn to Vice Chairman Schweikert for his opening statement.

***[End]***

**Testimony of Dr. Wendy Edelberg**  
**Director, The Hamilton Project**  
**Before the United States Joint Economic Committee**  
**May 17, 2023**

Chairman Heinrich, Vice Chairman Schweikert, and members of the Committee,

My name is Wendy Edelberg, and I am the director of The Hamilton Project and a senior fellow at the Brookings Institution. Thank you for this opportunity to discuss how a debt ceiling crisis could harm American families and businesses.

While greatly uncertain, the effects of allowing the debt limit to bind could be quite severe, even assuming that principal and interest payments continue to be made. If Treasury wanted to be certain that it always had sufficient cash on hand to cover all interest payments, it might need to cut non-interest spending by 35 percent or more. If instead Treasury fails to fully make all principal and interest payments—because of political or legal constraints, unexpected cash shortfalls, or a failed auction of new Treasury securities—the consequences would be even more dire.

The workarounds that have been proposed—the platinum coin, increasing borrowing despite the debt limit, prioritizing payments—either bring significant legal uncertainty or are not sustainable solutions. These unlikely workarounds do not avoid the chaos that is inherent to the debt ceiling binding.

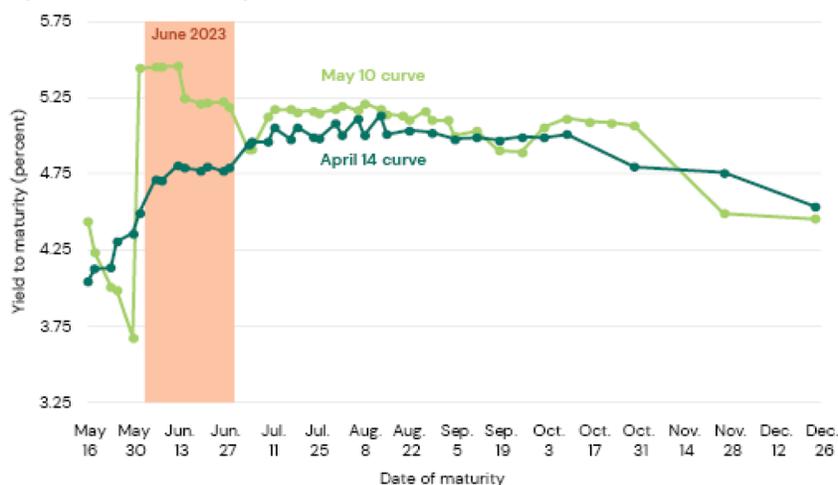
The only effective solution is for Congress to increase the debt ceiling without delay or, better yet, abolish it.

**How would a binding debt limit affect the economy?**

Should the debt ceiling bind, and the U.S. Treasury does not have the ability to pay its obligations, the negative economic effects would quickly mount and risk triggering a deep recession. There is enormous uncertainty regarding the damage the U.S. economy would incur, as it depends on how long the situation lasts, how it is managed, and the extent to which investors alter their views about the safety of Treasury securities. Would the stock market tumble precipitously the first day that a non-interest payment is delayed? Would the Treasury securities market, the world's most important, function smoothly? Would there be a run on money market funds that hold short-term Treasury securities? What actions would the Federal Reserve take to stabilize financial markets and the economy more broadly?

Even in a best-case scenario in which the impasse is short-lived, the economy is likely to suffer sustained—and completely avoidable—damage. An extended impasse would needlessly cause significant damage to the U.S. economy. Much depends on whether investors would be confident that Treasury would continue paying interest on time even as other payments are delayed and on how long they think the impasse will persist. Already, for Treasury bills that are scheduled to mature in June, investors are demanding a significant premium to shoulder the risk of not being paid on time. Between mid-April and May 10, interest rates on some of those securities rose nearly 1 percentage point (see figure 1).

FIGURE 1  
April 14, 2023 and May 10, 2023 Yield Curves



Source: US Department of the Treasury, Bloomberg LP.

Note: The figure shows, at an annualized rate, the yield to maturity on Treasury bills scheduled to mature between May 16, 2023 and December 31, 2023. For Treasury bills scheduled to mature in June 2023 (shaded in orange), investors are demanding a significant premium to shoulder the risk of not being paid on time. For example, between mid-April (dark green line) and May 10 (light green line), interest rates on Treasury bills maturing in the first half of June rose nearly 1 percentage point.

THE HAMILTON  
PROJECT  
BROOKINGS

If failure to raise the debt ceiling affects payments by the U.S. Treasury, and people expect a short-lived impasse with full and timely payments on Treasury securities, it is possible that the initial response could be muted. However, the certainty around those expectations would in part depend on whether there are swift legal challenges to Treasury prioritizing interest payments and the outcome of subsequent rulings.

Regardless, even if the debt limit were raised quickly so that it only was binding for a few days, there could be lasting damage. At the very least, financial markets would likely anticipate such disruptions each time the debt limit nears in the future. In addition, the shock to financial markets and loss of business and household confidence could take time to abate.

The U.S. government pays a lower interest rate on Treasury securities because of the unparalleled safety and liquidity of the Treasury securities market. Some estimates suggest that this advantage lowers the interest rate the government pays on Treasury securities (relative to interest rates on the debt of other sovereign nations) on the order of 0.25 percentage points on average.<sup>1</sup> Given the current level of the debt, this translates into interest savings for the federal government of roughly \$50 billion next year and

<sup>1</sup> Jiang, Krishnamurthy, and Lustig 2018.

more than \$750 billion over the next decade. If a portion of this advantage were lost by allowing the debt limit to bind, the cost to the taxpayer could be significant.

If the impasse were to drag on, market conditions would likely worsen with each passing day. Concerns about a default would grow with mounting legal and political pressures as Treasury security holders were prioritized above others to whom the federal government had obligations. Concerns would grow regarding the direct negative economic effects of a protracted sharp cut in federal spending.

Worsening expectations regarding a possible default would make significant disruptions in financial markets increasingly probable. That could result in an increase in interest rates on newly issued Treasury securities. If financial markets started to pull back from Treasury securities altogether, the Treasury could have a difficult time finding buyers when it sought to roll over maturing debt, perhaps putting pressure on the Federal Reserve to purchase additional Treasury securities in the secondary market. Such financial market disruptions would very likely be coupled with declines in the price of equities, a loss of consumer and business confidence, and a contraction in access to private credit markets.

Financial markets, businesses, and households could become more pessimistic about a quick resolution and increasingly worried that a recession was inevitable. More and more people would feel economic pain because of delayed payments. Take just a few examples: Supplementary Security Income beneficiaries seeing delays in their payments could face trouble with expenses such as rent and utilities; federal, state, and local agencies might see delays in payments that interrupt their work; federal contractors and employees would face uncertainty about how long their payments would be delayed. Those and other disruptions would have enormous economic and health consequences over time.

Given that those disruptions would likely occur when the economy is growing slowly and perhaps contracting, the risk that the crisis would quickly trigger a deep recession is heightened. Moreover, tax revenues, the only resource the Treasury would have to pay interest on the debt, would be dampened, and the federal government would have to cut back on non-interest outlays with increasing severity.

In a worst-case scenario, at some point Treasury would be forced to delay a payment of interest or principal on Treasury securities. Such an outright default on Treasury securities would very likely result in severe disruption to the Treasury securities market, with acute spillovers to other financial markets, and to the cost and availability of credit to households and businesses. Those developments could undermine the reputation of the Treasury securities market as the safest and most liquid in the world.

*Estimates of the quantitative effects of a binding debt limit on the U.S. economy*

It is difficult to quantify the effects of a binding debt limit on the macroeconomy. However, history and illustrative scenarios provide some guidance.

Evidence from prior “near-misses”:

As discussed in a Hutchins Center Explains post, when Congress waited until the last minute to raise the debt ceiling in 2013, rates rose on Treasury securities scheduled to mature near the projected date the debt limit was projected to bind—by between 21 basis points and 46 basis points, according to an estimate from Federal Reserve economists—and liquidity in the Treasury securities market contracted.<sup>2</sup>

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<sup>2</sup> Belz et al. 2019, Cashin et al. 2017.

Yields across all maturities also increased a bit—by between 4 basis points and 8 basis points—reflecting investors’ fears of broader financial contagion.<sup>3</sup> Similarly, after policymakers came close to the brink of the debt limit binding in 2011, the Government Accountability Office (GAO) estimated that the delays in raising the debt limit increased Treasury’s borrowing costs by about \$1.3 billion that year.<sup>4</sup> The fact that the estimated effects are small in comparison to the U.S. economy likely reflects that investors didn’t think it very likely that the debt ceiling would actually bind and thought that if it did, the impasse would be very short-lived.

Evidence from macroeconomic models:

In October 2013, the Federal Reserve simulated the effects of a binding debt ceiling that lasted one month—from mid-October to mid-November 2013—during which time Treasury would continue to make all interest payments. The Fed economists estimated that such an impasse would lead to an 80 basis point increase in 10-year Treasury securities yields, a 30 percent decline in stock prices, a 10 percent drop in the value of the dollar, and a hit to household and business confidence, with these effects waning over a two-year period. According to their analysis, this deterioration in financial conditions would result in a mild two-quarter recession, leading to an increase in the unemployment rate of 1.25 percentage points in the first year after the crisis and 1.7 percentage points in the second.<sup>5</sup> Such an increase in the unemployment rate today would mean the loss of about 2 million jobs in 2023 and 2.8 million jobs in 2024.

Macroeconomic Advisers conducted a similar exercise in 2013. It assessed the economic costs of two scenarios—one in which the impasse lasted just a short time and another in which it persisted for two months. Even in the scenario in which the impasse was resolved quickly, the economic consequences were substantial—a mild recession and a loss of 2.5 million jobs that returned only very slowly. For the two-month impasse, which included a deep cut to federal spending in one quarter, offset by a surge in spending in the next quarter, the effects were larger and longer lasting. In the analysis, such a scenario would lead to the near-term loss of up to 3.1 million jobs. Even two years after the crisis, there would be 2.5 million fewer jobs than there otherwise would have been.<sup>6</sup>

In March 2023, Moody’s Analytics concluded that the costs to the U.S. economy of allowing the debt limit to bind would be severe. In Moody’s simulation, if the impasse were to last several months, after a year employment would be lower by over 8 million and real GDP would be lower by about 6.5 percent, with the economy remaining weaker for years to come.<sup>7</sup>

*The economic consequences to prioritizing certain types of payments*

If the debt limit binds, and Treasury were to make interest payments, then other outlays will have to be cut in an average month by about 25 percent. That would be necessary because CBO expects close to 25 cents of every dollar of non-interest outlays to be financed by borrowing in 2023. If Treasury were to prioritize interest payments as well as Social Security payments, as some commentators have suggested

<sup>3</sup> Cashin et al. 2017.

<sup>4</sup> Government Accountability Office (GAO) 2012.

<sup>5</sup> Engen, Follette and Laforte 2013.

<sup>6</sup> Macroeconomic Advisers, LLC 2013.

<sup>7</sup> Zandi, deRitis, and Yaros 2023.

they could,<sup>8</sup> other payments to people, businesses, and agencies would see even more substantial cuts of roughly one third.

However, the size of the cuts would vary from month to month because infusions of cash to Treasury from tax revenues vary greatly by month. Tax revenues in July and August tend to be fairly low. Thus, the required cuts to federal spending when an increase in federal debt is precluded are particularly large during these months. If Treasury wanted to be certain that it always had sufficient cash on hand to cover all interest payments, it might need to cut non-interest spending by 35 percent or more.

#### **How will the U.S. Treasury operate when the debt limit binds?**

The debt limit caps the total amount of allowable outstanding U.S. federal debt. The U.S. hit that limit—\$31.4 trillion—on January 19, 2023, but Treasury has been undertaking a set of “extraordinary measures” so that the debt limit does not yet bind. The Congressional Budget Office and Treasury estimate that those measures will be sufficient through at least early June.<sup>9</sup> Sometime after that, unless Congress raises or suspends the debt limit, the federal government will lack the cash to pay all its obligations. Those obligations are the result of laws previously enacted by Congress. As my colleagues Len Burman and Bill Gale wrote, “Raising the debt limit is not about new spending; it is about paying for previous choices policymakers legislated.”<sup>10</sup>

The timing of when Treasury will not have enough cash to meet its obligations—the so-called “X-date”—is uncertain because it depends on the inflows of federal tax payments. Estimates of the X-date range from early June to August; the range is so wide because the delay in the tax filing deadline for those affected by storms in California, Alabama, and Georgia makes the pace and amounts of federal tax particularly uncertain this year.<sup>11</sup> That uncertainty underlines the urgency around this issue.

One cannot predict how Treasury will operate when the debt limit binds, given that this would be unprecedented. Treasury did have a contingency plan in place in 2011 when the country faced a similar situation,<sup>12</sup> and it seems likely that Treasury would follow the contours of that plan if the debt limit were to bind this year. Under the 2011 plan, there would be no default on Treasury securities. Treasury would continue to pay interest on those Treasury securities as it comes due. And, as securities mature, Treasury would pay that principal by auctioning new securities for the same amount (and thus not increasing the overall stock of debt held by the public). Treasury would delay payments for all other obligations until it had at least enough cash to pay a full day’s obligations. In other words, it will delay payments to agencies, contractors, Social Security beneficiaries, and Medicare providers rather than attempting to pick and choose which payments to make that are due on a given day.<sup>13</sup>

Federal employees would likely continue working during a debt-limit impasse in contrast to the government shutdowns that occur when Congress hasn’t enacted appropriations bills. That’s because federal agencies would still have legal authority, provided by Congress, to obligate funds. Thus, government agencies such as the Centers for Disease Control and Prevention and the Department of

<sup>8</sup> The Wall Street Journal Editorial Board 2023.

<sup>9</sup> Swagel 2023; Yellen 2021.

<sup>10</sup> Burman and Gale 2023.

<sup>11</sup> Meade 2023; Internal Revenue Service (IRS) 2023.

<sup>12</sup> Board of Governors of the Federal Reserve System 2011.

<sup>13</sup> Board of Governors of the Federal Reserve System 2011.

Homeland Security would likely remain fully operational, but federal workers' paychecks would be delayed.

#### **Uncertainty regarding legal challenges to Treasury's actions**

Timely payments of interest and principal of Treasury securities alongside delays in other federal obligations would likely result in swift legal challenges by those who suffer delays.<sup>14</sup> It is not clear how such litigation would turn out, as the law imposes contradictory requirements on the government. Treasury is required to make payments, honor the debt, and not go above the debt limit: three things that cannot all happen at once.

While the motivation to pay principal and interest on time to avoid a default on Treasury securities is clear, there may be lawsuits that argue that Treasury has no authority to unilaterally decide which obligations put in place by Congress to honor. (Imagine the legal challenges if the executive branch were to indefinitely postpone payments related to a particular program enacted by Congress.) Courts would have to determine whether Treasury could prioritize interest payments while the legal challenges were being resolved—adding another layer of uncertainty. Indeed, a lawsuit on behalf of the National Association of Government Employees, a union of government workers, has been filed that argues the debt limit is unconstitutional in absence of explicit instructions of how payments should be prioritized when the debt ceiling binds.<sup>15</sup>

Several ideas have been floated for actions Treasury could take to forestall delaying payments on obligations instead of allowing the debt ceiling to bind. I am confident that if Treasury were to employ one of these workarounds, a negative reaction in financial markets and loss of confidence across the economy would be swift. **No action other than raising the debt ceiling is an effective solution to a debt ceiling crisis.**

Some argue that the 14th Amendment to the Constitution—which says that “the validity of the public debt of the United States ... shall not be questioned”—would allow Treasury to ignore the debt limit and indeed requires it to meet all obligations.<sup>16</sup> In addition, Treasury may have the legal authority to mint and issue a “collectible” trillion-dollar platinum coin and deposit it at the Federal Reserve in exchange for cash to pay the government's bills. However, Treasury Secretary Janet Yellen has noted that the Fed, reluctant to intervene in a partisan political dispute, might not accept the deposit. In addition, Treasury may also have the legal authority to issue a certain kind of bond that pays interest to its holder but never matures and thus, in a sense, wouldn't add to the stock of outstanding debt.

However, these actions by Treasury would certainly be viewed as circumventing the law that establishes the debt ceiling, and they would likely not prevent havoc in the debt market. Would Treasury's actions and the issuance of related bonds be deemed illegal? Would this mean that Congress would *never* raise the debt ceiling? The reaction across the economy would likely be similar to the reaction if Treasury delayed non-interest payments. To reiterate, a crisis is only prevented by raising the debt ceiling.

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<sup>14</sup> Levit et al. 2015.

<sup>15</sup> Rugaber and Hussein 2023.

<sup>16</sup> Geoghegan 2023.

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# The Human Costs of Budget Cuts

Implications of Across-the-board and Targeted Cuts on American Families and Communities

Written Statement of Indivar Dutta-Gupta, President and Executive Director, Center for Law and Social Policy

*Testimony before the Joint Economic Committee*

*United States Congress*

*May 17, 2023*



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## I. Introduction

Thank you, Chairman Heinrich, Vice Chairman Schweikert, and members of the committee. My name is Indivar Dutta-Gupta, and I am the President and Executive Director of the Center for Law and Social Policy (CLASP). CLASP is a national, nonpartisan nonprofit utilizing research and analysis to advance effective policy solutions that disrupt structural and systemic racism and sexism and remove barriers blocking people from economic security and opportunity, in turn building a more prosperous country for all of us. I am also a former House Ways and Means Committee staffer and have worked on policies, including federal tax and budget policies, promoting economic security and opportunity for my entire professional career.

I am honored to come before this committee to discuss the risks posed by the recent House-passed bill that would institute unprecedented and dangerous budget cuts while suspending our arbitrary federal debt limit for no longer than 10 months. The House Republican bill threatens to default on our nation's bills and send our economy into a tailspin if Congress doesn't cut core investments that families and communities rely on for their wellbeing and to access opportunity in this country—investments like Medicaid, Supplemental Nutrition Assistance Program (SNAP) benefits, income supports, education and job training, child care assistance, climate interventions, and more.

## II. Overview

The balance of this testimony is organized as follows:

- III. Summary of the McCarthy Bill
- IV. How Key Federal Programs Support Wellbeing
- V. How the McCarthy Bill Would Harm All of Us, Especially Those Struggling the Most
  - V1. How the McCarthy Bill's Appropriations Cuts Would Devastate the Nation
  - V2. Why the McCarthy Bill's New Work Reporting Mandates are Counterproductive
  - V3. An evidence-based approach to improving employment & earnings includes meeting basic needs & funding other investments
  - V4. Why the McCarthy Bill's Repeal of Inflation Reduction Act Climate Incentives is Ill-Advised
- VI. Why Revenues Must Help Stabilize Debt
- VII. Why Breaching the Debt Ceiling Should Be Off the Table
  - VII1. Recessions are costly
  - VII2. Prioritization is default
  - VII3. Defaulting would harm us for years to come
- VIII. Conclusion

Ultimately, this testimony calls on Congress to swiftly and cleanly raise or eliminate the self-imposed limit Congress has set to prevent us from meeting our nation's legal and financial obligations.

## III. Summary of the McCarthy Bill

The House-passed McCarthy debt limit bill, the "Limit, Save, Grow Act of 2023," would suspend (not raise) the federal debt limit and decrease federal spending, including through tax subsidies. Specifically,

it would suspend the debt limit through March 2024 or when the nation hits a \$1.5 trillion fall in debt, whichever comes first.

This bill decreases spending, largely by imposing restrictive caps on discretionary spending for 10 years. It also repeals several energy tax credits, modifies the permitting process and other requirements for energy projects, expands work reporting requirements for key health and economic security programs, and nullifies regulations for the cancellation and reduction of federal student loan debt.

Specifically, the bill would

- Institute discretionary spending limits for 10 years, beginning federal fiscal year 2024 (October 1, 2023 - September 30, 2024), that would be sizeable from the start and would become increasingly severe over time as they failed to keep up with inflation and population growth. The legislation does not set separate caps for military and domestic discretionary spending, and House Republican leaders have suggested that both military spending<sup>1</sup> and veterans' health care<sup>2</sup> would be protected, forcing even more extreme cuts to the remaining programs;
- Rescind the approximately 2 percent of funds appropriated for combatting the pandemic that remain unobligated;<sup>3</sup>
- Rescind long-needed funding for the Internal Revenue Service that is helping level the playing field between the wealthy and working class;
- Undo President Biden's student debt relief and income-driven loan repayment plans;
- Undermine or eliminate recently enacted incentives to help address the climate crisis while expanding fossil fuel investments;
- Mandate new work reporting requirements to take food, health coverage, and meager income supports from people; and
- Restrict longstanding regulatory authority from federal agencies.

These policies are deeply misguided. They would cause significant harm to regular people while protecting many of the wealthy and well-connected. The policies would raise out-of-pocket living expenses faced by families while reducing legally owed taxes paid by corporations and the highest-income households. In addition, while agreements on discretionary spending are themselves necessary, jeopardizing raising the debt limit is never appropriate. Failure to agree to appropriations bills can result in painful government shutdowns. Breaching the debt limit would cause far more harm – a shutdown on steroids, and more – and the threat to do so is equivalent to legislative hostage-taking.

#### IV. How Key Federal Programs Support Wellbeing

One of the reasons why cutting federal spending significantly has proven so difficult is that much of it is defense spending or supports for individual and family wellbeing. In particular, the federal government spends a large share of its budget to help people afford a basic living standard. This spending is generally wise. Everyone needs enough resources and protections to afford the basics including food, appropriate clothing, safe shelter and utilities, and health and dependent care. These necessities provide a basic foundation allowing families to access opportunity through education and in the labor market; help their children thrive; prosper regardless of disability status or health care needs; retire with dignity; and contribute fully to society.<sup>4</sup>

Many people in this country cannot afford these necessities without public support. One reason is that the United States suffers from an unusual number of low-paid jobs. In fact, our nation ranked 39th in 2021 among the 42 OECD countries when considering the share of full-time jobs paying less than two-thirds of the median earnings.<sup>5</sup> The extraordinary prevalence of low-paid, and often unstable, jobs means that many adults who benefit from programs supporting a basic living standard are very much working but earning too little to make ends meet without these supports.<sup>6</sup> Others experience low incomes due to the hazards of life including

- illness (including mental illness),
- disability (including partial disability),
- death (especially of a family breadwinner),
- outliving their savings,
- underemployment (throughout the business cycle),
- escaping intimate partner violence,
- needing to care for a loved one, and more.

Notably, economic insecurity can and does affect even those adults who grew up relatively advantaged, with the bulk of people experiencing poverty being adults who did not grow up in poverty.<sup>7</sup> There is simply no substitute for good jobs and a strong tax and transfer system.

The high prevalence of people with very low incomes in the United States is not harmful solely to people who experience such economic security—it harms us all. The consequences of poverty as experienced in this country impose significant costs on society as a whole through lost productivity and earnings, greater morbidity and mortality (which can be especially costly in a country with extraordinary health prices and spending), and increased law enforcement and prison and jail costs (due to policymakers' decisions to pursue a path of mass criminalization and mass incarceration). The evidence is particularly strong for child poverty, which lowers tax revenues and increases public spending unnecessarily, in turn hindering our nation's economic progress.<sup>8</sup> One estimate finds societal costs of child poverty to be approximately 5.4 percent of GDP in 2015.<sup>9</sup>

Our nation's response to the COVID-19 pandemic provides unmistakable validation of the role that government can play in addressing basic needs and reducing poverty. Public investments supported those with the greatest need and put our country on track to a historic recovery, preventing those in poverty from falling further behind. Record reductions in poverty in 2020 and 2021 were the result of government interventions during the ongoing epidemic that included stimulus payments; unemployment insurance expansions; paid sick and paid family leave; improvements to core benefit programs such as SNAP and Medicaid; enhanced subsidies through the Affordable Care Act; and the groundbreaking expansion of the Child Tax Credit.<sup>10</sup> Despite continued job creation in 2022 and 2023 to date, the termination of these measures is likely to reverse those gains.

Enacted during a severe public health and economic crisis, the American Rescue Plan Act (ARPA) made a difference in the lives of tens of millions of Americans—expanding access to COVID-19 vaccines and testing, providing economic relief that kept millions out of poverty, preventing evictions and foreclosures, and helping small businesses keep their doors open. ARPA accelerated the economic recovery throughout 2021 and made it more resilient to future challenges.

Last year's Inflation Reduction Act included important and long-overdue investments to help restore fairness in our tax system, make prescription drugs and health insurance more affordable, and address the climate crisis—and it also reduced deficits overall by addressing tax evasion and making Medicare more efficient.

### Policymakers should choose to invest in and value our families and communities

We can invest in Medicaid so our veterans, children, seniors, and the uninsured have access to care. We can ensure that SNAP benefits stretch farther so families aren't staring down hunger amidst rising food costs. We can invest in child care, paid leave, and home- and community-based services, so our families can meet our responsibilities as workers and caregivers for our loved ones. And, yes, we can afford to do these things by ensuring that those who have benefited most from the American economy—the wealthiest individuals and highly profitable corporations—pay their fair share in taxes. Bobby Kogan of the Center for American Progress recently demonstrated that it is tax cuts—the Bush and Trump tax cuts—that have primarily contributed to our rising annual deficits, more so than federal spending in response to the past two recessions combined. Without those recent tax cuts and their extensions, debt as a percentage of our economic output would be declining indefinitely.<sup>11</sup>

The debt ceiling bill introduced by Speaker of the House Kevin McCarthy and passed on a narrow margin by the U.S. House of Representatives takes a very different path. It allows out-of-touch extremists in Congress to hold our economy hostage to their demands to slash domestic spending and cruelly limit access to public benefits that strengthen our nation. What's more, the plan racks up more debt by allowing billionaires to evade their taxes and then asks working families to foot the bill.

### V. How the McCarthy Bill Would Harm All of Us, Especially Those Struggling the Most

Both annually appropriated (discretionary) and mandatory programs would face staggering cuts despite already modest spending on effective and vital programs.

First, the McCarthy debt ceiling bill would set indefensibly low, rigid, and arbitrary caps on appropriations, allowing no adjustments for inflation or population growth and no ability to respond to emerging needs, such as a recession—which the bill and legislative strategy would make more likely—a national security crisis, or the next pandemic. The legislation slashes everything including essential programs that support economic success such as child care, school meals, job training, and housing assistance as well as core public functions such as transportation and food safety.

Second, the bill also limits access to benefits and health coverage that help secure a basic foundation for families to access opportunity and thrive—including SNAP, Medicaid, and Temporary Assistance for Needy Families (TANF)—for people who can't prove they are working or exempt. We know from extensive evidence that such requirements do little to promote work and even less to boost incomes—even deepening poverty for many.<sup>12</sup> In fact, many people lose benefits even though they are working, or should qualify for an exemption, but fail to keep up with the paperwork requirements.<sup>13</sup>

### V1. How the McCarthy Bill's Appropriations Cuts Would Devastate the Nation

The McCarthy debt ceiling bill's cap on discretionary funding would cut overall FY 2024 funding to the FY 2022 levels, with no increase even to cover rising costs since then.<sup>14</sup> These programs are referred to as "discretionary" because Congress can set their spending levels through the annual appropriations process, but the bill's cuts include a wide swath of programs that the public depends on, from Head Start and housing assistance to air traffic control, public health, and the armed forces.

Because the costs of providing goods and services have grown due to inflation, this would mean immediate cuts of **13 percent in 2024** below current services if spread across all discretionary funding. However, House Republicans have said they do not intend to cut defense or veterans' benefits—though veterans participate in virtually every other key program facing cuts, including nearly 900,000 in Medicaid<sup>15</sup> and 1.1 million in SNAP.<sup>16</sup> If they protect both defense and veterans' health care from cuts, then all other non-defense discretionary programs would have to be cut by **33 percent in 2024**. The caps would then grow by 1 percent in each of the next nine years, considerably less than projected inflation. As a result, in real terms, the cuts would rise to **24 percent by 2033** if they were spread across all discretionary programs, and **59 percent** if defense grew with inflation and veterans' benefits grew with inflation and rising needs.<sup>17</sup> That 59 percent figure appears to represent the largest 10-year cut for nondefense discretionary funding on record (with data going back to 1976).<sup>18</sup> **If defense spending grew at its average rate since 2017 (rather than at the rate of inflation), the required non-defense discretionary would be a stunning 94 percent.**<sup>19</sup>

Even the 24 percent cut would be more extreme than the cuts in the Budget Control Act of 2011—cuts that Congress could not sustain even with Republican control of Congress and the White House.<sup>20</sup> In other words, those milder cuts were unpalatable to Republicans when the abstraction of percentage cuts was turned into the reality of reduced government services. The McCarthy bill should have been at least as unpalatable.

Importantly, these cuts would be applied to funding levels that have already failed to keep up with inflation and population growth due to the harmful squeeze on non-defense appropriations brought about by the Budget Control Act of 2011. Even with the proposed increases in President Biden's 2024 budget, non-defense appropriations other than veterans' medical care would remain under 2010 levels adjusted for population and price growth. When measured as a percentage of gross domestic product (GDP), the president's proposed spending in these areas is *below* the long-term average of the previous 47 years.<sup>21</sup>

Though the House bill does not specify how the caps would be applied to different spending areas, I will now offer a few plausible examples of what these cuts would look like in key areas that fuel our long-term prosperity.

#### Impacts on child care

Child care and early education programs, like Head Start and the Child Care and Development Block Grant (CCDBG), are lifelines for the families who access them. Yet, due to limited federal funding, CCDBG only served 1 in 6 eligible children in 2019,<sup>22</sup> Head Start is estimated to only reach around 30 percent of eligible children,<sup>23</sup> and Early Head Start reaches far less at 10 percent of eligible children served.<sup>24</sup>

The potential impacts of the House Republican bill on children, families, child care providers, and the programs that meet their diverse needs are alarming. According to analysis released by the White House, the bill would mean 200,000 children lose access to Head Start slots and 180,000 children lose access to child care<sup>25</sup>—undermining our children’s education and making it more difficult for parents to join the workforce and contribute to our economy.

To make matters worse, the pandemic relief resources, including those supporting providers and the sector through CCDBG, for example, will expire by the end of FY24 with some of the funds that support providers directly already fully expended in some states. These resources saved the sector from a total collapse, but they were never intended to address the long-term challenges of the sector. As concerns about economic recovery, unemployment, and inflation continue, significant and sustained increases—and not decreases—are necessary. Given the fragile nature of the child care sector<sup>26</sup> and decades of insufficient federal funding,<sup>27</sup> the need for long-term and sustainable increases for child care remains pressing.

### Congress Must Quickly Build on ARPA Child Care Funding

While the American Rescue Plan Act (ARPA or ARP) and other federal child care relief is temporary, these investments have had significant, positive impacts on children, families, and child care providers. Although the use of the resources varied by state based on needs, many states sought to stabilize the child care workforce, ease the burden of high costs and lack of access for families, and improve policies within their subsidy programs.<sup>28</sup> According to the Department of Health and Human Services Administration for Children and Families, “As of December 31, 2022, the ARP Child Care Stabilization Program had served more than 220,000 child care providers, impacting as many as 9.6 million children. Providers are using awards to help with operational costs like wages and benefits; rent and utilities; program materials and supplies; and cleaning and sanitation.”<sup>29</sup>

Nationally, states have used pandemic relief resources to sustain, grow, and equitably compensate the workforce<sup>30</sup> build or upgrade child care facilities; make child care programs more affordable for families;<sup>31</sup> expand access to child care and pre-K;<sup>32</sup> and make state-wide improvements such as developing or enhancing data systems. These changes, which are now at risk of being overturned as the expiration of the relief funds nears, have had positive impacts on providers and families. States worked hard to efficiently and equitably implement funds and, in some cases, leveraged opportunities to expand access. Many are now left in tough situations without resources to sustain progress.

#### Impacts on postsecondary education

The proposed cuts to postsecondary education would be profoundly harmful for students and families, and these cuts would only exacerbate the skyrocketing cost of education and mounting national student debt. The McCarthy bill would end President Biden’s debt relief program completely, denying alleviation for over 40 million Americans. This elimination would directly worsen the country’s enormous racial wealth gap, as underrepresented borrowers on average would experience loan forgiveness at higher rates than white borrowers.<sup>33</sup>

The McCarthy bill would nullify the U.S. Department of Education’s proposed reforms to Income-Driven Repayment (IDR) plans, undermining changes that would provide relief from untenable student loan payments for those most in need.<sup>34</sup> The new rules are slated to make federal student loan payments

much more affordable for individuals with low incomes and address the pervasive problem of ballooning balances, by preventing unpaid interest accumulation for borrowers who make the required monthly payments.<sup>35</sup> The McCarthy bill would roll back these much-needed improvements, disproportionately harming Black borrowers, who are the most likely of any racial or ethnic group to use IDR plans.<sup>36</sup>

According to White House estimates, the McCarthy bill is projected to cut the maximum award for Pell Grants by close to \$1,000 and eliminate Pell Grants completely for 80,000 students.<sup>37</sup> Forty-four percent of all undergraduate students received Pell awards in 2017-2018.<sup>38</sup> Pell recipients overwhelmingly have lower incomes, as an estimated 97 percent of all recipients had a total household income at or below \$60,000 in 2020-2021, about \$10,000 below the median household income for the entire country that same period.<sup>39</sup> Cutting Pell would also substantially reduce enrollment levels at both 2-year and 4-year public institutions. Over half of both dependent and independent Pell Grant recipients attended a public institution.<sup>40</sup>

#### Impacts on workforce development

In the late 1970s, Congress provided an all-time high of \$24 billion (in inflation-adjusted dollars) investment in our workforce training and employment services at the U.S. Department of Labor. Today, we only invest approximately \$6 billion a year in workforce training and employment services.<sup>41</sup> These services play a vital role in helping people who are unemployed and those earning low incomes move out of poverty and into good jobs with family-sustaining wages.

Current funding levels are not sufficient to provide the employment and training services that individuals with barriers to employment need to move to economic security and into good jobs—or that small businesses need to be able to hire and develop the employees with the skills required for today's jobs. Congress has neglected to provide sufficient Workforce Innovation and Opportunity Act (WIOA) funding, even in the face of rising inflation and population growth. This lack of investment has hindered the program from delivering effective and equitable services.<sup>42</sup>

The McCarthy bill would contribute to our nation's under-resourced workforce development system. According to White House projections, the bill would result in nearly 700,000 fewer workers receiving job training and employment services provided through the U.S. Department of Labor,<sup>43</sup> in turn limiting their career pathways to high-quality jobs. Investing in workforce development programs is particularly important to support Black and Latino/a/x workers; immigrants; youth; and people who face barriers to employment by providing equitable pathways to good jobs with family-sustaining wages. These workforce development cuts likely would include a sizeable reduction in apprenticeships—an equitable, earn-and-learn model that can help workers get the skills for today's in-demand high-quality good jobs and help employers diversify their workforce. In FY 2021, there were over 800,000 registered apprentices in the national apprenticeship system. Many of these positions could be threatened under the proposed discretionary funding caps.<sup>44</sup>

#### V2. Why the McCarthy Bill's New Work Reporting Mandates Are Counterproductive

The House Republican bill also includes provisions that would deny Medicaid and SNAP benefits to people unless they consistently document that they work a certain number of hours per week. These provisions would put 1 million older (ages 50-55) adults at risk of losing SNAP benefits<sup>45</sup> and between 10 and 21 million individuals at risk of losing health insurance.<sup>46</sup> Under such so-called work requirements,

recipients must report their hours of work each week, either by mailing in paper forms or by using an online portal. While this may sound simple, the reality is far more complex. Many workers with low wages – the precise group that needs support from benefit program – experience fluctuations in their hours of work from week to week, with no ability to control their hours, and little notice, making it impossible to seek additional employment.<sup>47</sup>

The need to report hours adds its own challenges. According to focus groups conducted by the Urban Institute with people who were subject to the experimental work requirements in Arkansas in 2018, the problems that people experienced included:

- Not receiving notices sent by the state due to outdated mailing addresses or phone numbers;
- Not understanding that the work requirements applied to them – notices were confusing and hard to read, especially for people who had low literacy skills or were not fluent in English;
- Lack of access to the internet, or access only through mobile phones that made it hard to access the state’s online portal, which was described as “slow,” “clunky” and “confusing,”
- Confusion about the exemption processes.<sup>48</sup>

People who are supposed to be exempt—such as people with disabilities—are also vulnerable to losing benefits because of reporting requirements and red tape.<sup>49</sup> People may have to make separate appointments with doctors to get the needed documentation, which can be difficult or impossible in places where there are shortages of doctors, or who need to see providers where there are long waits, such as for long COVID or for mental health treatment. It is particularly ironic that the lack of health insurance needed to pay for these doctors’ visits can itself be a barrier to getting health insurance.

The bill also includes requirements for states operating cash assistance programs under TANF that would be so daunting for states to meet that many would likely simply stop providing cash at all to families with children facing unemployment, eviction, or domestic violence. This mandate would risk benefits for more than half-a-million families experiencing deep poverty, including nearly a million children.<sup>50</sup> Because TANF provides states with a fixed amount of funding through “block grants,” the TANF provisions would not even save the federal government money; states could simply reallocate their federal TANF funds to other purposes.

#### Research and evidence undermine arguments for work requirements

Before agreeing to raise or suspend the debt ceiling—a necessary step for the nation to pay our bills and avoid financial catastrophe—the McCarthy bill demands deep spending cuts. Work requirements, which would limit access to food and health care for millions of people, help them achieve their target.

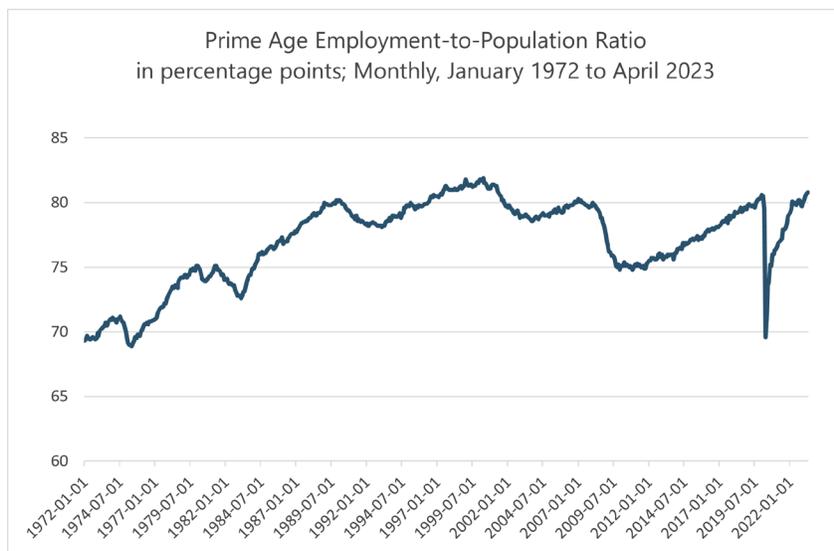
As it is, workers of all races are working at historically high rates—gains that are threatened by the McCarthy bill.

Due to the tight labor market, Black and Hispanic workers are seeing the largest job gains in history.<sup>51</sup> The tighter the labor market gets, the more employers are incentivized to pull in workers they have overlooked in the past. This can be seen through the employment-to-population ratio, which measures the civilian labor force currently employed against the total working-age population of that group.<sup>52</sup>

In March, the prime age (25-54) Black employment-to-population ratio was above the white employment -to-population ratio for the first time since 1972, which is the first year the Bureau of Labor

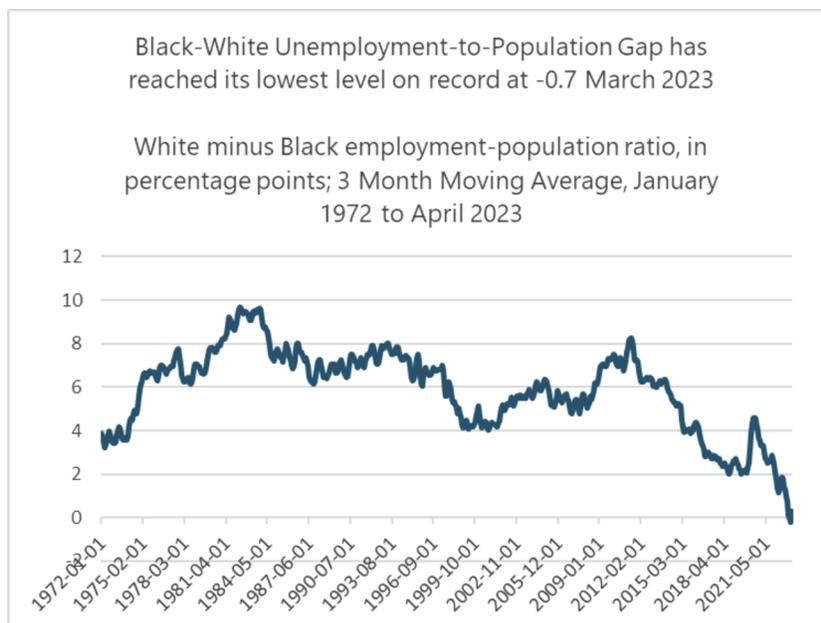
Statistics (BLS) started recording the ratio. This means that prime age Black American workers are more likely to be working in the labor market than white Americans.

*Graph 1. Prime Age Employment-to-Population Ratio is High Compared to Recent Experiences, January 1993-April 2023*



Source: U.S. Bureau of Labor Statistics, Employment-Population Ratio - 25-54 Yrs. [LNS12300060], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/LNS12300060>, May 15, 2023.

*Graph 2. Black-White Employment-to-Population Gap is at its Lowest on Record, 1972-April 2020*



Source: U.S. Bureau of Labor Statistics, Employment-Population Ratio - Black or African American [LNS12300006], White [LNS12300003], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/LNS12300006>, May 15, 2023.

At the same time, strong evidence refutes the idea that work requirements in Medicaid or SNAP have a meaningful effect on labor supply.<sup>53</sup> In other words, work requirements do little to lead people into jobs. To the contrary, in the long run, expanding programs like Medicaid and SNAP will raise employment and earnings.

In the short run, the restrictions cause people struggling with poverty to lose critical benefits because of the paperwork required to fulfill work requirements or receive an exemption from them—which is precisely the point.<sup>54</sup>

Arkansas' experiment with Medicaid work requirements disproves the claim that work requirements will move people into employment. In 2018, Arkansas implemented work requirements in Medicaid as part of a Trump administration effort to get states to condition eligibility for the health insurance program on work. More than 18,000 beneficiaries lost their health coverage until a federal judge halted the program in 2019.<sup>55</sup> The work requirements also didn't increase employment for people subject to these rules over the next 18 months.<sup>56</sup> Empirical studies of work requirements that certain SNAP recipients must meet or lose benefits after three months confirm a similar outcome. One study found no effects on

employment but a 53 percent decline in program participation.<sup>57</sup> Another study found that the time limit reduced participation in SNAP and no evidence of increased employment or earnings among those subjected to it.<sup>58</sup>

Why are work requirements counterproductive? The reality is that millions of workers rely on SNAP and Medicaid because of their jobs' low wages, unpredictable schedules, and lack of benefits.<sup>59</sup> That same lack of control over their hours also puts workers at risk of losing benefits when policymakers impose work requirements.

As demonstrated by the overwhelming balance of research, these requirements are solutions in search of a problem. They are based on stereotypes that people with low incomes do not wish to work;<sup>60</sup> these narratives are demonstrably grounded in racism<sup>61</sup> and will disproportionately harm those who are already the most excluded and marginalized by racism's pervasive and persistent effects. Yet these requirements harm us all, including by dishonoring the unpaid caregiving and other work—such as addressing one's behavioral health and other health-related challenges—that supports our society.

### V3. An evidence-based approach to improving employment & earnings includes meeting basic needs & funding other investments

The research also shows that consistent access to cash, health care, and nutrition is more likely to promote work than work reporting requirements. An assessment by the state of Ohio of its Medicaid expansion population found that 83.5 percent of participants who were already employed said Medicaid made it easier to that work, while 60 percent of unemployed participants said having Medicaid made it easier to search for work.<sup>62</sup> A recent study found that SNAP participation increased the likelihood of employment among households with low incomes.<sup>63</sup> Quality employment and training programs provided by the SNAP program—although far from universal—can allow people to gain new skills or receive job placement services. And cash assistance prevents a temporary crisis caused by domestic violence, eviction, or a health challenge from creating a downward spiral that traps families in poverty.

If Congress is sincere about increasing labor force participation and economic mobility among people experiencing poverty, lawmakers should pursue policies that would help individuals achieve their goal. State-level paid leave policies have been shown to increase labor force participation, and women with access to paid leave are 40 percent more likely to return to work after giving birth than those without it.<sup>64</sup> Affordable and accessible child care not only increases parents' labor force participation but, in turn, raises economic output. In addition, policies that support family-sustaining wages and provide employees with greater control over scheduling would go a long way toward not simply getting people into the workforce—but making it possible for them to remain in it.<sup>65</sup> Subsidized employment programs targeted to individuals who have been economically marginalized—such as youth and young adults; people experiencing homelessness; and people impacted by the criminal legal system—can help them overcome discrimination and get a foothold in the labor market.<sup>66</sup>

The United States is already rife with work requirements—for many health coverage programs, income supports, savings subsidies, and more—even as we lack an employment guarantee. We know how to promote employment and boost earnings without making people worse off. Conditioning supports and services that help meet our most fundamental needs on documenting a specific definition of work has no place in a just and prosperous society.

#### V4. Why the McCarthy Bill's Repeal of Inflation Reduction Act Climate Incentives Are Ill-Advised

The Inflation Reduction Act (IRA) makes many critical investments toward job creation, strengthening domestic supply, and reducing financial burdens on households. The IRA allows us to be on target for our climate goals while also promoting economic growth.<sup>67</sup> The legislation also includes targeted funding for climate justice to address the disproportionate environmental and public health harms to communities with low incomes and communities of color.<sup>68</sup>

The McCarthy bill would slash funding for these benefits. This deeply misguided move will undermine the strides made by the IRA investments in creating quality jobs, fighting climate change, and lowering costs for working families. Research shows that the IRA is likely to reduce greenhouse gas emissions to 40 percent and below peak emission levels by 2030.<sup>69</sup> This is up to 10 percentage points higher than projections without the IRA. The IRA's significant economic benefits are already being felt across the country. The bill has created over 142,000 jobs so far and funded nearly 200 clean energy projects such as manufacturing sites for electric vehicles, investments in wind and solar energy production, and domestic battery production.<sup>70</sup> Notably, more than half of the IRA climate projects and jobs are in Republican-led Congressional districts.<sup>71</sup>

The IRA's home energy rebates will provide hundreds of billions of dollars to fund energy upgrades for low- and middle-income households that can lower costs for working families.<sup>72</sup> Households with low incomes tend to face higher energy burdens resulting from living in older homes or in homes equipped with outdated appliances.<sup>73</sup> As climate change continues to create extreme weather conditions, heating and cooling bills are becoming even more burdensome for households struggling to make ends meet. With the home energy rebate programs, households can receive funds to cover the costs of clean appliances. Even if families do not access these credits, they can still benefit from the provisions in the bill to lower electricity costs.<sup>74</sup>

Speaker McCarthy's proposal now puts these benefits in jeopardy. Over 780,000 jobs could disappear by the end of 2024 because of his cuts.<sup>75</sup>

#### VI. Why Revenues Must Help Stabilize Debt

As it is, the United States is a low-tax country, ranking 32 out of 38 of 38 OECD countries in overall tax-to-GDP ratio, far below the OECD average.<sup>76</sup> Americans on average, face lower taxes than their counterparts in other wealthy countries. Yet, the United States ranks just 15th out of 32 OECD countries for which total government spending data are available.<sup>77</sup> Clearly, overall government spending is, if anything, low. If taxes are relatively low and spending is relatively low, raising those taxes to meet our modest levels of spending is clearly essential to reducing and stabilizing our debt.

Indeed, our current deficit is driven by reckless tax giveaways to large corporations and wealthy individuals. Without the Bush and Trump tax cuts and their extensions, debt as a percentage of our economic output would be falling today.<sup>78</sup> The Bush and Trump tax cuts alone are responsible for 57 percent of the increase in the debt ratio (debt as a percent of the economy) since 2001 and more than 90 percent of the increase in the debt ratio if the extraordinary costs of combating COVID-19 (\$5.6 trillion)<sup>79</sup> and the Great Recession (\$787 billion)<sup>80</sup> are excluded.

Military, Social Security, Medicare, and veterans' health and disability spending alone account for more than half of all federal spending. Yet, the McCarthy bill would either not touch this spending (Social Security and Medicare) as a matter of law, or House Republicans have indicated that in practice they will insist that the spending not be cut (military<sup>81</sup> and veterans<sup>82</sup>). Instead, they seek to focus their spending cuts on the small share of the budget that is non-defense discretionary spending. This approach, combined with an insistence on tax cuts and tax cut extensions, has contributed to the debt growing markedly more under Republican presidents than Democratic ones.<sup>83</sup>

Ironically, the McCarthy bill would also reduce tax payments paid by wealthy and corporate tax cheats by cutting the IRS budget and making it harder for the federal government to collect the taxes that wealthy individuals and corporations are legally required to pay. This contrast makes clear the priorities of the bill's supporters.

Moreover, House Republicans are already preparing legislation to renew the Trump tax cuts expiring in 2025, which would cost \$3 trillion more.<sup>84</sup>

Last year's Inflation Reduction Act began an important process of making sure that those who benefit from our prosperity contribute to the services that make it possible. President Biden's 2024 budget proposes to raise almost \$5 trillion exclusively from tax reforms affecting the rich and corporations. Biden's budget invests \$2.8 trillion of that revenue to expand and improve public services vital to working families—and diverts additional existing revenue to guarantee that Medicare can pay all its bills for the next 25 years—while still bringing down deficits by \$3 trillion.<sup>85</sup>

## VII. Why Breaching the Debt Ceiling Should Be Off the Table

Refusing to meet any legally binding obligation due to an arbitrary debt limit likely would trigger a recession at home, worsening the already-fragile global economy and undermining the strength and status of the United States for years to come. **In the near term, a default could spark a financial crisis and a U.S. or global downturn of unknown severity**, with some experts-predicting millions of lost jobs and an even bigger hit to retirement savings.<sup>86</sup>

### VII.1. Recessions are costly

Recessions disproportionately harm workers paid the lowest wages, young people, and communities of color, many of whom are among the last hired and first fired. Low-paid workers face substantially higher unemployment as it is and have the least access to unemployment benefits—and households with low incomes often have limited or no liquid savings. Young people's early labor market experiences follow them for years, with those entering the labor market during recessions seeing lifetime reductions in income. People of color, especially Black Americans, have a fraction of the wealth of white families, face widespread discrimination in the labor market that is typically overcome partially only as we approach full employment conditions, and disproportionately live in states with the most meager social protection programs. As a result, recessions, like the 2007-2009 financial crisis, can permanently reduce our nation's economic trajectory and cause long-term harm to working people and their families.<sup>87</sup>

### VII.2. Prioritization is default

While some have suggested that destructive consequences of default could be avoided through "prioritization" of federal obligations, prioritization is simply default by another name. Prioritizing payments owed by the federal government is no way to manage a default. This approach does nothing

to prevent dire, direct, and durable consequences for tens of millions of veterans, seniors, and working families—all of whom rely on essential federal programs to afford medical care, put food on the table, and meet other basic needs. And those whose payments are prioritized, such as holders of United States debt, for example, may nevertheless interpret prioritization as a default and lose trust in the nation's guarantees of payments already owed.

Regardless, millions of people would immediately feel the impact of a stop in government spending: delays in Social Security payments, government employee wages, and retirement benefits. While some government employees would be required to work even if not paid, other offices would shut their doors and stop answering phones. Medicaid and Medicare payments to doctors and hospitals would stop. Emergency rooms would still be required to treat people in crisis, but people seeking non "emergency" care might be turned away.

### VII.3. Defaulting would harm us for years to come

Defaulting on the debt would also have lasting impacts, even if Congress acted promptly to end such a manufactured crisis. No household, corporation, or other entity could refuse to make legally owed payments that are readily affordable; they could not even file for bankruptcy with the enormous ratio of consistent national income and unrivaled national assets relative to projected federal spending. Even today, the United States has the privilege of borrowing at some of the lowest rates in the world,<sup>88</sup> because investors believe we will always honor our debts. Even a short default would make government debt even more expensive, crowding out other spending or forcing taxes to rise due to this self-inflicted wound for years to come. Default would also undermine the ability of families to build wealth through homeownership or entrepreneurship by making the already high cost of borrowing prohibitive.

## VIII. Conclusion

The House-passed bill is not a serious attempt to avoid the disastrous effects of defaulting on our debt. The McCarthy debt ceiling bill attempts to impose upon the American people an extreme agenda that's unattainable through the regular legislative process. The Limit, Save, Grow Act would *limit* the American Dream for tens of millions of families in every community in this country, *save* leverage for further hostage-taking, including for each and every subsequent debt limit increase, starting March 2024—and *grow* our national challenges like climate change and poverty. And the federal government's failure to make promised payments to individuals, families, state and local governments, and businesses would only increase costs and financial pressures on businesses and households, including regular people throughout this country.

**Congress should not pass any deal that raises costs facing working- and middle-class families.**

**Congress should not pass any deal that increases hardship**—never mind a deal that asks struggling families to foot the bill for policies that allow the richest corporations and households to evade their taxes.

Congress should raise the debt ceiling without delay or condition and then focus on the work of investing in our families and communities.

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Excerpts from S&P Report on 2011 U.S. Credit Downgrade

"More broadly, the downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011."

"The political brinksmanship of recent months highlights what we see as America's governance and policymaking becoming less stable, less effective, and less predictable than what we previously believed."

## Why the Debt Limit Matters

### All 8 Major Deficit-Reduction Laws Since 1985 Were Attached to Debt Limit Legislation

Year	Major Deficit-Reduction Law	Attached to Debt Limit?
1985	Gramm-Rudman-Hollings Deficit Caps	✓
1987	Gramm-Rudman-Hollings Deficit Caps II	✓
1990	Bush Tax Increases & Spending Caps	✓
1993	Clinton Deficit Reduction Package	✓
1996	Line-Item Veto Act ( <i>later struck down by Supreme Court</i> )	✓
1997	Balanced Budget Act	✓
2009	Statutory Pay-As-You-Go Act	✓
2011	Budget Control Act (Cutting \$2.1 Trillion)	✓

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Source: Compiled by the Committee For a Responsible Federal Budget