

**THE FISCAL SITUATION OF
THE UNITED STATES**

HEARING
BEFORE THE
JOINT ECONOMIC COMMITTEE
OF THE
CONGRESS OF THE UNITED STATES
ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION

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CONTENTS

OPENING STATEMENTS OF MEMBERS

	Page
Hon. David Schweikert, Vice Chairman, a Representative from the State of Arizona	1
Hon. Martin Heinrich, Chairman, a Senator from New Mexico	2

WITNESSES

The Honorable Michael Faulkender, Chief Economist, America First Policy Institute, Washington, DC	4
Mrs. Romina Boccia, Director of Budget and Entitlement Policy, Cato Institute, Washington, DC	6
Mr. Michael Linden, Senior Policy Fellow, Washington Center for Equitable Growth, Washington, DC	8
Dr. Kimberly Clausing, Eric M. Zolt Chair in Tax Policy at the UCLA School of Law, Los Angeles, CA	10

SUBMISSIONS FOR THE RECORD

Prepared Statement of Chairman Martin Heinrich, a U.S. Senator from New Mexico	39
Prepared Statement of The Honorable Michael Faulkender, Chief Economist, America First Policy Institute	42
Prepared Statement of Mrs. Romina Boccia, Director of Budget and Entitlement Policy, Cato Institute	47
Prepared Statement of Mr. Michael Linden, Senior Policy Fellow, Washington Center for Equitable Growth	55
Prepared Statement of Dr. Kimberly Clausing, Eric M. Zolt Chair in Tax Policy at the UCLA School of Law	61
Question for the Record Submitted by Senator Klobuchar to Mr. Linden and Response	71
Question for the Record Submitted by Senator Klobuchar to Dr. Clausing and Response	72
Op-Ed titled, "Three Ways to Treat America's Debt Pandemic", submitted by Representative Estes	74

THE FISCAL SITUATION OF THE UNITED STATES

TUESDAY, MARCH 12, 2024

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

The committee met, pursuant to call, at 2:28 p.m., in Room 210, Cannon House Office Building, Hon. David Schweikert [vice chairman of the committee] presiding.

Present: Schweikert, Arrington, Trone, Beyer, Smucker, Estes, Porter, and Ferguson.

Senators: Heinrich and Hassan.

Staff Present: Nicolas Aguelakakis, Lesley Asencio, Shauna Burton, Christina Carr, Matthew Cernicky, Jaxson Dealy, Sebi Devlin-Foltz, Ron Donado, Colleen Healy, Jeremy Johnson, Hunter Lovell, Jessica Martinez, Kole Nichols, Michael Pearson, Alfredo Romero, Jeff Schlagenhauf, Alex Schunk, Doug Simons, and Garrett Wilbanks.

Vice Chairman Schweikert. This hearing will come to order.

I would like to welcome everyone to today's Joint Economic hearing, titled "The Fiscal Situation of the United States."

Today's hearing will begin with 5-minute opening statements from myself, Chairman Heinrich, and each of our four witnesses. We will then proceed to questions, alternating between the parties in order of member arrival. Members are reminded to please keep their questions to no more than 5 minutes.

And, now, opening statement.

Before I actually read the formal opening statement, my heresy in many of these discussions—is that volume awfully loud, or is it just the feedback?—is, I truly, truly believe, from today through the next 30 years, our crisis in debt and deficit spending, economic growth is demographics.

And what saddens me is, having taken a quick look through some of the testimony, I don't think we give enough honest discussion of the fact of the matter is, you know, one in six Americans now will be 65 and up, and that number moves away from us, and in 15 years we have more deaths than births.

So my caveat is, if we are going to actually make honest policy, maybe we need to be brutally, brutally honest with each other in the math.

Now I would like to introduce our four distinguished witnesses. Dr. Michael—is it "Funken"?

Dr. Faulkender. "Faulkender."

Vice Chairman Schweikert [continuing]. Faulkender—sorry, I should have had that—is the chief economist and senior advisor at the America First Policy Institute. Before that, he was Assistant Secretary for Economic Policy at the United States Department of Treasury, where he advised the Treasury Secretary on domestic and international economic issues.

Ms. “Roma”——

Mrs. Boccia. “Romina Boccia.”

Vice Chairman Schweikert. Romina Boccia. And I should know that.

Mrs. Boccia is director of budget and entitlement policy at Cato Institute, where she specializes in the budget process, Federal spending, and the economic impacts of rising debt. Prior to that, she was the director of the Grover M. Hermann Center for the Federal Budget at The Heritage Foundation.

All good?

Chairman Heinrich. Good afternoon, everyone.

And thank you, Vice Chairman Schweikert, and thank you for—you and your staff for putting this hearing together today.

The financial growth of our nation is critical to our stability and growth. And, in the most basic sense, our financial health is what allows us to invest in the people and the places of the United States.

Last week, I was proud to vote for the long-overdue package of six appropriations bills that included major investments in our families and our communities. And, among many other priorities, I fought to secure full funding for Special Supplemental Nutrition Program for Women, Infants, and Children, better known to the public as WIC, which serves nearly 7 million women and children nationwide.

As I worked to make sure that families could put food on the table and that our housing programs had enough funding to keep roofs over their heads, there were others who opposed these investments, pointing to our deficit.

It is true that our deficits and debt are expected to grow in the coming years, and we do need to take this very seriously. But that starts with being clear about where these deficits actually come from and what will actually work to help close them.

Much like any family’s budget, when you look at our federal budget, it is a comparison of what is coming in against what is going out—revenue and spending. And it is clear that, with our federal budget, we have a revenue problem. Republican tax cuts for the wealthiest of the wealthy and biggest corporations have driven our revenue down and our debt up.

To restore financial stability and rein in our debt, we need tax reforms. We need to close tax loopholes for the ultra-wealthy and maintain funding for the Internal Revenue Service so that they can go after wealthy tax cheats, who for too long have gotten away without paying their fair share.

That includes imposing a minimum tax on billionaires, because no billionaire should be paying less in taxes than a teacher or a sanitation worker or a grocery clerk. We need to raise the corporate tax so that big companies pay their fair share, a move that would alone raise \$1.3 trillion over the next decade. And we need to adopt

the global minimum tax to make sure that multinational companies can't get out of paying U.S. taxes.

At the same time, we should limit costly tax expenditures that overwhelmingly benefit the wealthy, like lower tax rates for capital gains and stock dividends or the carried-interest loophole that allows hedge fund executives to pay less in taxes. These policies reward wealth over work while pushing up our deficits.

Congress can also shore up Social Security and Medicare without cutting benefits. And, for one, Congress should make sure that people earning over \$400,000 pay more into the Social Security Trust Fund. Asking the highest earners to pay a small portion of every dollar earned would go a long way towards improving the health of the program.

Another proposal by President Biden would raise the Medicare payroll tax by 1.2 percentage points solely on taxpayers making over \$400,000 a year. This and other small tax changes would make Medicare solvent for the foreseeable future.

But perhaps our most important tool for reducing deficits is continued economic growth. The Biden administration has led some of the strongest economic growth that we have seen in recent years. This administration is working to build an economy from the middle out, from the bottom up.

And that has meant record-breaking job growth, with nearly 15 million jobs created since President Biden took office. Unemployment has been below 4 percent for 2 full years, the longest stretch in half a century. And we have seen unprecedented investments in infrastructure and a domestic manufacturing renaissance.

This strategy works because a booming economy boosts tax revenues without requiring higher tax rates.

To achieve that, we need to keep investing in what helps grow our economy, including our children. Investing in programs for children, like WIC or SNAP, delivers a brighter future for those kids, and it also creates a substantial long-term benefit for our economy. Supports like early-childhood education, healthcare, and nutrition programs lay the foundation for healthier and more productive adults. They are then less likely to need social support services and more likely to participate in the labor force and earn higher incomes.

A permanent expansion of the Child Tax Credit could go a long way towards that goal. By empowering families, we lift kids out of poverty, stimulate the economy, and increase tax revenues.

Investing in our economy means investing in all of America. And I am pleased to join my colleagues to further explore these issues in today's hearing.

Now, I would like to introduce our two distinguished witnesses.

Mr. Michael Linden is a senior policy fellow at the Washington Center for Equitable Growth. He has more than 15 years of experience in economic policy roles across the federal government, think tanks, and advocacy organizations.

Prior to joining Equitable Growth, Mr. Linden served in the Biden administration and was a senior advisor and then the Executive Associate Director at the White House Office of Management and Budget, where he worked on a wide array of public policies

and was integrably—integr—excuse me, I have a cold today—integrally involved in producing the President’s budget.

Mr. Linden previously served as the senior advisor on the Senate Budget and Senate Health, Education, Labor, and Pension Committees. Mr. Linden was also the founding executive director at the Groundwork Collaborative.

Dr. Kimberly Clausing is the Eric M. Zolt chair in tax law and policy at the UCLA School of Law. Dr. Clausing most recently was the Deputy Assistant Secretary for Tax Analysis in the U.S. Department of the Treasury, serving as the lead economist in the Office of Tax Policy.

Prior to joining UCLA, Dr. Clausing was the Thormund A. Miller and Walter Mintz Professor of Economics at Reed College.

Dr. Clausing is a non-resident senior fellow at the Peterson Institute for International Economics, a member of the Council on Foreign Relations, and a research associate at the National Bureau of Economic Research. Her research examines how government decisions and corporate behavior interplay in the global economy.

Vice Chairman Schweikert. Dr. Faulkender, 5 minutes.

**STATEMENT OF THE HONORABLE MICHAEL FAULKENDER,
CHIEF ECONOMIST, AMERICA FIRST POLICY INSTITUTE,
WASHINGTON, D.C.**

Dr. Faulkender. Chairman Heinrich, Vice Chairman Schweikert, members of the committee, thank you for the opportunity to testify today on the unsustainable fiscal situation facing the United States.

Part of my responsibility as Assistant Secretary was to oversee the crafting of the Social Security and Medicare Trustees Reports, so, Mr. Vice Chairman, I very much understand the demographic challenges that you mentioned in your opening statement.

In addition to being chief economist at the America First Policy Institute, I am also a finance professor at the University of Maryland, where I have served for the last 15 years.

During my first week at Treasury, I oversaw finalizing the 2018 Financial Report of the U.S. Government. According to that report, U.S. Government debt was projected to rise from 70 percent of national output to 530 percent by the end of the 75-year forecast period.

The interest alone on this scale of debt would dwarf the size of the entire Federal Government, including Social Security, Medicare, and defense combined. For that reason, we renamed the second section of the executive summary from, quote, “Where We Are Headed,” end quote, to, quote, “An Unsustainable Fiscal Path,” end quote, a title it still holds today.

When COVID hit, Congress and the Trump administration enacted a temporary financial lifeline that sustained households and small businesses. Contrast that with the beginning of this administration, when, despite the economy being nearly fully recovered and with inflation below 2 percent, the Federal Government enacted trillions of dollars of fiscal spending that only stimulated 40-year-high inflation. Debt held by the public has risen from nearly \$16 trillion at the end of fiscal year 2018 to more than \$26 trillion at the end of fiscal year 2023.

According to CBO's latest Budget and Economic Outlook, over each of the next 10 years, budget deficits are forecast to exceed 5 percent of annual national output. And as CBO says, quote, "Since the Great Depression, deficits have exceeded that level only during and shortly after World War II, the 2007–2009 financial crisis, and the coronavirus pandemic," end quote. It is one thing to temporarily run a large deficit during a time of national crisis; it is unsustainable for deficits of this scale to be the norm.

To realize fiscal sustainability, growth is essential. As the Laffer curve explains, higher tax rates deter economic activity, resulting in potentially less revenue for the government, which will not solve our budget, inflation, or growth challenges.

The Tax Cuts and Jobs Act is not the cause of our current fiscal challenges. After all, in fiscal year 2022, Federal receipts were 19 percent of national output, the second-highest since World War II, compared to an average of 17 percent for the last 75 years.

Indeed, the problem is that spending has exploded. Federal spending has averaged 20 percent of national output in the 50-year timeframe of 1968 through 2019. It has averaged 25 percent the last 3 years, with spending for the next 10 years estimated to be in the 23-to-24-percent-of-GDP range.

Massive spending reductions should start with repealing the cynically entitled Inflation Reduction Act. This act unleashes an estimated \$1.2 trillion in corporate welfare that makes it more expensive to manufacture here in the United States, makes us more reliant on energy and critical minerals from potential adversaries, worsens our Nation's financial position, and does not significantly improve the planet's environment.

Likewise, the student loan forgiveness of this administration must stop. If universities offer degrees that push radical causes instead of preparing students for high-paying jobs, the institutions should take losses rather than transferring them to taxpayers. Such spending distorts tuition costs, encourages worthless degrees, and contributes to inflation.

Much of this spending was conducted without congressional approval. This Congress reduced long-term deficits through the Fiscal Responsibility Act by \$2.6 trillion over the next 10 years. However, technical changes increased deficits by \$1.1 trillion, including \$428 billion arising from how the administration implemented energy-related tax provisions of the IRA.

Spending through rulemaking should be approved by Congress, rather than the executive branch usurping the powers of the purse.

Additional deficit reductions would arise if government benefits helped Americans realize their potential rather than permanent dependency; from reducing the bloated government bureaucracy; and from increased energy and mining activities on Federal lands that would generate significant royalty income.

Finally, let me say, the impact on the American people of higher debt is not limited to a potential economic recession or higher future taxes. Rising 30-year mortgage rates have resulted in the monthly payment for a \$250,000 mortgage rising from approximately \$1,000 a month in January of 2021 to more than \$1,600 today. The best way for us to improve access to home ownership

for young people is to get interest rates back down, not to provide subsidies that cause housing unaffordability to worsen.

Thank you for including me in today's important discussion. I look forward to answering your questions.

[The statement of Dr. Faulkender appears in the Submissions for the Record.]

Vice Chairman Schweikert. Thank you.
Mrs. Boccia.

STATEMENT OF MRS. ROMINA BOCCIA, DIRECTOR OF BUDGET AND ENTITLEMENT POLICY, CATO INSTITUTE, WASHINGTON, D.C.

Mrs. Boccia. Chairman Heinrich, Vice Chair Schweikert, and members of the committee, thank you for inviting me to testify today.

My name is Romina Boccia, and I am the director of budget and entitlement policy at the Cato Institute.

The views I express in this testimony are my own and should not be construed as representing the views of my employer.

I will make three main points today: First, higher spending is driving the growth in the debt. Second, it is the growth in Medicare and Social Security spending that is the primary driver of the growth in public debt. And, third, slowing the growth in spending should be coupled with pro-growth policies to secure not only America's fiscal future but also economic prosperity.

Our Nation's debt is growing at an alarming rate, with CBO projecting that debt borrowed in credit markets will exceed 170 percent of GDP in the next 30 years. That is under very optimistic assumptions.

Current fiscal projections threaten Americans with higher taxes, reduced economic growth, higher interest rates, stifling inflation, and the tail risk of a severe fiscal crisis that could exacerbate all these other issues. Even under fantastic revenue projections, spending-driven debt growth threatens U.S. fiscal stability and Americans' economic security.

Despite CBO's highly unrealistic projections about tax revenues rising by 50 percent over the next 10 years, spending will continue to outpace revenues. Baked into CBO's baseline is the assumption that the Tax Cuts and Jobs Act will expire as scheduled under current law, when neither political party has demonstrated an appetite for allowing that to happen.

Even taking CBO's 10-year projections at face value, comparing them with historical spending and revenue highlights the unsustainability of current spending growth. Spending is projected to exceed 24 percent of GDP by 2034, compared to a 50-year average of 21 percent of GDP. Meanwhile, revenues would also exceed their historical average of 17.3 percent of GDP, but by much less, just shy of 18 percent of GDP.

Peacetime deficits at these levels, at 6 percent of GDP, are too high and cannot be sustained for long.

What is driving this growth in Federal spending? Federal healthcare programs and Social Security are the biggest spending growth drivers, alongside increasing debt service costs. Healthcare and Social Security are responsible for nearly two-thirds of the

growth in spending just over the next 10 years, followed by interest costs.

Over the 30-year spending window, Social Security, healthcare, and interest continue to pose the biggest spending pressures, threatening to drive Federal spending to an unprecedented 30 percent of GDP, from a 50-year historical average of 21 percent of GDP.

That would be a massive expansion in the size of government that could only be financed by higher taxes on all Americans, not just the wealthy. There isn't enough money at the very top of the income distribution to make that math work.

As healthcare and Social Security spending balloon as a percentage of the economy, every other major budget category declines or stabilizes over that same 30-year window.

Looking out yet further to the Financial Report of the U.S. Government, it details how Medicare and Social Security's unfunded obligations are responsible for the entire unfunded obligation of the Federal Government. That is right: The 75-year gap between non-interest spending and revenues of close to \$80 trillion can be attributed to Medicare and Social Security alone.

So the key drivers of rising U.S. deficits and debt are obvious. Congress cannot effectively address the short-term or long-term growth in the Federal debt without slowing the growth in old-age benefit programs and in healthcare spending or massively raising taxes on all Americans, bringing the U.S. closer to European-style tax levels.

As Congress seeks to address these problems, legislators should not lose sight of preserving the economy's capacity to grow. Short-sighted policies that raise taxes on investing and work could undermine debt stabilization if such policies dampen growth. Spending-based deficit reduction historically, especially targeted at social and entitlement programs, is most effective at sustainably reducing deficits.

As bleak as the U.S. fiscal outlook is, there is light at the end of the tunnel. The House Budget Committee recently passed the Fiscal Commission Act, which seeks to stabilize the debt over 15 years, educate the public on the Nation's deteriorating fiscal state, and improve the Medicare and Social Security Trust Fund's solvency over a 75-year window.

This is a positive step. It would be even more promising if Congress designed a fiscal commission based on the successful Base Realignment and Closure Commission, or BRAC, with independent experts, Executive involvement, and fast-track authority to allow for default adoption of a commission plan.

Thank you for inviting me to this hearing, and I look forward to your questions.

[The statement of Mrs. Boccia appears in the Submissions for the Record.]

Vice Chairman Schweikert. Thank you.

Mr. Linden.

STATEMENT OF MR. MICHAEL LINDEN, SENIOR POLICY FELLOW, WASHINGTON CENTER FOR EQUITABLE GROWTH, WASHINGTON, D.C.

Mr. Linden. Vice Chair Schweikert, Chair Heinrich, members of the committee, thank you so much for this opportunity to testify here today.

I am going to make three important points.

First, I am going to agree with my colleagues that rising debt poses real risks, but I am going to note that those risks are inherently uncertain in both timing and magnitude, which is why prudent fiscal policy should take a risk-management approach.

Second, there are both good ways and bad ways to manage fiscal risks. Policies that support broad-based economic growth will help reduce fiscal risks without causing unnecessary harm.

And, finally, to the extent that fiscal risks have risen in the last decade, the primary culprit is, in fact, the tax cuts that have dramatically reduced Federal revenues.

But let's begin where everybody agrees: Debt as a percent of our economy cannot rise forever without there eventually being some negative consequences. Many economists reasonably worry, for example, that an ever-increasing debt load could result in higher interest rates or could crowd out private investment and lead to slower economic growth, among other plausible risks.

However, there is little to suggest that our current debt levels are causing any of these potential harms right now, but there is a risk that any or all of them could come to pass in the future as debt continues to rise.

Risks are, however, by definition, uncertain, and it is important to approach questions of fiscal sustainability with a degree of humility. Projections may be wrong. Fiscal risks have been overstated in the past. And there is very little agreement or strong evidence on the magnitudes of the risks we actually face.

For example, many economists have long believed that higher debt would necessarily mean higher interest rates. But, in fact, the observed relationship between publicly held debt and interest rates is the opposite of that. Debt rates today are still much lower than they were in the 1980s and 1990s, when debt was significantly lower than it is today.

Similarly, a traditional concern is that more government spending will crowd out private investment. But the evidence for this concern is also quite mixed. Some studies have found a significant effect, while others have found almost none. And, in fact, recent economic evidence has suggested that there is, in fact, a crowding-in effect that can happen, where private investors follow the public sector's lead, and total investment goes up, not down.

To be clear, the lesson here is not that there are no risks from rising debt, but, rather, that the magnitude of those risks from higher debt is really uncertain.

That is why I believe the prudent course is to take a risk-management approach. Prudent and responsible governance means neither ignoring risks nor making drastic changes to eliminate them entirely. It means taking appropriate steps without causing unnecessary harm now. After all, it would be a very poor swap to trade

the uncertainty of potential damage at some time in the future for the certainty of major damage today.

That is why the best way to reduce risk without causing harm is to enact policies that promote and accelerate shared, broad-based economic growth. After all, we can reduce our debt-to-GDP ratio by expanding GDP.

And we know, for example, that investments in early childhood—like WIC, for example—and in scientific research are going to pay enormous dividends, expanding our economy, and make it easier to reduce the risks posed by increasing debt.

The converse is also true and worth explicitly mentioning: Policies enacted in the name of fiscal risk reduction that slow or impede growth, either by cutting productive investments or by increasing inequality, are not only harmful on their own merits but are also likely to fail at their stated goal.

As we consider risks and how to reduce them, it is valuable to understand which policies have in the past increased our risks and which have reduced them. Simply put, the primary, if not sole, reason that the debt projections are currently rising rather than falling is because of tax cuts. If not for the series of tax reductions enacted since 2001, the debt as a percent of GDP would be on a downward trajectory, not upward.

In fact, the CBO now projects that total Federal primary spending as a percent of GDP will be lower, not higher, than what it projected the last time it foresaw debt on a downward trajectory. So, if debt is now rising instead of falling and spending is lower than expected, then the primary culprit is lower-than-expected revenues.

Healthcare spending, in particular, has grown much more slowly than expected, not faster, and CBO now expects that we will spend about \$5 trillion less over the next 10 years than it thought back in 2012, when the debt was projected to be on a downward trajectory.

Those trillions of dollars in savings, however, will be more than wiped out by trillions of dollars in tax cuts. CBO now expects that revenue will be \$15 trillion lower than what it expected back in 2012.

So we may be spending \$5 trillion less on healthcare, but we are also spending \$15 trillion more on tax cuts, roughly half of which goes to the top 5 percent of households.

When I look at that debt trajectory, I do see risk. The magnitude of the risk is uncertain, and that should make us cautious about taking drastic actions.

But by employing a risk-management approach, we can see that there are prudent steps we can take now without causing unnecessary harm, like investing in ways that we know support shared growth. And we can begin to reduce the revenue losses that are the primary contributor to our fiscal risks by asking the wealthy and corporations to pay more in taxes.

Thank you, and I look forward to your questions.

[The statement of Mr. Linden appears in the Submissions for the Record.]

Vice Chairman Schweikert. Thank you.

Dr. Clausing.

**STATEMENT OF DR. KIMBERLY CLAUSING, ERIC M. ZOLT
CHAIR IN TAX POLICY AT THE UCLA SCHOOL OF LAW, LOS
ANGELES, CA**

Dr. Clausing. Chairman Heinrich, Vice Chairman Schweikert, members of the committee, thank you for inviting me to share my views on the U.S. fiscal situation.

Today's situation provides important risks but also opportunities. In my testimony today, I will make five main points.

First, in an environment of rising deficits and debt, we cannot afford to simply extend the many Tax Cuts and Jobs Act provisions that are due to expire at the end of next year.

A full extension of the expiring provisions, alongside a reversal of the business tax raisers that are built into the Tax Cuts and Jobs Act, would cost more than \$4 trillion—or \$5 trillion with interest—over the 2026-to-2035 budget window. This would add substantially to already-high estimates of deficits.

Further, extending the Tax Cuts and Jobs Act provisions disproportionately benefits richer households.

Second, we should view 2025 as an opportunity to make the U.S. tax system better—not just more matched to our fiscal needs, but also fairer, more efficient, and more suited to the challenges we face.

For example, in recent decades, income inequality has increased, so our tax system might reasonably ask more from those whose incomes have soared while helping those that are most vulnerable.

Our tax system can also better focus on efficient sources of revenue, such as those that would reach the excess profits of large corporations or those that would reduce carbon emissions.

And by working together with partner countries, U.S. tax policy can tackle important global collective-action problems, such as climate change and tax competition.

Third, a suite of corporate and international tax reforms can meet all of these tax policy goals, boosting revenue, enhancing progressivity, increasing efficiency, all while reducing the offshoring and profit-shifting incentives that have been baked into current law. At the same time, we can work with other countries to tackle tax competition.

A recent analysis showed that, of over 110 countries worldwide, the United States is in the bottom 10 percent in terms of corporate tax revenue relative to GDP, despite the fact that the United States has the world's most profitable corporations.

The 2017 Tax Cuts and Jobs Act reduced corporate tax revenue substantially, and the act's international tax rules encourage both offshoring and profit-shifting. The 2017 tax law perversely incentivizes all sources of foreign income relative to domestic income, and it also encourages the offshoring of plants and equipment. I have long called the 2017 tax law an "America last" tax policy.

Luckily, reforming the U.S. international tax system is now more desirable than ever. Since jurisdictions throughout the world are adopting coordinated minimum taxation on the world's largest multinational companies, that is reducing tax competition pressures. This allows the United States to reform our tax system far more easily.

Fourth, climate tax policy can help achieve both fiscal and environmental goals in the time ahead. As a first step, repealing existing fossil-fuel subsidies in the Tax Code, as consistently proposed in Biden administration Green Books, would raise more than \$100 billion over the budget window and take an important step toward a cleaner Tax Code.

But even more significant, the emissions reductions achieved through the Inflation Reduction Act can be turbocharged through the adoption of a modest carbon fee while simultaneously protecting households from increases in energy and fuel costs and reducing the deficit.

Consider a carbon fee that begins at only \$15 a metric ton, rises slowly to \$65 by the end of the budget window, and carves out retail gasoline. Layered on top of the Inflation Reduction Act incentives, such a carbon fee would have minimal effects on household energy costs, raising them only about \$30 a year, yet emissions reductions would be very large, and the fee would bring in about \$600 billion in revenue. Further, that score could be hundreds of billions of dollars higher if exports are not rebated at the border.

A domestic carbon fee would also help us work with partners throughout the world on policies to encourage emissions reduction worldwide. Collaboration on a nondiscriminatory carbon border adjustment mechanism would ensure that any seller serving markets with carbon pricing faces an incentive to decarbonize alongside the incentives faced by domestic firms. This could encourage countries throughout the world to reduce emissions.

Elsewhere, I have laid out other sensible revenue raisers, but let me close with one final point. Simply put, we can afford to better support workers and families. Toward that end, both the Child Tax Credit and the Earned Income Tax Credit should be expanded.

Recent expansions in the Child Tax Credit under the American Rescue Plan led to the most significant decrease in children's poverty in recent decades. But the expiration of that expansion reversed those gains. We can afford to invest in children and to help the most vulnerable, and those goals should be at the centerpiece of our tax policy agenda.

Thank you, and I look forward to your questions.

[The statement of Dr. Clausing appears in the Submissions for the Record.]

Vice Chairman Schweikert. [Inaudible.]

And, yes, I will learn to hit my "talk" button.

Doctor, just off the top of your head, what is the most you think we can take in in receipts—revenues? It technically should be called receipts. Twenty percent of GDP? What—just give me a number.

Dr. Clausing. If you look at the last time we balanced the budget, which was at the turn of the century, we were taking in about 20 percent of GDP, and I think that is quite attainable.

Vice Chairman Schweikert. Okay. So you think we can get up to the 20. All right.

Dr. Faulkender, consistently, we have shown that CBO's numbers seem to be missing what is actually going on. And it is, as Mr. Linden said, you know, the fear of the black swan. I will argue,

right now it is the white swan. We see it coming, but we are not adopting policy sets to deal with that.

I actually have—and you all know Brian Riedl.

Dr. Faulkender. Uh-huh.

Vice Chairman Schweikert. You know, one of the papers he wrote, what, a couple months ago, basically doing tax maximization of everyone over \$400,000, everything from income to estate to up and down, and then doing some economic effects, he was only coming in with about 1½ percent of GDP.

How is it possible, then, to get to these numbers? When you start saying, we are going to get up to 20—the President’s budget, I think, is at 20.3 percent of receipts to the size of the economy. We have already seen the papers from other academics saying you can only pick up another point and a half, maybe—if you are optimistic, 2 points—from those over \$400,000. What am I not understanding?

And please understand, the run rate on this fiscal year right now, if you do total gross borrowing, I think we are borrowing close to 9, 9.6 percent of the entire economy.

What am I not understanding?

Dr. Faulkender. So, if we look at tax as a percentage of GDP since World War II, as was just mentioned, the year 2000 was the highest on record. And that was because we had a massive run-up in the equity markets that gave us some one-time capital gains taxes that were not repeatable. The second-highest was the year 2022, when we realized 19 percent of GDP in the form of receipts.

So, if you were going to only put the top—those making above \$400,000 on the table as those potentially going to pay higher taxes, and you extend the Tax Cuts and Jobs Act for everyone below \$400,000, as you said, you are coming in with another 1 to 1½ percent of GDP. That doesn’t get us to the level that you are talking about, which, as I said, is above the highest level we have ever seen.

In order to get to those rates that CBO was projecting 12 years ago, you have to assume massive increases in middle-class taxes from bracket creep that Congress would not have undone. If you are going to go after where there is significant revenue, you are going to have to go well below \$400,000 by not inflation-adjusting many of the areas where tax rates get modified.

Vice Chairman Schweikert. And I am going to apologize because I always screw up. “Boccia”?

Mrs. Boccia. Yes. Thank you.

Vice Chairman Schweikert. Is this the argument—and even when I read the testimony from our Democrat witnesses, aren’t we—isn’t the reality that, into the decade, you are heading towards a VAT tax?

Mrs. Boccia. That is one possibility, that you raise an entirely new level of taxes. I agree with Dr. Faulkender that it would require higher taxes on middle-class Americans.

I think that what we concede here is that, if we believe that, on the best prospect, the government could raise about 20 percent of GDP in revenue, and yet we know that spending is projected to grow to 30 percent of GDP in revenue, that we need to find spending reductions.

And there are many ways that we can slow the growth in the main drivers of spending growth, which is Medicare and Social Security, without cutting benefits for current beneficiaries, including indexing initial Social Security benefits to wages, at least for higher-income earners, if not for everyone, rather than—I mean, to prices rather than wages. And for Medicare, there is a lot of opportunity to introduce market forces that would provide quality care at lower cost.

And none of these require benefit cuts to current beneficiaries, just slowing the growth of future benefits.

Vice Chairman Schweikert. And I want to first also thank you for your support of a debt and deficit commission.

I think we actually talk around each other often, and we don't tell each other the truth. You know, we have had a running discussion, and I was sort of saddened that no one here—if diabetes is 33 percent of all healthcare spend, wouldn't actually taking on some of the afflictions in our society actually be one of the most moral and most effective ways to actually take on both debt and deficits, family formation, economic growth? But because it is not part of our talking points, we often never look for—it becomes binary: raise taxes, cut spending.

And the point I wanted to try to make—and tell me if my math is wrong. So taxing folks over \$400,000, you pick up, let's say, another point and a half of GDP. For those of us on the cut side, there is a point, point-and-a-half percent, you know, without redesigning major entitlement programs.

And if you have a run rate—look, I know CBO said we are going to borrow 5.6 percent of the economy this year, but so far the current run rate is over 9 this year. Because with the current borrowing at, what, \$95,000 a second, we may borrow 2.8; there is a chance you could get close to—higher than that this year, in a time when the economy is healthy.

And yet we will stick with our political rhetoric, because that is what gets us reelected, because God forbid we go home and tell people the truth. But it turns out, my revenue raisers and my cuts still leave a huge gap.

And, Mr. Linden, you actually hit one of my favorite subjects, and that is, are we heading towards a time, if we don't demonstrate certain levels of mitigation—you are heading towards the bond market being—and this has happened, you know, even during the Clinton administration. The bond market hiccuped, and there was almost a sense of panic for a little while.

You keep saying, well, a black swan doesn't have to happen. But isn't that the point of it being a black swan, is you don't know it is coming?

Mr. Linden. I think you want to take a prudent approach by reducing your risks. That is the way we think about risk in a whole host of different areas, and fiscal management should be no different.

We don't know that that is the case. People have been saying that is the case for a long time. If you had this hearing 20 years ago, they would have said rising debt—

Vice Chairman Schweikert. Yeah.

Mr. Linden [continuing]. Is going to create all these—

Vice Chairman Schweikert. Of course, we also didn't think we were going to have a decade of almost free interest rates. It is very Taleb-ish.

Mr. Linden. Right, right. So I think it is important to be responsible and to think, okay, there are risks, those risks are real, we should take those seriously; how do we prudently reduce those risks in ways that don't cause harm now?

I want to agree with my colleague, Dr. Clausing, that, you know, raising corporate rates is probably pro-growth, it is probably good for the economy, it is pro-efficiency, it does raise revenue. It doesn't reduce the risk all the way to zero. I am not sure you need to do that. What you need to do is be prudent about this, take it seriously.

And I want to agree with you very much on the healthcare point. You know, we have made some significant progress in the last 10 years on reducing healthcare costs.

Vice Chairman Schweikert. And I am way over time, but it is fascinating. We actually had a discussion with, I think it was Goldman Sachs on even their math they were doing for the economy and economic growth in regards to semaglutides. And you go, this is a bizarre conversation. But yet how do we ever get it into our lexicon that it actually becomes part of our math set?

And, with that, I yield to the chairman.

Chairman Heinrich. Thank you.

Dr. Faulkender, one of the places where we may be in general agreement that deviates from the conversation on revenue and spending for just a moment is the challenges in our Nation's demographics. And I think those are things that a lot of people are not aware of, just how quickly—in the early 2030s—we may be shrinking our population in the United States if we don't make changes.

Would you agree that we are not going to solve those challenges without a larger pipeline of legal, documented immigration?

Dr. Faulkender. Mr. Chairman, the way that I explain the demographic challenge to people is that, for about 40 years, we had about 3.3 workers for every senior. We are at about 2.8 right now, and we are on our way to 2.3.

The way that our major entitlement programs, major Social Security program is structured is that it is cash-flow-neutral at about 3. And so, if you go from 3.3 to 2.3, that is a massive—

Chairman Heinrich. Right.

Dr. Faulkender [continuing]. Shift in demography. If you look at the entire population increase—

Chairman Heinrich. So how do you reverse that?

Dr. Faulkender. Well, birthrates are going the wrong direction.

Chairman Heinrich. Right.

Dr. Faulkender. And so, presuming that we continue to see expansions in life expectancy, the only way to increase the workforce is either to increase labor force participation among prime-age workers—

Chairman Heinrich. Agreed.

Dr. Faulkender [continuing]. Or immigration.

Chairman Heinrich. Yeah. And presumably both of those are laudable things to try and address the demographic challenges with.

Dr. Clausing, would you say that we are currently taxing—the way we are taxing individuals across the economy is fundamentally fair? In other words, like, who is paying their fair share? Who is not? Who maybe is paying, you know, more than their fair share? Would you call our individual tax structure equitable?

Dr. Clausing. There are elements of our tax structure that are progressive, but there are other elements that are much less fair.

One example would be the treatment of capital income relative to labor income. As soon as you earn even \$1 of labor income, the payroll tax starts, and as you earn more and more, you climb up the Federal income tax brackets. But there is a lower tax bracket structure for capital gains and dividends. And many of those sources of income aren't taxable at all. If you hold your asset until death, in fact, you can avoid capital gains entirely.

So our system as a whole really is favoring those who inherit income or who have large savings, stocks already relative to those who work for their income.

Chairman Heinrich. Mr. Linden, on a related point, our tax code often rewards wealth over work, and it lets the wealthiest Americans pay less taxes than teachers and firefighters.

So how do the economic impacts of the lower capital gains rate or the carried interest loophole for hedge fund executives compare to some of the benefits from investments that presumably help grow our GDP—investments in families through things like universal childcare or an expanded Child Tax Credit? And how should you weigh those against each other?

Mr. Linden. That is a great question. Thank you for that question.

You know, for a long time, I think there was an argument that lower capital gains taxes would produce more investment or more growth and more jobs, and that has not been borne out in the economic evidence really at all. That theory persists; people still talk about that. But there is almost no empirical evidence for it.

On the other hand, we have a lot of empirical evidence for what happens when you invest in early childhood, in particular—and many other areas as well, but I will focus on early childhood.

The returns of every single dollar invested in early childhood and across a range of things—early-childhood education, nutrition, healthcare—those benefits far outweigh the costs over time, economically speaking.

I am always hesitant to—I am always hesitant to claim that things pay for themselves, because it is very hard to know over time. But if there is anything where the evidence is really strong, it is early-childhood education.

Chairman Heinrich. Dr. Clausing, let me go back to the Tax Cuts and Jobs Act again. How much of an effect would extending the provisions of that bill have on the deficit, in your estimation?

And, you know, do you have opinions on what portions we should let expire and which, if any, of them we should keep?

Dr. Clausing. Yeah, so what I did to estimate was to simply take CBO numbers and inflate them to the budget window that we are looking at. So, assuming this negotiation happens in 2025, we are looking at the 2026-to-2035 window.

And if you look at both the individual extensions for everything that is set to expire, including passthrough and individual rates and estate taxes, and you also add in business reversals—there is a bunch of business tax increases that are baked into the Tax Cuts and Jobs Act, and there is already, in fact, a legislative attempt to extend some of those that has passed the House of Representatives and is now being considered by the Senate. So, if you add those in as well, you are at about \$4 trillion over 10 years. And if you add interest to that, it is more like \$5 trillion over 10 years.

Now, the Tax Cuts and Jobs Act did have some features that I think are useful that one could keep. For instance, I think having a higher standard deduction and a higher Child Tax Credit, coupled with the loss of exemptions, is a reasonable way to structure the system. Fewer people itemize, it is less complicated, and it is a solid reform.

But there are a lot of parts of Tax Cuts and Jobs Act that are simply unaffordable to extend or unwise to extend.

At the top of the list I would put the Section 199A deduction, which is complicated, inefficient, also highly regressive. More than 50 percent of the benefits go to those in the top 1 percent, and the bottom half of the population only gets 3 percent of the benefits from that 199A deduction. But, also, I don't think we need estate tax cuts that benefit only the richest 2 in 1,000 estates.

And I think we should seriously consider letting the rate structure expire as it is, because it is simply an awful lot of money that disproportionately, again, benefits those at the top, who benefit from every step of that rate structure.

Chairman Heinrich. Great.

Thank you all.

Thank you, Mr. Vice Chairman.

Vice Chairman Schweikert. Thank you.

Mr. Estes.

Representative Estes. Well, thank you, Mr. Chairman.

And thank you to our witnesses for being here.

Our Nation is kind of at a tipping point. I mean, we are nearly 34.5—or, actually, we are over \$34.5 trillion in debt. And I count public and intergovernmental debt, not just the public, because nobody is going to say that they are not going to pay Social Security recipients or not going to pay the military retirement. So intergovernmental debt is debt that has to be paid by the taxpayers.

We are currently, as the chairman said, borrowing \$95,000 a second, roughly. In 2023, the debt increased by \$2.6 trillion in that 365-day period. And we are on track to be over \$36 billion by a year from now.

And it is irresponsible spending, really, that has impaired the national credibility and is starting to affect the national security now, in addition to saddling the next generations with a huge burden of debt. We were elected to find legislative solutions to the debt crisis in this country, and that means we need to rein in reckless government spending and return to regular order.

I want to just mention that, you know, we haven't passed all 12 appropriations bills on time since 1996. It is both Republicans and Democrats at fault. Omnibus spending and even the minibus spending, although a step in the right direction, continues to keep

this body in a never-ending spiral of spending more money, with these bloated spending bills.

And on our side of the aisle, my colleagues and I tend to try to balance our budget in 10 years. We focused on that with the Budget Committee and the work there. But since I have been here, in the last almost 7 years, we can't—it is more and more difficult to accomplish that in a 10-year window.

Yesterday's budget released by President Biden just pushes us further down the wrong path. I mean, if we think our debt is now—if we follow the plan proposed by the President, which even includes tax increases, our national debt would be \$52.7 trillion in 10 years.

Mr. Chairman, I would like to submit for the record my op-ed entitled, "Three Ways to Treat America's Debt Pandemic."

In it, I outline it is not just our national debt—but that is a problem—but that household debt has also reached a high of \$17.5 trillion this year.

Vice Chairman Schweikert. So ordered.

[The Op-Ed submitted by Representative Estes appears in the Submissions for the Record.]

Representative Estes. Families are struggling to pay their debt because of inflation and because of—taking on credit card and other debt is only exacerbating that national fiscal crisis.

Dr. Faulkender, it seems like there are correlations between personal finances and our national fiscal situation. The inflation from Bidenomics has created a terrible economy for working families. They have taken on more debt and are facing higher interest rates, while at the same time the Federal Government is spending more than it is bringing in and having to figure out how to pay higher interest rates on its debt.

What are some of the public policies that have caused this? And how do you think—or is there a relationship between personal and national finances?

Dr. Faulkender. Sure.

So, if we think about the economy that was in place in January of 2021, we were seeing a nice recovery from the pandemic. We had recovered—by the middle of 2021, we had returned to both the economic output prior to the pandemic and the level of employment.

And yet, at the beginning of the Biden administration, an additional \$2 trillion of fiscal stimulus was thrown into an economy that was largely already recovered.

And so, as a result, we saw inflation here in the United States take off much faster than elsewhere around the world, coupled with an administration who singularly focused on reducing the ability of the United States to be energy-independent, to take energy resources offline. We saw that the energy sector didn't recover until 2023, despite the rest of the economy in 2021.

So all of those things stimulated demand at a time that we were curtailing the ability of the U.S. economy to fulfill that demand. The natural result is inflation.

Now, the Federal Reserve then came in late to the party in order to try to curtail some of the excess—you know, the really low-interest-rate environment that was in place. And, in order to catch up,

they increased interest rates extremely quickly. We saw mortgage interest rates go from about 3 to about 7 percent.

So, not only are American households now facing 30-percent higher energy prices, 20-percent higher food prices, but the interest rate on a 30-year mortgage has, as I said, taken a \$250,000 mortgage from about a \$1,000-a-month principal and interest payment to over \$1,600.

And the lowest-income amongst us are the ones that are hit hardest by it, because shelter, energy, and food comprise a much larger portion of their consumption than any other demographic.

Representative Estes. Yeah. I am just so concerned about—as you mentioned, inflation is such a burden for so many individuals, and we have to get that under control. We have to have good fiscal policy and not excessively spending over our revenue that brings that in.

And speaking about revenue, I just want to say one quick comment, Mr. Chairman, is that I do want to correct the record on the Tax Cuts and Jobs Act. We have consistently brought in more tax revenue than what the Congressional Budget Office estimated after the Tax Cuts and Jobs Act was passed. In 2023, we saw almost \$300 billion more in tax revenue than what had been estimated by the CBO. In 2022, it was over \$900 billion. And, in 2020, it was over 200—roughly \$280 billion.

So the revenue is coming in because the economy is moving. And that is one of the things that we have to keep in mind as we look at having good pro-growth policies.

Thank you, and I yield back.

Vice Chairman Schweikert. Thank you, sir.

Ms. Porter.

Representative Porter. Dr. Clausing, I wanted to ask you about what you referred to as “America last” tax policy. And so, specifically, I wanted to probe two points of this.

One is, related to footnote 6, if you want to get really technical. You say, early evidence suggests that the Tax Cuts and Jobs Act’s incentives created increased foreign investment, which I think would be the opposite of making America great again. It would actually be helping our foreign competitors.

Can you tell me more about that evidence?

Dr. Clausing. Yes, absolutely.

So there are two features of the international provisions in the Tax Cuts and Jobs Act that encourage offshoring and profit-shifting. One is a 50-percent discount for foreign income relative to U.S. income. And the second is an exemption, completely free of U.S. tax, for the first 10-percent return on foreign assets.

If you think about those two in concert, they lead to incentives to both move plants and equipment offshore, because then the first 10-percent return will be completely free of tax—which isn’t true, you know, here in the United States—and to book as much as profit as possible offshore, where it will get a 50-percent discount.

And it is actually a little more perverse than that, because even if you have income in a high-tax country offshore, or at least a medium-tax country offshore, you can use the foreign tax credits from that income, combine it with your income in haven jurisdictions, and still get to half the U.S. rate. So you would rather have income

in France or Japan; then you would have it in the United States too, because it will generate those foreign tax credits to offset tax due on lower-tax jurisdictions like Switzerland.

Representative Porter. So I represent about 700,000 Americans. How do they benefit from increased foreign investment?

Dr. Clausing. There are benefits to international capital and international trade, and I have written a whole book about that. But I don't think we want a tax system that puts a thumb on the scale in favor of the foreign, relative to the domestic, right? We also benefit from having these investments here at home and from jobs and the other things that go with plants and equipment, right?

So, when you are looking at, kind of, like, the bang for the buck of what we got from all those corporate tax cuts, I think that money would have been much better spent on some of the investments that Mr. Linden referred to, like the early-childhood education.

Representative Porter. My second question is about competition policy, which has been a big focus of the Biden administration.

My colleagues on both sides of the aisle love to talk about small business and how they are pro- small and medium business.

How does the Tax Cuts and Jobs Act affect competition policy? In other words, the corporate tax base is very concentrated, so when we reduce corporate taxes, who gets helped among businesses, and who gets hurt?

Dr. Clausing. Yeah. That is a really interesting point, and I am glad you asked that question.

Because one unappreciated fact is just how concentrated that corporate tax base is. There are about a half-million C-corp payers in the United States, and less than one-half of 1 percent of them, fewer than 2,000, account for 90 percent of the tax base, approximately.

So, if you look at where all of that tax revenue went, it mostly went to just a small handful of companies. About 300 of them account for 70 percent of the tax base. And those are companies that disproportionately have very high profits, have market power, and have multinational operations. So they can even self-help themselves to a much lower rate than the U.S. domestic rate by moving profit offshore.

Representative Porter. So our current corporate tax policy favors the very largest corporations, and they get about—the top 300 corporations are about 70 percent—

Dr. Clausing. Right.

Representative Porter [continuing]. Of the tax base.

So I guess my question is, again, why would we have that tax policy? How would an ordinary American who might want to start a business be helped by this?

Dr. Clausing. I think there is a strong argument for treating the largest companies differently than the smaller companies, in part because I think they are less likely to be incentivized by things like investment incentives, because they already have all the money they need to do all of these investments.

I think we have it backwards right now, in that we are giving the biggest companies a lighter tax burden than the smallest companies in a lot of ways. And I think that shoring up the inter-

national tax system is the first step to fixing that. Because if you try to just do it all through the domestic system, the big guys can still move the income offshore.

Representative Porter. Uh-huh.

Dr. Clausing. So the first step, fix the international, and then you can fix the corporate rate structure after that.

Representative Porter. I will just close by observing that the first time I came across the phrase “GILTI”—which is G-I-L-T-I in tax world—I was sort of struck by the fact that it is called “GILTI,” which is what the Tax Cuts and Jobs Act is. It is guilty of creating a tax system that benefits the largest corporations over the smallest ones and benefiting corporations over American workers.

I yield back.

Vice Chairman Schweikert. Mr. Arrington.

And thank you, Mr. Smucker, for helping with his schedule.

Mr. Arrington. I owe you one, classmate.

So I didn’t plan on delving into tax policy, although I think it is important when we are looking at the prospects of staving off a debt crisis and growing the economy—which, reducing spending and growing the economy, tax policy is inevitably and should be a conversation. But I think we have to get the facts right here. And I am not sure I am—I am not sure the facts, as I have heard them, line up.

As a Ways and Means Committee member, we brought in record revenue to the Treasury after the Tax Cuts and Jobs Act.

Dr. Faulkender, is that correct?

Dr. Faulkender. Yes.

Mr. Arrington. We saw record—record—R&D investment and capital, trillions, flowing from overseas to this country. And do you know why? Because we had the highest corporate tax rates in the free world and the not-so-free world. Like, Communist China had lower corporate tax rates than the United States of America.

Listen, it is not the gospel of Jesus for me to suggest that a tax rate is at one point or another. But I can tell you this, just from west Texas common sense: We cannot grow this economy and we cannot have our job creators in the United States be competitive if we have the highest tax rates in the world. Now, I would hope we could all agree on that, regardless of where we negotiate the right place.

We are not even in—I don’t even know that we are in the top quartile. Maybe we are. I think we are more in the middle now and not dead-last.

And it is amazing, what TCJA did. Was it perfect? No. Like I said, I am not dogmatic about it. But the lower rates for individuals benefited the lowest-income families and individuals. That is a proven fact. The people who benefited on the individual tax rate side were those at the lower end.

Representative Arrington. And here is another fact: The Tax Code is more progressive after TCJA than it was before. It is more progressive. We have more people at the higher income paying more taxes than at the lower income and more people paying no taxes than there were before.

That is just the fact. It may be inconvenient. But it is also probably inconvenient that after TCJA and we reduced the tax burden

on American families and job creators that we had the lowest poverty rates in recorded history.

Do you know that, Dr. Clausing, that we had the lowest poverty rates after we reduced taxes in this country on our working families and on businesses? Yes or no, do you agree that we achieved the lowest poverty rates?

Dr. Clausing. Poverty rates were going down in part because of the macro economy. But I think even the American Enterprise Institute analysis of the Tax Cuts and Jobs Act would disagree with you on several of the points you just raised.

Representative Arrington. Okay. I am not asking about several points. But the poverty rate was at record low after TCJA. We had record corporate revenue to the Treasury. We had the lowest unemployment rate for women and minorities.

These are all facts that happened I think in large part because of pro-growth policies from the previous administration, not all related to tax cut but America First trade, deregulation, and the combination of those things—including, by the way, incentivizing people who are able to work to work, not people who are not, not people who can't, but those who can work should work.

Because one of the big constraints for growth is a labor shortage, which is a whole nother conversation. But we are certainly not going to solve that when we are paying people more to stay home than to go back to work. And that is certainly what happened during ARPA and some of my Democrat colleagues and their policies whether they intended that or not.

Listen, I don't know a single person in this country that I have talked to, who is well-informed, who believes that the level of indebtedness record for this country, that the fiscal path in terms of deficits and the projections from CBO of \$120 trillion on top of the 34 believe this is sustainable and are not terrified at the prospect of a debt-related crisis.

Not any objective or serious person believes that, including our Democrat witness from our Fiscal State of the Union in this very room, Mark Zandi from Moody's Analytics, and other nonpartisans, like our Comptroller General, who worked under both Democrat and Republican.

Every one of them said—and, granted, Democrats have a different set of solutions and strategies. There is probably some middle ground. And then we have ours.

But no one—and I am sorry, Mr. Chairman, I will end with this—no one thought that we were okay, that we could sustain the level of deficits and debt, and that there wouldn't be a payday some day and one that would be irreparable and even catastrophic.

I haven't met anybody in this hearing room, at that dais, that witness table, saying anything to the contrary.

With that, I yield back. I apologize.

Vice Chairman Schweikert. Mr. Beyer.

Representative Beyer. Thank you, Chairman Schweikert. Thank you for calling this meeting. And a very important topic.

Vice Chairman Schweikert. Thank you for showing up.

Representative Beyer. Yeah.

I would like to first agree with my friend, Mr. Arrington, that this is an enormous concern. And I don't know that all of us share

it, but I have been worried about the deficit for a long time. And it has only gotten worse and worse and worse.

I do want to point out that the lowest poverty rate happened after COVID when we spent \$800 billion on unemployment insurance, we did economic impact payments, we did PPP loans where businesses throughout the world were held harmless and often made millions and millions of dollars, and we got child poverty down to 5.2, 5.3. And then most of those went away, and it went back up to 12.7.

But government funding was a huge part of that. It was also a pretty huge part of all the money that corporations were paid, again, because they had unprecedented profits as the profit margins were tripling and quadrupling.

As a car dealer, I can tell you ours tripled and quadrupled here, too. But that is neither here nor there. I didn't come to beat up on the TCJA.

But I do want to thank Dr. Clausing for always being so good to us, for your service in the administration, in and out.

But we do have, because the TCJA is expiring, we have the opportunity to fix a bunch of things, including a corporate tax rate which could easily have been 26.5 and gotten almost all of the gains that we had before.

Specifically, though, we had a great Ways and Means dinner last night with the Dems side on Pillar Two and trying to understand that. And we regularly hear from corporations that they want to preserve a Tax Code that is competitive relative to the rest of world.

Dr. Clausing, wouldn't complying with an international agreement that creates a floor on global corporate tax rates everywhere, including the Caymans and Cypress—I won't—I am not going to pick on wonderful countries like Switzerland—stop the race to the bottom and give the U.S. greater freedom to design tax policy, not to compete with Zug, but actually to reflect our priorities?

Dr. Clausing. Absolutely. I really appreciate that question.

For a long time when we were trying to address the profit shifting and offshoring features of current law, people would argue, well, you can't do that because some other country will obviously undercut us and our U.S. firms will lose out to others in merger and acquisition bids.

But lo and behold, we now have this international agreement coming into effect throughout the world that already covers more than 90 percent of the in-scope multinational companies that raises the bottom from zero to 15 percent.

That gives countries like the United States a lot more freedom to address these longstanding problems without worrying about these competitiveness concerns, and it is exactly what the business community has been asking for a long time to help level that playing field.

Representative Beyer. Thank you very much.

Mr. Linden, you talk a lot about risk management, which is a wonderful way to think about this.

I believe we should move towards fixing this budget deficit. But when you figure that 80 percent of it is things that every American

wants, that even people like Donald Trump say you can't touch, and we don't want to touch the military.

So we are looking at 8 to 10 percent of the budget to try to fix a problem that is much larger than that, especially because all that is sort of investment in our kids and things like that.

So we turn to revenues. And that, of course, is my problem with my dear Republican friends, is they won't look at it. The President had it in his billionaires minimum income tax, which Steve Cohen and I have been co-leading. And he talks about other things, step-up in basis, moving gift tax rates to where they were before, moving estate tax rates to where they were before.

But my Republican friends will say, no, no, the wealthy job creators won't be able to create jobs anymore.

How do you see that from a risk management framework?

Mr. Linden. Yeah, I appreciate that question.

I want to make two points.

One is that it is true that, as some of my colleagues said, that spending on things like Social Security and Medicare have gone up over time as the population has aged. We have talked about that a little bit in this hearing.

And those are commitments that we have made to America's seniors that are, A, popular. As you said, every—broad bipartisan support for those policies. They work. They reduce poverty. They reduce senior precarity. They are popular for a reason.

And, critically, we used to have a Tax Code that was able to finance the increase in costs. And instead of maintaining that Tax Code or building on it, we cut taxes repeatedly. And that is why now, even though those costs are rising, the debt is now rising with it.

It didn't have to be this way. We could have chosen to simply finance those commitments the way we were before.

Now we are in a bigger hole, and we have to dig our way out of it. But the first thing you do when you are in a hole is stop digging. So stop cutting taxes for people at the top.

And that leads me to my second point, which is, look, at the end of the day, where does economic growth come from? Does it come from the titans of industry sitting in boardrooms deciding how many jobs they are going to create in a day? No, it doesn't. It comes from customers. It comes from workers. It comes from families doing their best from day to day. And that is where you want to invest.

That is why we see the evidence that we do that investing in middle-class families and low-income families produces broad-based economic growth. It doesn't come from giving tax cuts to people at the very top.

Representative Beyer. Yeah.

And, Mr. Chairman, just for 10 seconds, Dr. Faulkender was nodding his head no on the tax increase. So I just want to say that, as somebody who has kept the dealership books since 1975, I remember figuring tax rates out at 75 percent until we got to 1986. Somehow we kept growing and surviving. So they have gone way, way, way down from where they used to be.

I yield.

Vice Chairman Schweikert. Okay. We won't do a whole discussion of effective rates, which is another thing.

Mr. Smucker, thank you for your patience.

Representative Smucker. Thank you, Mr. Chairman.

A fascinating discussion. And, in fact, the chairman mentioned a fiscal commission. I think this would be exactly what a fiscal commission should be doing, is trying to come up with a shared set of facts and beliefs that we all can agree upon, because there are things mentioned here today that I think probably most of us agree.

Our birthrate and our demographics will not work for a growing economy going forward. We are going to have to increase the workforce participation rate and/or increase immigration because we are going to need the workers to pay into the system. So I completely agree with that.

Mr. Linden, you mentioned that one of the important components of changing the debt-to-equity ratio is growing the economy. And so, I completely agree, we have got to figure out the right policies to grow the economy. So this is exactly the kind of discussion that we should be having.

I was surprised, Mr. Linden, that your perception of the debt is different than many that we hear, and I would like to just explore that a little, because this is sort of a fundamental fact base, if you will, or a problem that we have to agree on.

My perception is the debt is projected to grow—the debt to GDP is going to grow according to CBO to almost 200 percent in the next 30, 50 years, 172 percent, I think, in the next 30 years.

Your quote, and I have read your testimony as well, but you said here you think the evidence of high debt being a problem is mixed. So are you not concerned?

I mean, as far as we can see, revenues are on a certain line and even if we make changes to revenue. And then spending is another one. So the gap is going to continue to increase. You don't think that is a legitimate concern?

Mr. Linden. Oh, I do think it is a legitimate concern.

Representative Smucker. Yeah. Okay.

Mr. Linden. I think risks—

Representative Smucker. At what level?

Mr. Linden. Well, that is the question, right? Risks are different than certainties. And if you had asked people 10 years ago, they would have said 90 percent of GDP, that is going to be—that is the threshold. If we are there, then things fall apart. And that turned out to not be true. And if you had asked people before that, they would have given you a different number.

And I think the point that I really want to make is we should, instead of saying we are definitely headed for a calamity and, therefore, willing to do anything we can to avoid that calamity, we should take the risks seriously, look at what the evidence actually says.

Does higher debt inevitably lead to higher interest rates? The answer to that question is no by our historical experience.

Could it lead to higher interest rates? Yes. And that is why we need to be thoughtful about these.

Representative Smucker. Are you concerned about a possible sovereign debt crisis at some point? And what I am talking about is where people no longer—people buying treasuries no longer believe that the U.S. has the ability to repay, and so they stop buying treasuries.

I mean, that would be—first of all, you agree that would be a calamity?

Mr. Linden. That would be very bad.

Representative Smucker. Yeah. Are you concerned about that?

Mr. Linden. I think the way that we want to reduce the risk of something like that happen to be clear. No evidence we are on the cusp of that or anything like that.

Representative Smucker. Yeah.

Mr. Linden. But it is a risk, and we should take risks seriously. And like we do in any other area of our life, we should measure those risks based on how likely they, how big they are.

Representative Smucker. I wish we had more time, and I would love to give the two of you a chance.

And what I am looking for—and I don't know if either of you can point me in the right direction—I don't know if you all have read Ray Dalio's book. I don't know.

But, like, there are plenty of examples of countries and empires that have risen and fallen. And my perception at least is often it is because of their fiscal policies. You had the British empire for centuries. You had the Dutch empire. And they are gone. And I am concerned this could happen to America.

Have any of you looked at history and tried to extrapolate, like, where we are and where we are headed if we don't change course?

I mean, Mr. Linden, you obviously aren't as concerned.

But I would be interested in hearing from the two of you, as well.

Dr. Faulkender. So, Congressman, my read of the literature on the 90 percent figure is that countries have not had financial crises, debt crises below 90 percent of GDP, debt-to-GDP ratios, that they have all occurred above 90.

Now, it does not mean that once you hit 90 you hit a debt crisis. It just says that is where that happens. Japan has been above 200 percent for a while, but Japan has a much higher savings rate.

Now, the U.S. has the world's reserve currency which means that our threshold is going to be higher. The challenge that we have that is we don't know where the threshold is and it will be a moment—it will be a crisis of confidence moment and you don't know what is going to spark that.

I testified a couple of months ago with a former Treasury colleague who now runs the Penn Wharton Budget Model, and his testimony was that we don't know when, but 20 years from now there will be no interest rate that will clear the Treasury bond market—at the best 20 years from now.

I don't want to find out what that looks like, and that means we need to get our fiscal house in order today.

Mrs. Boccia. If I can just add one point.

One of the risks is that we might end up in a scenario where we have what is so-called fiscal dominance where the Federal Reserve no longer makes policy based on containing inflation but on the basis of supporting the Treasury in continuing to finance govern-

ment spending, should it become difficult to borrow from bond markets.

And there what you are looking at is we had a fairly recent experience with that, very high rates of inflation, recurring bouts of inflation, which create uncertainty in the market and cause a lot of harm and pain for exactly the types of populations that can bear that risk the least, which is why I think that it is very encouraging that Congress is advancing the idea of a fiscal commission to have those discussions before a fiscal crisis or another unexpected calamity forces legislators' hands.

Representative Smucker. I am apparently out of time. But thank you. Maybe we aren't as far apart as initially we would—it sounded.

Vice Chairman Schweikert. You are out of time.

Representative Smucker. Yeah, I know. I am out of time. Thank you.

Vice Chairman Schweikert. Have at it.

Representative Trone. Mr. Smucker, you are out of time.

Thank you, Vice Chairman Schweikert, staff. Thank you, everybody, for being here today.

The latest CBO budget forecast held debt for the public to increase from 99 percent GDP in 2024; 116 percent is the ground-work by 2034.

What is important to acknowledge, that these trends are not set in stone. What can we do? The American people are dependent, each and all of us, to come together, find solutions. We have to increase revenue, and we have to extend the solvency of social supports. Of course, we have to yield good returns.

So we can by, one, I think, reforming our immigration system. Mr. Smucker touched on it. Two, making the ultra wealthy and corporations pay their fair share. And, three, increasing workers' ability, as was mentioned, to join our labor force, boost revenue, balance the budget for the long term.

This leads me to my first question.

Mr. Linden, the Penn Wharton Budget Model, which I am pretty familiar with having been involved in it from the beginning, states that exempting applicants with advanced STEM degrees from employment-based green card caps, exempting them from those caps would reduce the Federal budget deficit by \$129 billion over 10 years.

The CBO then projects 5 million more immigrants—I love immigration—5 million more immigrants would add an additional \$1 trillion to our tax revenue over 10 years. That is real money.

Can you speak to the impact that would—this reform would have on our labor force and revenue and how this could drive our local and national economies, protect Social Security, Medicare, Medicaid for generations?

Mr. Linden.

Mr. Linden. That is a great question.

Look, I think we should ground ourselves in some basic facts, which is that right now we have the highest labor force participation rate in the United States for prime age workers that we have seen in 20 years.

And we have talked about some of our demographic challenges. We know that those are real. And they don't have to be challenges. They just are what they are. The American people as a whole are getting older.

And we can help expand our economy with more workers. That can come through, as we talked about, higher birth rates, but also through legal immigration.

And so that is why the CBO says what it says about immigration being really good for our fiscal future.

I do want to make the point, I want to double-click on the point you said, which is, look, what creates growth in this country? Growth does not come from the top. It comes from entrepreneurs. It comes from workers. It comes from families.

And when we attract the highest talent, highest skilled people from all over the world to the United States, that is good for everybody. That is going to raise wages. It creates jobs. It creates more growth. And it does create more revenue into the Treasury to help us with our fiscal risks.

Representative Trone. How many immigrants do we take in a year on average? Is it about a million, a million a year?

Mr. Linden. Sorry. Repeat the question.

Representative Trone. How many immigrants are we bringing in for the last 20-some years, legal immigrants?

Mr. Linden. I would have to go back and check the question.

Representative Trone. It is about a million a year.

Mr. Linden. I am going to trust you.

Representative Trone. What would happen if we took that number to 5 million immigrants and we did that every year? Maybe that would reduce pressure on the border if we processed those folks at their country of origin, so that would, like, originally they could go in their own country, consulate, an embassy, et cetera, 1 million to 5 million.

Any thoughts?

Mr. Linden. I would want to defer that question to true immigration experts. I do not consider myself that.

What I will say is that, look, when we want to think about reducing our fiscal risk we need to expand the economy. We need to invest in things that grow the economy. We know that having more workers, more businesses, higher wages—

Representative Trone. So you are saying the best way to do that, the best single way to do that would be more immigration, legal immigration?

Mr. Linden. I wouldn't want to say that that is—

Representative Trone. We are not going to move the birth rate. The birth rate is not moving. You can't get that done.

Mr. Linden. I think the—

Representative Trone. What else you got? I got nothing else.

Mr. Linden. I mean, you could invest in early childhood education, too. But those things aren't—we shouldn't pit those things against each other. We can do both of those things.

Representative Trone. Okay. Thank you.

Baseline tax cuts, loopholes, corporations, wealthy, ultra wealthy, definitely damaging our Nation's fiscal health, devastating families.

A public school teacher might pay a higher tax rate than someone that makes a significant amount of money. That is wrong.

Dr. Clausing. could you talk about quickly Bush tax cuts, the Trump tax scam, and their extensions, how their extensions have impacted the economy?

Dr. Clausing. Yes, absolutely.

We haven't seen either of those lead to a big boost in growth or really any discernible booth in growth or investment. And certainly it has reduced corporate tax revenues in the case of the Trump tax cuts and revenues writ large in both instances. So there is no evidence that that has really been a wise investment of fiscal dollars.

And just on the immigration front, too, I will agree with you that I think this is an incredibly important thing to do and that if you look at the share of new businesses and Fortune 500 companies that are founded by immigrants, you are going to get not just labor force participation, but you are going to get entrepreneurship, innovation, and growth.

Representative Trone. Forty percent founded by—

Dr. Clausing. Yeah.

Representative Trone [continuing]. Immigrants or the next generation. Apple, Google, eBay.

Dr. Clausing. Yeah.

Representative Trone. The list never ends. Immigrants create tens of millions of jobs.

Thank you. I yield back.

Vice Chairman Schweikert. Thank you.

Doctor.

Representative Ferguson. Thank you, Mr. Chairman.

I thank each of you for being here.

I am going to start with a very simple question.

How many of you sitting at this table have opened a small business and operated it for more than a decade?

I got you down there, Don.

How many of you have worked back in rural districts in a small business?

Dr. Clausing. I have worked in one, but I haven't founded one.

Representative Ferguson. You haven't founded one. So all right.

So the reason I am asking that question is we are talking about some really big stuff here. And there is a lot of room for debate on that. But I am going to go back to what works and what is not working in our small business community right now.

Inflationary pressures are incredible. Regulatory burdens and how they are enforced in a very prescriptive manner are crushing to the small business community.

These are businesses that are innovating. These are businesses that are creating jobs. And this is where the next great idea always comes from, is somebody's small business in a garage.

And what we keep doing with a lot of these policies is making our economy bigger in terms of the participants in the economy versus making it work for smaller businesses, and particularly those in rural areas.

So I want to really emphasize how important it is right now that we form this debt commission and where we work in a bipartisan

manner to really get to a really good set of facts that we can then begin to make really good decisions on.

We argue all the time about this policy is better, that policy is better. I am going to give you one example.

How many of you think that we should be making decisions on the CBO score? The Congressional Budget Office scoring of when we do policy, how many of you think that we should actually be using that number as the basis for our decision?

Okay. It is wildly wrong. If you take a CBO score and go out 10 years, it is wrong every time in their 10-year estimate, almost every single time. They use static scoring instead of dynamic scoring.

Let me give you a perfect example. On paper, if you look at the Affordable Care Act, it said that we would have better access, better utilization, better outcomes, and lower costs. Well, let's look at where we are based off of CBO scoring.

The first question is, is America healthier now than it was a decade ago? By every metric, the answer is no.

Are costs up or down? Costs are up.

We may have better access, but do we have better utilization of the system? The answer is no.

If you look at the CBO scoring as it relates to the Tax Cuts and Jobs Act, we had greater than expected revenues coming in from that.

Does anybody argue with that?

Mr. Linden. I think that is not right.

Representative Ferguson. You don't think it is right.

Mr. Linden. No, it is not.

Representative Ferguson. So we have record revenues coming in.

Mr. Linden. No.

Representative Ferguson. Okay.

Mr. Linden. Last year's revenues were 16.5 percent of GDP. It is worth noting, yes, of course, in the year before that, there was a record year, but that was, as my colleague noted, kind of an aberration, 16.5 percent of GDP was the revenue. That is one of the lowest in recent history.

In 2000, before the Bush tax cuts and the Trump tax cuts, it was 20 percent.

Representative Ferguson. How do you factor in inflation into the GDP? Does that skew it at all?

Mr. Linden. No, it doesn't, because it is the nominal amount of revenue raised divided by the nominal GDP. It is 16.5 percent.

Representative Ferguson. All right.

Dr. Faulkender, do you think we should be doing things from a business standpoint that encourage investment here domestically, that encourage research and development here domestically? And do you think we should make every effort to transfer wealth from around the world to the U.S.?

Dr. Faulkender. I think we should be creating a business environment that is competitive globally. And so this where I am going to just greatly disagree with some of the other panelists, because if you look at the pre-TCJA world, if you operated a business here in the United States, you contemporaneously paid a 35 percent cor-

porate income tax rate. In TCJA, we brought that down to 21 percent.

If you operate a multinational, you were able to essentially, especially if you are a significant intellectual property firm, you are able to move the royalties from intellectual property over to a tax haven country and essentially evade corporate income tax—avoid corporate income tax on it.

And so by implementing GILTI, we took the tax rate on foreign IP profits from essentially zero up to 11 percent.

So it seems to me that, prior to TCJA, it was 35 for a small company located here in the United States, or a domestic company doing something here, versus essentially zero. Instead of 35 versus zero, it went to 21 versus 11. That encouraged domestic activity, not discourage.

Representative Ferguson. Mr. Chairman, may I make one—I know my time is expired. May I make one more—ask one more question?

We are in this battle right now. If you are running a business, particularly a small business, there is limited revenue stream. You can do elastic pricing models, you can raise prices to a certain point, but then consumers cannot afford that.

You have got to create headroom in there for a business to operate, to be creative, to take risks, to make investments.

Would anybody on this panel, if the answer is raising taxes, would you simultaneously be willing to greatly reduce the regulatory burden, not necessarily the goals of what you want the regulation to be but the prescriptive nature in which those regulations are applied to multinationals, as well as small businesses?

Dr. Clausing. I think there is room for streamlining some regulations. But I wouldn't take them to zero. I think they serve a very useful purpose in some. But there is room to streamline, yeah.

Representative Ferguson. Thank you. Thank you for your indulgence, Mr. Chairman.

I yield back.

Vice Chairman Schweikert. Well, that was interesting.

Do I have anyone with a particular passion for another question before I do?

Representative Trone. Thanks for the warning.

Vice Chairman Schweikert. Mr. Beyer, something quick.

Representative Beyer. Just a quick thing, to pull on Dr. Ferguson.

Yes, if we could get the 16.5 percent back up to the 20 that it was back 20 years ago when George W. Bush was President. We have to be open to spending cuts and to regulatory reform, absolutely.

Vice Chairman Schweikert. I really wish we would use the language “smart regulation.” The reality is the world of technology we live in today, the way we do much of our regulation is absurd. It is a 1938 design model when you could crowdsource much of what we do.

But, then again, no one has ever watched the YouTube video I did on—I did this great cartoon on how to use technology.

I do want to—the prerogative of getting to sit in the bigger chair, I have a handful of things I just want to touch on.

Mr. Linden, I want you to provide the committee the paper that says debt levels do not affect long-term interest rates, because I have the Peterson Foundation article that says just the opposite in their study.

And I am going to submit that to the record.

[This article can be found at: www.pgpf.org/blog/2022/12/the-rising-national-debt-drives-up-interest-rates]

Vice Chairman Schweikert. I think it is only fair to let you submit your article or your dataset that contradicts the Peterson Foundation's.

Mr. Linden. Yeah, I appreciate that, Vice Chairman.

And just to be very clear, my point is simply that if you look at the observed relationship, if you look at a graph of interest rates paid on 10-year treasuries—

Vice Chairman Schweikert. Because you have to look at liquidity provided by the Fed and then the rolling up the balance sheet. So from a monetarist standpoint, you got some real noise in the data.

Mr. Linden. The data is noisy. But if you look for the past 40 years, if you had told anybody in 1985, when the interest rates were, what, four times what they are today, that the debt was going to go from 30 percent of GDP to 90 percent of GDP—

Vice Chairman Schweikert. No, no, I—

Mr. Linden. Would interest rates go up or down?

Vice Chairman Schweikert. But what I am just simply asking for is provide me the paper. I would love to read it.

For anyone on the panel, is it rational—how many other countries, particularly in the industrialized world, OECD, do not actually give a score for internal borrowing?

If someone were to grab their phone right now and look up OECD's calculation for U.S. debt to GDP, they have us at 144 percent. Do we intend not to pay back the money? Of course we intend to pay back the money.

But we have actually had a couple months, I believe, where we actually borrowed money to be able to make the payments on our borrowed money.

And the fact of the matter is we pay interest to the funds, as is only appropriate, but it—I just—and this is—this goes back actually to my finance classes back in the Dark Ages. We had this debate. Is it appropriate how the United States says, oh, it is only publicly held, yet you have several trillion over here that you are paying interest on, that you do owe, and you at this current rate are going to have to either tax or borrow to actually pay back those trust funds?

I mean, give me an opinion. Do we play actually a shell game with ourselves?

Dr. Faulkender. It, to me, depends on the question that you are asking. So if you are asking where market interest rates are going to find their equilibrium, then it is publicly held debt that is relevant.

But if you want to understand what are the long-term obligations, as again somebody who oversaw the Trustees process for Social Security and Medicare, we very much want to make sure that the revenue stream that comes from the trust fund's assets are in-

corporated into the expectations of being able to finance Social Security and Medicare.

So depending on the question you are asking, it is going to vary which measure of that you look at.

Vice Chairman Schweikert. Okay. So it's [crosstalk] liability. And, Mr. Linden, you sort of—

Mr. Linden. This is a really great point.

Vice Chairman Schweikert. Almost touched on this—

Mr. Linden. Yeah.

Vice Chairman Schweikert. When you were talking—

Mr. Linden. To be very, very clear, so we are all clear, CBO's long-term projections essentially do that. They assume that all obligations in Social Security and Medicare will be fully paid regardless of the status of the trust fund.

The publicly held debt projections in CBO's projections are an accurate reflection of our obligations, and that is why publicly held debt is the right way to think about it.

It is not that the gross—the intergovernmental debt is not real. It absolutely is. I completely agree with you. Those are real obligations that the government will have to pay. But it is fully captured in the CBO projections of publicly held debt.

Vice Chairman Schweikert. Yeah, but in realizing that every month we have been functionally, it is an effect of our current borrow, because we—I don't think we have, other than employee—government employees—really any major trust funds that are actually growing. All of them are bleeding. And so now each are a negative draw.

And I don't think there is a complete understanding here that we are going to bleed out the Social Security trust fund over the next 8, 9 years.

Mr. Linden. So one way to think about this, Vice Chairman, is if you snapped your fingers today and said instead of financing Social Security through a trust fund we were just going to finance everything through the general fund—I am not saying we should do that or shouldn't do that but just as an exercise to think about this—you said no more trust fund, we are going to get rid of the intergovernmental debt, but we are not going change a single benefit, and we are not going change a single tax policy, would that change the projections, the budget projections at all?

Vice Chairman Schweikert. No, no, it won't, it would stay exactly the same.

Mr. Linden. It is exactly the same.

Vice Chairman Schweikert. But it stays exactly the same because those trust funds are basically gone.

Mr. Linden. Right, because we already assumed that we will—those projections assume that we will pay those obligations.

So that is why it is very important to—I don't focus on the intergovernmental debt for economic reasons because the obligations are fully captured in the debt projections.

Vice Chairman Schweikert. Okay.

Mr. Beyer.

Representative Beyer. When you are done.

Vice Chairman Schweikert. No, no, no, do this. I actually like the conversation model. It drives the poor witnesses insane, but it makes me happy.

Representative Beyer. Well, as long as I—I just want to—I read a number of interesting articles over the weekend about how we have gone from a global savings glut to a global savings drought, that it is drying up almost everywhere.

I would be really interested—I don't know who to ask the question to—but what you think that is going end up doing to interest rates.

Vice Chairman Schweikert. That is actually a really good question.

Dr. Faulkender. So there has been an interesting hypothesis that one of the things the pandemic did is it changed people's willingness to delay consumption.

So if you think about the savings rate—sorry to get really finance professor nerdy on you—savings is essentially the compensation for deferring consumption. And so to the extent that people equate consuming now versus consuming later, that is going to drive your interest rate and equilibrium.

Now, if what the pandemic did is it made people think more about today because tomorrow may not be here, not so much because of death but because you may all of a sudden be locked down for 2 years, we are seeing this much greater desire to—there seems to be less sensitivity to things like spending on vacations. People are willing to do it because you never know when you are going to get locked down.

That means that there is going to be a savings reduction or you are going to have a higher interest rate in order to induce the same amount of savings to finance the outstanding debt.

And so that is the hypothesized relationship as to why it may—we may see that this reduction in savings, to the extent that it is explained by this change in behavior, could lead to a higher equilibrium interest rate in order to compensate people for the savings that necessarily funds debt.

Did that make sense?

Representative Beyer. Yeah, and not limited to the United States.

Dr. Faulkender. Not at all. That change in preferences is probably global because the whole world experienced that kind of outcome, but it is more acute in the United States because we already had low savings rates to begin with.

Mrs. Boccia. I would add a further point, and that is that, as the Vice Chair mentioned earlier, this is also a demographic reality, because one thing that also happened during the pandemic is that more older individuals that could still work decided to retire early. And so you have a large population moving into the consumption phase of their life, of their later years, rather than continuing to produce, invest, and save.

So we must not lose sight of the fact that this is also—the pandemic pulled forward the effects of the aging society on our macro economy and this is reflected in lower savings.

And what that will result in is that there will be less capital available for investment. So we should be extra careful when we

think about raising taxes on capital that will affect investment because we no longer have the benefit of the savings glut we had previously which offset some of the pressures from higher government borrowing on interest rates.

We benefited from this for a very long time, but that period is likely over now.

Vice Chairman Schweikert. All right. My last comments. And I really appreciate you being here. I appreciate members that have shown up.

I am disappointed in all of us because we did what we normally do. “You guys cut taxes.” “You guys spent too much money.”

And one of the these days there will be a discussion like this where we are not going to mention what happened yesterday. We are going to talk about tomorrow and the day after that and the day after that, where we are demographically, where we are technology adoption, where we are in potential immigration models.

And that is actually why I—one of the things I truly appreciate you, you are one of my few voices out there that has been saying the debt and deficit commission is an opportunity for us to at least have some commonality where we so bathed in our partisan rage often—look, let’s be honest.

There was a number of things said that—some of you have Ph.D.s—that I am here looking at the math facts and I have another Ph.D. saying just the opposite.

I don’t know how we deal with the reality. We have an issue. Our burn rate, our borrowing rate, and even the President’s budget yesterday—think about what was in the President’s budget yesterday.

Last July, the borrow—the debt was going to be, what, 1.4, 1.5, maybe 1.6? And yesterday they admitted it is going to now be 2.1. But if you actually do the tracking on the daily debt right off the Treasury, it is 2.8.

How in several months you have that types of variance, when variance—when CBO, our brothers and sisters across the street, come in and they miss the number by a trillion dollars. Is that because of something in the tax policy? Is it something demographically? Is it parts of the Inflation Reduction Act? There is something going on.

And it is my fixation, is how do we ever sit with Democrats and Republicans, like cats and dogs cuddling, and have a common understanding of saying here is where we are demographically, here is where we are health-wise, and start part of the intellectual part of the argument?

One of the things I am so proud, at least the Joint Economic Republicans, what was it, last May, they were willing to write a chapter on obesity. And I thought, being the person that authorized it and asked them to spend months looking at the numbers, I thought I was going to get my head kicked in for talking about something we are not allowed to talk about.

And it turns out I had Democrats saying that is neat, because it was, what, 5-some trillion dollars. And we didn’t even really have the ability to ultimately work out all the secondary and third-degree effects of society, family formation, other things.

There are some things here that would be moral, some fascinating data of just health being the most powerful—we always thought it was education. Maybe health is the most powerful thing in income inequality for urban, my Tribal, rural poor.

How many of us have ever sat at a hearing and had anyone actually go off-script and say we often are fighting over the wrong stuff?

So, look, my respect, because of my friendship with Mr. Beyer, you had one more thing you wanted to share. And then I will do the script and I will ask everyone to give us our documents over the next couple weeks and then we will go home.

Representative Beyer. Well, I think, Mr. Chairman, as long as you are nerding out, that I would jump in.

First of all, I think it is discouraging on the fiscal commission right now that, at least according to the political rags, it is Grover Norquist and Newt Gingrich that are opposing it.

Vice Chairman Schweikert. It breaks my heart.

Representative Beyer. Yeah, which is really—I still think one of the biggest mistakes we made was not adopting Simpson-Bowles. I mean, here we are all these years later buried in it.

But looking forward, not looking back at TCJA or Simpson-Bowles or anything else, one of the things in the President's budget was getting rid of the step-up in basis. And, obviously, there is one reason for doing that, which is it would generate a lot more money. The second reason is it is a huge part of why our wealth inequality is the largest it has been in a hundred years.

But I would be fascinated from the economist perspective about one of the things that we know that it does is it locks up an awful lot of assets. We can't sell that real estate because we are going to pass it on to our children. And the basis was a million, and it is going to be \$10 million. And we pass it on to the children. That is \$9 million that never gets taxed, ever, ever, ever.

It would be interesting to know what you think the debt churn rate in the economy and how much new—not just taxes—but how much new economic activity would be created by getting rid of the step-up in basis.

Dr. Clausing. I think that would be a very important reform, both for fairness reasons, because if you think about all these people getting locked into their assets and then passing on intergenerational wealth when they could have used that money to reinvest in the economy, I think there are enormous benefits there.

And I do agree that we should have more bipartisan conversations. And I appreciate Vice Chairman Schweikert's plea for that.

I think JCT and the CBO are national treasures that try to bring nonpartisan analysis to things. And, of course, they get some scores wrong at times and, of course, forecasting is difficult, and they should ceaselessly try to do that better.

But I do think it behooves us to at least have some factual organizations that we are all looking at and we are, like, okay, this is what the nonpartisan group is saying about the truth of what revenue came in. And there we will be fluctuations. But, I think that is—it is a very important thing to build on.

Representative Beyer. We also think that the Joint Economic Committee is a national treasure.

Dr. Clausing. Yes.

Vice Chairman Schweikert. And, look, one of the reasons that I am doing this is because we almost never have this discussion. And I would prefer us doing roundtables over sitting, with the barriers here.

To Mr. Beyer's step-up in basis, I have an economic paper somewhere in one of my binders—I have a bad habit of being a pack rat—that was talking about one of the reasons you might have less churn in the economy, even though basis has the adjustments and the 1031s and some of the other things in there, is because so much of your growth in your basis is actually inflation.

So do you sell an asset and pay taxes on something that your re-investment is also now at a new higher basis, because how much is true appreciation and how much is just inflation? And so you almost need an inflation shock absorber as somewhat part of the math so you get that economic velocity.

I mean, is it wrong to actually think about saying, okay, if he wants to affect basis, we should at least have an inflation calculator in there?

Dr. Clausing. Inflation is definitely part of the situation.

But one thing to bear in mind is that investors also benefit from deferral. When you earn income year after year, somebody takes out the money every single time you earn it. Whereas if you have something invested, in that whole time that it is growing free of tax it is going to grow to a much larger number than it would otherwise. And that deferral advantage is much larger than the inflation disadvantage. You are exactly right that the inflation—

Vice Chairman Schweikert. The need to adjust it.

Being someone who actually managed some resources, what we would often do is just borrow off of it.

Dr. Clausing. Yeah, I mean, you can borrow against it.

Vice Chairman Schweikert. Dr. Faulkender.

Dr. Faulkender. Yeah. So to the Congressman's earlier question, I have never really particularly understood why we—I think the basis step-up existed because if you go back decades, it was very difficult for heirs to figure out what was the original basis of the asset when my forebears originally purchased it.

If you look at the electrification of financial recordkeeping, I think that that is a much less salient argument today. And to be honest, I would much rather see the sale of the asset be the taxable event than the death of the owner be the taxable event.

And so if you were to ask me, I would prefer a basis step-up over an estate tax. I think that is a much more economically efficient way to go after accumulated capital gains.

If we are really going after stuff right now, I would also say that I don't think that people should be able to borrow—and I am speaking entirely for myself now.

I thought that when Elon Musk purchased Twitter, the idea that he could borrow against his Twitter stock and not pay capital gains taxes on that, rather than liquidate the Twitter holdings in order to come up with the money and then I think count on a basis step-up at the end of his estate in order to essentially permanently avoid that run-up, I think that that is a problem in the Tax Code that we should be able to find bipartisan consensus on fixing.

Mr. Linden. Bipartisan consensus, my former colleague at OMB, Zach Liscow, has a proposal to tax the borrowing against unrealized gains for exactly that reason. So there is bipartisan. That would raise a hundred billion dollars over the next—

Vice Chairman Schweikert. Okay. My only point, and then I am going to gavel us down so we can go back and do something useful.

For staff who is watching this, think about it. In the last 6 minutes you had actually more intellectually robust conversation than we did in the previous hour. Help us figure out a way to do more of this.

All right. And with that, I would like to thank everyone for being here.

I am going—let's make it 7 days to get the articles in.

And with that, we are adjourned.

[Whereupon, at 4:14 p.m., the committee was adjourned.]

SUBMISSIONS FOR THE RECORD

**Joint Economic Committee
JEC Chairman Martin Heinrich
Opening Remarks for Hearing “The Fiscal Situation in the United States”
March 12, 2024**

Thank you, Vice Chairman Schweikert. And thank you and your staff for putting together this hearing today.

The financial health of our nation is critical to our stability and growth.

In the most basic sense, our financial health is what allows us to invest in the people and places of these United States.

Last week, I was proud to vote for the long-overdue package of six appropriations bills that included major investments in our families and communities.

Among many important priorities, I fought to secure full funding for Special Supplemental Nutrition Program for Women, Infants, and Children – better known as WIC—which serves nearly 7 million women and children nationwide.

As I worked to make sure that families could put food on the table, and that our housing programs had enough funding to keep roofs over their heads, there were others who opposed these investments, pointing to the deficit.

It's true that our deficits and debt are expected to grow in the coming years.

And we do need to take that very seriously.

But that starts with being clear about where these deficits came from, and what will actually work to help close them.

Much like any family's budget, when you look at our federal budget, it's a comparison of what's coming in against what's going out – revenue and spending.

It's clear that with our federal budget: we have a revenue problem.

Republican tax cuts for the wealthiest of the wealthy and biggest corporations have driven our revenue down and our debt up.

To restore financial stability and rein in our debt, we need tax reforms.

We need to close tax loopholes for the ultra-wealthy and maintain funding for the Internal Revenue Service, so they can go after wealthy tax cheats who, for too long, have gotten away without paying their fair share.

That includes imposing a minimum tax on billionaires.

Because no billionaire should be paying less in taxes than a teacher, sanitation worker, or grocery clerk.

We need to raise the corporate tax so that big companies pay their fair share – a move that would, alone, raise \$1.3 trillion over the next decade.

And we need to adopt the global minimum tax to make sure that multinational companies can't get out of paying U.S. taxes.

At the same time, we should limit costly tax expenditures that overwhelmingly benefit the wealthy – like lower tax rates for capital gains and stock dividends, or the carried interest loophole that allows hedge fund executives to pay less in taxes.

These policies reward wealth over work while pushing up our deficits.

Congress can also shore up Social Security and Medicare without cutting benefits.

For one, Congress should make sure that people earning over \$400,000 pay more into the Social Security trust fund.

Asking the highest earners to pay a small portion of every dollar earned would go a long way towards improving the health of the program.

Another proposal by President Biden would raise the Medicare payroll tax by 1.2 percentage points solely on taxpayers making over \$400,000.

This and other small tax changes would make Medicare solvent for the foreseeable future.

But perhaps our most important tool for reducing deficits is continued economic growth.

The Biden administration has led some of the strongest economic growth we've seen.

This administration is working to build an economy from the middle out and the bottom up.

That has meant record-setting job growth, with nearly 15 million jobs created since President Biden took office.

Unemployment has been below 4% for two full years – the longest stretch in half a century.

And we've seen unprecedented investments in infrastructure and a domestic manufacturing renaissance.

This strategy works because a booming economy boosts tax revenues without requiring higher tax rates.

To achieve that, we need to keep investing in what helps our economy grow – including our children.

Investing in programs for children like WIC or SNAP delivers a brighter future for those kids. And it also creates substantial long-term benefits for our economy.

Supports like early childhood education, health care, and nutrition programs lay the foundation for healthier and more productive adults.

They are then less likely to need social support services and more likely to participate in the labor force and earn higher incomes.

A permanent expansion of the Child Tax Credit could go a long way towards that goal.

By empowering families, we lift kids out of poverty, stimulate the economy, and increase tax revenues.

Investing in our economy means investing in all of America.

I'm pleased to join my colleagues to further explore these issues in today's hearing.

[End]

Vice Chairman Schweikert and Members of the Committee,

Thank you for the opportunity to testify today on the unsustainable fiscal situation facing the United States. I have been a finance professor for more than twenty years, at the [University of Maryland](#) since 2008 where last month I [hosted CBO Director Phill Swagel](#) to speak about the fiscal challenges our nation faces. I had the privilege of serving as the Assistant Secretary for Economic Policy at the Department of Treasury from 2019 to 2021. In that role, I worked on the economic projections included with the administration's budget submission and oversaw the Trustees processes on behalf of Secretary Mnuchin. During the pandemic, I was part of the Secretary's team who negotiated the CARES Act and was the senior Treasury official responsible for implementing the Paycheck Protection Program. I am also the Chief Economist at the [America First Policy Institute](#), working to identify and inform the American people on how we can address the economic challenges confronting our nation.

During my first week at Treasury, the Secretary asked me to oversee finalizing the [Financial Report of the U.S. Government for 2018](#). According to the projections in that report, by the end of the 75-year forecast period, U.S. government debt would represent 530 percent of Gross Domestic Product, compared with just 78 percent in 2018. Even prior to the spending that was necessary at the depths of the pandemic, the U.S. fiscal situation was not sustainable. Despite historically low interest rates, rising deficits were projected to cause outstanding debt to escalate. For that reason, we modified the Executive Summary of the 2018 report to no longer have the second section called "Where We Are Headed" (as it was called in [the 2017 report](#)) and we instead renamed the second section "An Unsustainable Fiscal Path". We also added language in that section to read, "The projections in this Financial Report show that current policy is not sustainable. These projections assume that current policy will continue indefinitely, and are, therefore, neither forecasts nor predictions. Nevertheless, policy changes must be enacted so that financial outcomes will be different than those projected."

In 2020, the COVID-19 pandemic hit and Congress on a bipartisan basis worked closely with the Trump Administration to fund the CARES Act and mitigate the economic harm that might have otherwise resulted. All that spending was deficit financed, making the unsustainable nature of the fiscal situation that we outlined in the 2018 report even more acute. Since CARES, trillions more in deficit spending has been enacted. [Debt held by the public](#) has risen from \$15.75 trillion at the end of fiscal year 2018 to \$26.24 trillion at the end of fiscal year 2023. The [most recent version of the report](#) (issued last month) has retained our title for the second section of the Executive Summary - "An Unsustainable Fiscal Path" - and still forecasts a debt to GDP ratio at the end of the 75-year forecast period of 531 percent. The rating agency [Fitch downgraded the US government's bond rating](#) from AAA to AA+ last year and [Moody's outlook for the US government's credit rating](#) changed from stable to negative.

Last month, the Congressional Budget Office released its latest ten-year [Budget and Economic Outlook](#), reinforcing the concerns of the Treasury report. Each of the next ten years, budget deficits are forecast to exceed \$1.5 trillion, more than five percent of annual national output. As CBO says, "Since the Great Depression, deficits have exceeded that level only during and shortly after World War II, the 2007–2009 financial crisis, and the coronavirus pandemic." It is one thing

to temporarily run a large deficit during a time of national crisis; it is unsustainable for deficits of this scale to be the norm.

Last December, I testified about growing debt service costs to a subcommittee of the House Ways and Means committee. My fellow panelist and fellow Treasury Office of Economic Policy alum [Kent Smetters of the Penn Wharton Budget Model testified](#) that their model “projects that the U.S. Treasury will be unable to rollover its accumulated debt in about 20 years.” If the debt burden becomes so large that market participants know that the only way the government will honor its obligation would be to print money to satisfy it, the higher the interest rate on the debt, the more money the government will print. More money printing means more inflation, essentially devaluing the claim. Hence, there is no interest rate where investors will lend money. THIS CANNOT HAPPEN!! We must get our fiscal house in order.

These concerns may already be manifesting themselves. Recent [long-term bond auctions](#) have shown less demand than normal, particularly from international buyers. The result is that the interest rates at which Treasury was able to borrow at the auctions were significantly higher than secondary market yields would have suggested, raising debt service costs for the American people. The central banks of both Japan and China have been reducing their ownership of US Treasuries. While part of this may be the recent strength of the dollar making dollar denominated securities less attractive, it is also a reflection that investors are growing more concerned about our nation’s long-term fiscal stewardship. Additionally, the Chinese Communist Party (CCP) has been making efforts to reduce the portion of Chinese trade conducted in dollars, which would also decrease the transactional motivation for holding dollar-based assets. A sustained decrease in foreign holdings of U.S. Treasuries would be concerning if it is resulting from a view that the future of our economy is not as strong as it once was.

That does not mean that we must balance the budget. At the current debt-to-GDP ratio of approximately 100%, we can keep that sustainable ratio if the size of our budget deficit is equal to the size of economic growth. If we run a \$700 billion budget deficit but the economy grows by \$700 billion, the higher aggregate government debt divided by the larger size of our economy keeps the ratio at 100%. Note that because we run larger deficits during recessions, our budget deficits must be less than economic growth during expansions to long-term maintain the debt to GDP ratio. The problem is that the CBO forecast does not include a recession yet has deficits significantly exceeding economic growth each of the next ten years, causing the public debt to GDP ratio to rise from “99 percent of GDP at the end of 2024 to 116 percent of GDP—the highest level ever recorded—by the end of 2034.”

Because growth is essential to improving our fiscal situation, growth effects must be accounted for when identifying how to make the budget sustainable. Fiscal solutions that may look attractive under static modeling but that will lead to reductions in economic growth will likely not close the fiscal gap. In fiscal year 2022, [federal receipts were 19% of national output](#), the second highest since World War II. This compares to average receipts of approximately 17% of Gross Domestic Product (GDP) for the last seventy-five years. While one may think that higher tax rates would generate greater tax revenue for the government, the Laffer Curve explains that higher rates deter economic activity, resulting in a higher tax rate paid on less income, potentially

generating less income for the government, not more. Less economic activity and the same or lower revenue to the government will not solve our budget, inflation, or growth challenges. The Tax Cuts and Jobs Act is not the cause of our current fiscal challenges.

The problem is that spending has exploded. Federal spending averaged 20.0% of national output in the fifty-year timeframe of 1968 to 2019 (20.3% in the three years immediately prior to the pandemic). In the last three years, federal spending has been 28.9%, 24.4%, and 22.4% respectively. The deficits of the last three years are among the five highest on record with the other two largest deficit years being the financial crisis and the pandemic. According to CBO, spending for the next ten years will be in the 23% to 24% of GDP range.

The first place massive spending reductions can be realized is from repealing all energy and environmental components of the cynically titled Inflation Reduction Act (IRA). The [IRA unleashes an estimated \\$1.2 trillion dollars](#) in green corporate welfare that, in combination with other Biden administration rules, forces Americans out of their internal combustion engine cars and will result in significantly greater imports of Chinese manufactured [EVs that Americans do not want](#). It disrupts our electricity grid by prioritizing high-cost intermittent sources of energy over low-cost, reliable sources. It provides hundreds of billions of dollars in subsidies to American companies for them to take Chinese carbon emissions out of the atmosphere. [China produces more than twice the carbon emissions as the United States](#) and approves an average of [two new coal-fired power plants per week](#) with no plan to reduce their emissions until 2030, at the earliest. The IRA makes it more expensive to manufacture here in the United States, makes us more reliant on energy and critical minerals from potential adversaries, and worsens our nation's financial position by paying companies to engage in activities that generate no product enhancement, health benefit, or environmental improvement.

The second place government must reduce spending is the unconstitutional student loan forgiveness efforts of the Biden administration. While the federal government takeover of student loans was originally sold as a money-maker that would pay for Obamacare, in fact it has become a way for the left to subsidize progressive propaganda. As a finance professor, I am the first to highlight that an educated workforce is necessary to meet the workforce needs of our nation and remain technologically competitive globally. Students who obtain degrees in career relevant disciplines see significant improvements in their income who can afford to pay for that education, not by transferring that cost to the American people. If colleges and universities are offering degrees that push radical causes instead of preparing students for higher paying jobs and graduating students who can make their student loan payments, those institutions should take losses rather than transferring them to people who did not obtain higher education. [Penn Wharton has estimated](#) that if fully implemented, student loan forgiveness could have costs that reach \$1 trillion. Such spending distorts tuition costs, encourages worthless degrees, and contributes to inflation.

What is striking about both examples is the amount of spending (including elements that Congress rejected) being conducted by the administration without congressional approval. As the ten-year CBO forecast notes, this Congress worked to reduce long-term deficits, the biggest reduction coming from the Fiscal Responsibility Act. Your efforts brought deficit projections

down by \$2.6 trillion over the next ten years. However, actions that CBO calls “technical changes” increased deficits by \$1.1 trillion, largely stemming from unilateral actions taken by the administration. The largest was \$428 billion arising from how the administration implemented energy related tax provisions. Congress must address unappropriated spending by requiring rules that have significant budgetary implications to be approved by Congress, by adopting a regulatory budget that the administration must comply with, and by furthering its congressional oversight to expose these unauthorized account transfers. Current practices by the Executive Branch are usurping the Congress’ constitutional powers of the purse. Elements within the proposed REINS Act is one means by which Congress might reassert its fiscal authority.

Other areas where significant deficit reductions could be realized would come from reimposing work requirements on claims for federal assistance by working age Americans, reducing the size of the bloated federal bureaucracy, reducing the vastly underutilized office space footprint, increasing royalties from leasing federal lands for energy and mining, and recouping the massive fraud in programs like pandemic era unemployment insurance and federal health programs.

The fastest growing expense of the federal government is debt service costs. In [fiscal year 2020](#), the federal government spent \$523 billion on interest on the national debt. Just three years later in [fiscal year 2023](#), the federal government spent \$879 billion, an increase of \$356 billion. As discussed earlier, the growth in the debt and its service costs have the potential to create a bond market failure that would crush our economy and rupture our society. To solve this problem, we must greatly reduce spending and deregulate our economy to bring down inflation, thus bringing down the interest rate that must be paid on our outstanding debt.

Regarding the foreign holdings of our debt, some have expressed concern that foreign purchases of US securities are problematic for Americans. In my view, the desire of foreign individuals and governments to hold Treasury debt reveals that investment in the United States offers financial safety at a competitive rate of return. This is a beneficial outcome and reflects ongoing economic strength. I would differentiate CCP holdings in technology firms who provide inputs into sensitive national security tools or farmland near military facilities from holdings in government debt. We should welcome lower borrowing costs on US Treasury borrowings arising from foreign countries wanting to invest in our nation’s future, provided that those investments do not sacrifice our defensive capabilities. We net benefit from being the dominant reserve currency for the world. In addition to lowering borrowing costs of the both the US government and American households, being the world’s reserve currency facilitates implementation of our national security strategy as we are in a superior position to monitor money flows around the world that may be funding arms dealing, drug trafficking, and other illicit activities. Further, it facilitates using sanctions as an economic tool to punish bad actors, enhancing potential military and diplomatic actions.

The impact on the American people of higher debt is not limited to merely the potential for an economic depression or higher future taxes to cover these growing expenditures. Growing interest costs will likely crowd out funding for other government services. Additionally, mortgage rates paid by American home buyers directly result from long-term borrowing rates for the U.S. government. Since January 2021, [30-year fixed mortgage rates](#) have risen from an

average of 2.77% to 6.88%. This translates to a monthly principal and interest payment on a \$250,000 mortgage rising from \$1023 per month to \$1643. The best way for us to improve access to home ownership for young people is to get interest rates back down, not to provide subsidies that cause housing unaffordability to worsen. Rather than government engaging in more spending, it must deploy fiscal and regulatory policies in ways that result in lower inflation and therefore lower interest rates. Congress and the President also bear responsibility, not just the Federal Reserve, in taking accountability for the inflation that has crushed household budgets over the last three years.

Thank you for including me in today's important discussion and I look forward to answering your questions.



Statement

of

Romina Boccia

**Director of Budget and Entitlement Policy
Cato Institute**

before the

**Joint Economic Committee
United States Congress**

March 12, 2024

RE: The Fiscal Situation of the United States

Chairman Heinrich, Vice Chair Schweikert, and Members of the Committee:

Thank you for inviting me to testify today. My name is Romina Boccia. I am the Director of Budget and Entitlement Policy at the Cato Institute. The views I express in this testimony are my own and should not be construed as representing any official position of the Cato Institute.

I will make three main points:

First, higher spending, and particularly spending that's growing faster than the economy, is driving the growth in the public debt.

Second, the growth in Medicare and Social Security spending is the primary driver of the growth in public debt.

Third, entitlement reform must be coupled with pro-growth policies to secure America's fiscal future and economic prosperity.

Growing spending is at the root of the debt problem.

Our nation's debt is growing at an alarming rate, and this growth is primarily driven by increased government spending. According to the February Congressional Budget Office (CBO) outlook, Social Security and federal health care programs are the largest programmatic causes of spending-based deficit growth, with publicly held debt projected to reach an unprecedented 172 percent of GDP by 2054 (see figure 1 below).¹

Between 2024 and 2034, Social Security spending will grow from \$1.5 trillion to \$2.5 trillion, annually. Over the same time frame, major health care programs, including Medicare and Medicaid, will grow from \$1.6 trillion to \$2.8 trillion, annually. Combined, Social Security and major federal health care programs represent 63 percent of spending growth over the next decade.

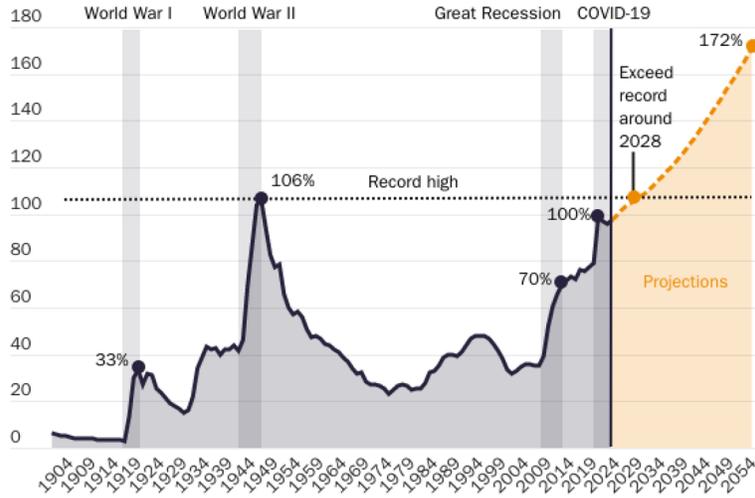
Interest costs are the other major driver of higher spending over the next decade. From 2024 to 2034, interest costs are projected to grow from \$870 billion to \$1.6 trillion, or by 87 percent.

While CBO projects outlays growing from \$6.5 trillion in 2024 to \$10 trillion in 2034, a 54 percent increase, the nonpartisan agency projects tax revenues will also increase from \$4.9 trillion in 2024 to \$7.5 trillion in 2034, a 51 percent increase. This is a highly unrealistic projection given that neither political party has demonstrated an appetite for allowing the 2017 middle class tax cuts to expire, as scheduled under current law. As my Cato colleague, Dr. Adam Michel, has written: "There is broad bipartisan support to extend about three-quarters of the tax cuts."²

¹ Romina Boccia and Dominik Lett, "[The CBO Budget and Economic Outlook: Debt Projected to Grow to Record Highs](#)," Cato at Liberty (blog), Cato Institute, February 8, 2024; Congressional Budget Office, [The Budget and Economic Outlook: 2024 to 2034](#) (Washington: Congressional Budget Office, February 2024).

² Adam Michel, "[It's Not Just Republicans, Democrats Want Trillion-Dollar Tax Cuts Too](#)," Cato at Liberty (blog), Cato Institute, December 5, 2023.

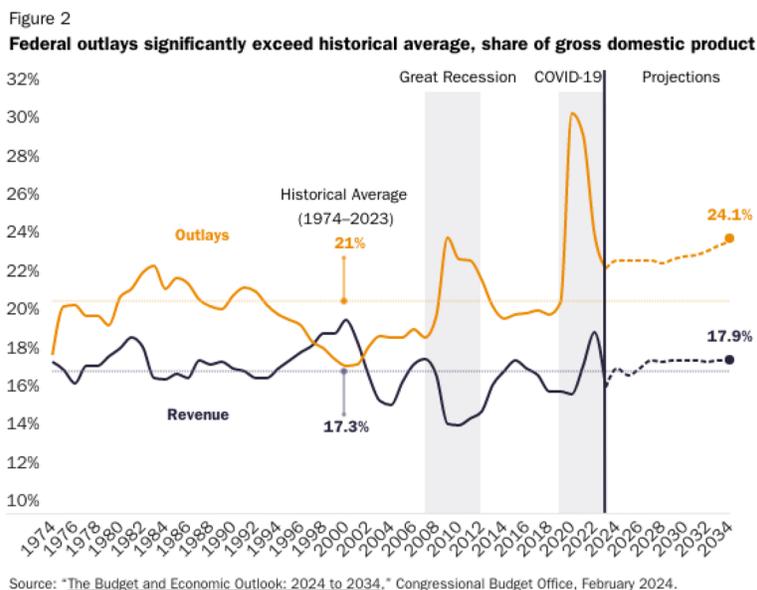
Figure 1
US debt expected to exceed the record high of 106 percent of GDP in 2028
 Federal debt held by the public, percent of GDP



Source: "The Budget and Economic Outlook: 2024 to 2034," Congressional Budget Office, February 2024.
 Note: GDP = gross domestic product.

Instead, spending will continue to outpace revenue, as has been the case during most years in recent US fiscal history. The ongoing gap between spending and revenue becomes more apparent when comparing current CBO projections to historical averages (1974-2023). As shown in Figure 2, projected outlays are significantly higher than the 50-year historical average. Even assuming CBO's revenue projections hold, a highly unlikely proposition, significantly higher taxes will not catch up with rapid spending growth.

If the federal government continues this unsustainable fiscal path, we risk burdening future generations with excessive debt, slower economic growth, higher interest rates, and reduced income levels. There's also the increased risk of a severe US fiscal crisis if investors lose faith in the government's willingness or ability to service its debt in full. There's a limit to a country's fiscal space, determined by the strength of its economy and the robustness of its institutions.



One category of spending that CBO cannot effectively predict is Congress's propensity to temporarily and significantly increase spending to respond to crises. According to our research at the Cato Institute, Congress has designated \$12 trillion in spending for emergencies over the past 30 years.³ That's equivalent to 43 percent of the total publicly held debt. My co-author and I also identified that the portion of spending attributable to emergency responses makes up 12 percent of total budget authority over the past decade.

Major emergencies have a big impact on the budget. The two largest increases in federal debt over the last three decades were directly related to the extraordinary emergency fiscal responses to the Great Recession and COVID-19 pandemic. If history is destiny, the next major crisis and its fiscal response could significantly contribute to—and accelerate—America's fiscal decline. Legislators should keep this in mind as they process the CBO's latest outlook, prepare budgets, and consider new policy proposals. Our nation is on an unsustainable and highly risky fiscal path, before considering any unexpected emergencies that will likely trigger a major fiscal response.

Federal spending sprees in response to emergencies such as World War II, the Great Recession, and the COVID-19 pandemic were possible because bond markets were willing to take on greater federal debt. If bond markets were unwilling to finance future spending sprees, high debt

³ Romina Boccia and Dominik Lett, "Curbing Federal Emergency Spending," Policy Analysis No. 966, Cato Institute, January 9, 2024.

could constrain the United States' capacity to respond to future emergencies. Alternatively, bond market tightening in the face of an emergency could put the Federal Reserve under pressure to monetize US government spending, which could trigger disruptive inflation that would hurt vulnerable populations the most. We saw this play out following the pandemic, when inflation reached a 40-year high following the Federal Reserve's creation of about \$5 trillion in new money to support government spending. Legislators should seriously grapple with these inevitable tradeoffs and stabilize spending growth to stabilize the debt, while the economy is relatively strong, rather than waiting for a fiscal crisis or other emergency to force their hands.

The automatic growth of Medicare and Social Security spending is the biggest issue Congress must solve.

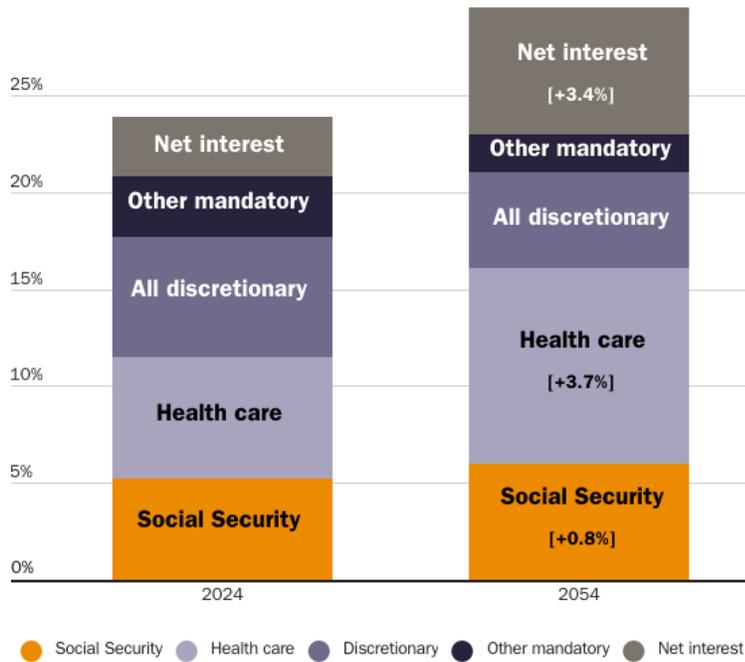
As I covered above, major health care programs and Social Security are the biggest spending growth drivers over the next decade, alongside increasing debt service costs. Over the longer-term 30-year spending window, Social Security, health care programs, and interest costs continue to be the biggest spending issues, threatening to drive federal spending to 30 percent of GDP.

These three budget categories, major health care programs, Social Security, and interest on the debt, will grow by 8 percentage points of GDP from 2024 to 2054. Every other major budget category declines or stabilizes as a percentage of the economy over the same period, according to current policy projections by CBO. Figure 3 displays major budget categories as a share of GDP.

The key drivers of rising US deficits and debt are apparent as Medicare, other health care programs, and Social Security expand as a percentage of GDP, alongside the rising cost of servicing the debt. Congress cannot effectively address the short-term nor long-term growth in the federal debt, without addressing old age benefit programs and the growth in health care spending. Meanwhile, the only effective way to address the cost of interest on the debt is to stabilize the debt and reduce annual deficits, which contribute to rising interest costs.

Old-age benefit programs, such as Social Security and Medicare, are on an unsustainable path due to demographic changes and rising healthcare costs. But most importantly, these programs are on an automatic growth trajectory due to past legislation that failed to curb their spending growth and neglected to bring these programs in line with economic growth and reasonable tax revenue projections.

Figure 3
Entitlements and interest costs worsen long-term spending picture, share of GDP
 30%



Source: "The Budget and Economic Outlook: 2024 to 2034," Congressional Budget Office, February 2024.
 Note: GDP = gross domestic product. Health care includes Medicare, Medicaid, Children's Health Insurance Program, Affordable Care Act subsidies, and related programs. Medicare uses gross spending. Brackets display percentage point growth as a share of GDP for relevant categories from 2024 to 2054.

Over the yet longer-term, the Financial Report of the United States Government (also known as the Financial Report) details how U.S. taxpayers face over \$73 trillion in long-term unfunded obligations over the next 75-years.⁴ What's more, this unfunded obligation is entirely driven by only two federal government programs: Medicare and Social Security.

That's correct. Over the next 75 years, Medicare and Social Security funding shortfalls comprise 100 percent of the total unfunded obligation. Medicare and Social Security's funding shortfalls will amount to \$78.3 trillion, which is \$5.1 trillion more than the total unfunded obligation. This

⁴ [Financial Report of the United States Government](#), U.S. Department of the Treasury Bureau of the Fiscal Service, February 2024.

indicates a \$5.1 trillion surplus in the non-entitlement parts of the budget, which offsets the total Medicare and Social Security unfunded obligation.

Without significant reforms, these old-age benefit programs will continue to drive US debt higher and could trigger a severe fiscal crisis within this generation's lifetime. As the baby boomer generation continues to age, the number of beneficiaries drawing benefits from these programs will increase, further exacerbating the funding issue.

Congress should consider benefit reforms to reduce spending and secure the long-term solvency of these programs. Effective reforms include raising eligibility ages to reflect rising life expectancies, more progressive benefit targeting, and reducing benefit cost growth, through encouraging greater reliance on private savings and changing the initial Social Security benefit formula to index earnings to changes in the cost of living rather than wages,⁵ and by leveraging market forces in healthcare to reduce prices while preserving access to quality care.⁶

Entitlement reform must be coupled with pro-growth policies to secure America's fiscal future and economic prosperity.

While it is crucial to get our fiscal house in order, we must also focus on policies that promote economic growth. A strong, growing economy can generate the revenues needed to help reduce the debt. But not all deficit reduction is the same. Short-sighted policies that raise taxes on investment and work can have the opposite effect as intended. As my Cato colleague, Dr. Adam Michel, has written: “[S]tudies consistently show a positive effect of tax cuts on investment and economic growth. When you lower effective tax rates on work and investment, you should expect to get more of each.”⁷ The flipside also holds. When you raise taxes on work and investment, you should expect less of each. If legislators opt for policies to raise revenues which undermine economic growth, legislators will likely fall short of their goal of stabilizing the debt.

A Heritage Foundation report distilling lessons from European austerity measures, of which I am a co-author, details why increasing taxes is less effective in reducing deficits than spending cuts. Furthermore, a tax-first approach can damage the economy. The most successful fiscal adjustments, judged by their impact on deficits and the economy, reformed social programs and reduced the size and compensation of the government workforce.⁸

Andrew Biggs, a senior fellow at the American Enterprise Institute (AEI); Kevin Hassett, formerly a scholar at AEI; and Matthew Jensen, then the founding director of the Open Source Policy Center, drew similar conclusions, writing that:

Spending-based fiscal adjustment accompanied by supply-side reforms—such as liberalization of the markets for labor, goods, and services; readjustments of public-sector

⁵ Romina Boccia, “[Social Security Benefits Are Growing Too Fast](#),” Cato at Liberty (blog), Cato Institute, September 21, 2023.

⁶ Michael Cannon, “[Medicare](#),” Cato Handbook for Policymakers, Cato Institute, 2022.

⁷ Adam Michel, “[Research Shows Taxes Matter for Investment and Growth](#),” Cato at Liberty (blog), Cato Institute, November 9, 2023.

⁸ Derrick Morgan et al., “[Europe's Fiscal Crisis Revealed: In-Depth Analysis of Spending, Austerity, and Growth](#),” Heritage Foundation, October 24, 2013.

size and pay; public pension reform; and other structural changes-tend to be less recessionary or even lead to positive economic growth.⁹

Congress should commit to a credible fiscal stabilization path that controls the growth in the debt as a percentage of GDP. To succeed, Congress should focus on curbing the growth in old-age benefit programs and limiting spending across the federal budget, from discretionary to other mandatory, and by adopting effective limits and offsets for emergency-designations and similar cap-exempt spending. Following excessive spending during the COVID-19 pandemic that contributed to inflation reaching a 40-year high, Congress should shift gears by pursuing deficit reduction that enables economic growth.

Spending-based deficit reduction, especially targeted at social and entitlement programs, is most effective at sustainably reducing deficits and the growth in the debt as a percentage of GDP. While revenues are likely to be part of any politically realistic deficit reduction proposal, legislators should focus on closing special interest loopholes that distort markets by subsidizing certain spending and investments for political preference reasons. Such spending through the tax code undermines broad-based growth and fairness, by creating political winners and losers. Congress should also avoid short-sighted revenue policies that would undermine work and investment. While economic growth won't get us out of the spending-driven debt crisis, an expanding economy will certainly help ease the transition.

There's light at the end of the tunnel.

As bleak as the US fiscal outlook is, there is light at the end of the tunnel. The House Budget Committee recently passed the Fiscal Commission Act, which seeks to stabilize the debt over 15 years, educate the public on the nation's deteriorating fiscal state, and improve the Medicare and Social Security's trust funds' solvency over a 75-year window.¹⁰ This is a positive step toward bringing more attention to the nation's rapidly deteriorating fiscal state and advancing proposals to address it. Still, the current approach has certain shortcomings, such as including only elected officials as voting members on the commission and requiring an affirmative vote before proposals can go into effect.

The most promising approach would be modeled after the successful Base Realignment and Closure (BRAC) process. A BRAC-like fiscal commission would be independent, involve the president, and its recommendations would be expedited in Congress through silent approval. A well-designed fiscal commission, alongside other budget reforms that limit spending and the growth in the debt, could put the United States on a better path that enables this and the next generation to enjoy a freer, more vibrant, and stronger America.

I look forward to answering your questions.

⁹ Andrew Biggs, Kevin Hassett, and Matthew Jensen, "[A Guide for Deficit Reduction in the United States Based on Historical Consolidations That Worked](#)," American Enterprise Institute, December 27, 2010.

¹⁰ Romina Boccia, "[House Budget Committee Advances Fiscal Commission to Address Government Spending and Debt](#)," Cato at Liberty (blog), Cato Institute, January 23, 2024.

Michael Linden
Senior Policy Fellow
Washington Center for Equitable Growth

Testimony before the Joint Economic Committee
Hearing on “The Fiscal Situation of the United States”
March 12, 2024

Introduction

Chair Heinrich, Vice Chair Schweikert, Members of the Committee, thank you so much for extending me the opportunity to testify before you today. My testimony will broadly cover three important aspects of today’s topic.

First, I will discuss how we might assess the economic risks posed by our current fiscal trajectory. Too often in our national discussion of federal fiscal policy, we skip over the critical first step of interrogating just what those risks actually are, how big they might be, and how certain we are of them coming to pass. Given the uncertainty surrounding the risks posed by rising debt, I argue that we should approach our fiscal future from a “risk management” standpoint.

Second, I’ll consider how to use “risk management” to evaluate policies designed to alter our fiscal trajectory. Not all risk reduction is created equal. We want to meaningfully reduce our future risks, without causing undue harm today.

Finally, I will turn to a brief discussion of how federal fiscal policy has changed over the past several decades, and how those changes have affected the fiscal outlook. To the extent that the current trajectory does carry real risks, it is valuable to understand what policies have contributed to exacerbating or mitigating those risks because that can help us identify which areas of the federal budget deserve the most attention.

It’s useful to begin where almost everyone agrees. Debt, as a percent of our economy, cannot rise forever without there eventually being some negative consequences. Many economists reasonably worry that an ever-increasing debt load could result in higher and higher interest rates, crowd out private investment and lead to slower economic growth, and could force us to spend a larger and larger share of our national resources paying off old debt, rather than investing for the future, among other plausible risks.

There is little to suggest that current levels of national debt are causing any of these potential harms, yet there is a real risk that any or all of these harms could come to pass in the future, as debt continues to rise. Reasonable projections, including those from the Congressional Budget Office, forecast a persistent mismatch between revenues and spending, which causes the debt to rise, as a percent of GDP, forever and ever. That is quite obviously a risky debt trajectory.

But how risky?

Surprisingly, that is a question without a clear answer. It is important to approach questions of our fiscal future with a degree of humility. Projections are inherently uncertain, fiscal risks have been overstated in the past, there are aspects of U.S. fiscal and economic policy that make it difficult to compare to other countries' experiences. And, crucially, it turns out that there is remarkably little agreement on the magnitudes of the risks we face.

Take interest rates, for example. For decades, many economists believed and warned that higher debt would necessarily mean higher interest rates. And after all, that relationship should make sense. As a borrower takes on more debt, lenders perceive that borrower to be a riskier bet, and therefore demand a higher interest rate before they are willing to lend more.

But in fact, the observed relationship between publicly held debt and interest rates has been just the opposite. Interest rates on federal debt have actually fallen precipitously over the past four decades, even as debt has risen substantially. Today, of course, interest rates are, indeed, higher than they were two years ago, but they are still roughly equal to the rates of the early 2000s, when debt was roughly 65 percentage points of GDP lower than it is today.

Furthermore, interest rates today are much lower than they were in the 1980's, when the debt was 70 percentage points of GDP lower than it is now. Moreover, most of the recent rise in interest rates occurred during fiscal year 2022, a year in which the debt actually fell slightly as a percent of GDP.

None of that should be taken to mean that interest rates will stay low forever or that the assumed relationship between debt and interest rates is actually the reverse of what economists once believed. But the past 45 years of history should teach us to be humble about our basic assumptions today.

Similarly, a traditional concern is that more government borrowing will “crowd out” private investment, as the federal government absorbs some of the credit that would otherwise have gone to private borrowers. This “crowding out” effect is then supposed to reduce national income over time as the country forgoes productive private investments in favor of less productive uses by the public sector.

As it turns out, the evidence for both the phenomenon itself and the underlying theory is quite mixed, to say the least. Some academic studies have found a significant crowding out effect. Others have found almost none.¹ And some studies have even found that public investments have had a so-called “crowding-in” effect, whereby private investors follow the public sector’s lead and total investment goes up, not down.²

Once again, the lesson from the evidence is not that there are no potential harms from rising debt, but rather that higher debt creates risks. Those risks are of an uncertain magnitude, but that does not make them nonexistent.

Indeed, the most responsible course is to take a “risk management” approach to our long-term fiscal trajectory. Prudent and responsible governance means neither ignoring those risks, nor trying to eliminate them entirely. It means taking appropriate steps to mitigate risks and minimize them, without causing necessary harm now. After all, it would be a poor swap to trade the uncertainty of potential damage of unknown magnitude in the future for the certainty of major damage today.

That’s why it is important to consider both the benefits and the costs associated with any policy intervention designed to reduce fiscal risks. The more certain we are about those risks, the more the benefits will outweigh the costs, and vice versa. Today, as we sit here discussing these issues in this hearing, the risks are quite uncertain. This should make us cautious about taking drastic actions.

But even so, there likely are policies we could pursue over the near term for which the benefits from reducing fiscal risk—however uncertain—nevertheless outweigh the costs. Policies that promote and accelerate shared, broad-based economic growth, for example, are going to both help improve people’s lives and reduce fiscal risks in the future. We know that investments in early childhood education and in scientific research and technology development are going to pay enormous dividends, expanding our

¹ The Congressional Budget Office gives a good rundown of the literature [here](#).

² The White House Council of Economic Advisers provides an overview of the research showing crowd-in effects [here](#).

economy in ways that will benefit all Americans and simultaneously make it far easier to reduce the risk posed by increasing debt.³

Put another way, the best approach to reducing our debt-to-GDP ratio is by expanding GDP. And indeed, it is noteworthy that recent economic growth has produced exactly that result. The CBO's projections of long-term debt, as a percent of GDP, have actually declined in each of the last four years, in part because CBO's estimates of the size of the economy have increased.

The CBO's most recent forecast put debt in 2050 at roughly 20 percentage points of GDP lower than its forecast in January 2020, before the pandemic. In response to the pandemic, the federal government spent more than \$4 trillion, and yet debt projections today are better than they were before the pandemic largely because the CBO now believes the economy will be much bigger than it forecast it would be before the pandemic.⁴

Of course, the converse is also true and worth explicitly mentioning. Policies enacted in the name of fiscal risk reduction that slow or impede shared growth—either by cutting productive investments or by increasing inequality—are not only harmful on their own merits but are also likely to fail to achieve their stated goal.

Indeed, if we are to take a serious approach to fiscal risk management, we should start by understanding which policies have contributed to increasing fiscal risks in the past, and which have contributed to reducing them.

Simply put, the primary (if not sole) reason why current projections have the debt rising in perpetuity instead of falling is because of tax cuts. If not for the series of tax reductions enacted in 2001 and 2003 and then extended in 2010 and 2012, and then added to in 2017, the debt, as a percent of GDP, would be on a permanent downward trajectory.⁵

How do we know this? We know this because we can directly identify what fiscal policies have changed relative to the last time debt was projected to be stable or declining. That was in 2012, before the majority of the Bush tax cuts were permanently extended. In June of that year, the CBO released long-term projections that showed the debt declining forever. Without those tax cuts, which were slated to expire after 2012

³ For one important study of the economic benefits of public investments see, for example, [here](#).

⁴ The January 2020 Long-term Budget Outlook can be found [here](#).

⁵ Bobby Kogan at the Center for American Progress discusses this in more detail [here](#).

(and obviously before the 2017 tax cuts) the tax code would have been able to generate sufficient revenues to fully finance the federal government's spending commitments—even as those costs rose with an aging population—without having to take on debt faster than the economy grew.⁶ In other words, without the tax cuts enacted over the past several decades, there would be no fiscal risk from rising debt.

Put another way, we know that tax cuts are responsible for our riskier fiscal posture because spending projections today are *lower*, not higher, than what the CBO expected a decade ago. Let me repeat that. We will spend less over the next decade, as a percent of GDP, than what the CBO thought we would be spending the last time it forecast a permanently declining debt-to-GDP ratio. So if debt is now rising instead of falling, and spending is lower, the culprit has to be lower revenues.

And that's exactly what we see. Take this very year as a good example. The CBO now expects the federal budget deficit in fiscal year 2024 to be about 4 points of GDP higher than what it expected it would be back in 2012. And yet, primary spending this year—that is spending aside from net interest payments—is almost exactly the same as what CBO projected. That's right. The deficit is higher, but spending is the same. That means the entire reason why the deficit is higher today than what was expected a decade ago is because revenues are also about 4 percentage points of GDP lower, reflecting the extension of the Bush-era tax cuts at the end of 2012 and the enactment of the Trump tax cuts in 2017.

And it also must be noted that a disproportionate share of the reduced tax revenue has gone to very high-income households. Across all of the tax cuts enacted since 2001, close to half of the total benefit has gone to the richest 5 percent of households.⁷ For a household in the richest 1 percent, their combined tax cut from all the changes enacted since 2001 is roughly 45 times larger than the tax cut for a family in the middle income quintile.

Furthermore, a recent academic study found that 81 percent of the benefits from the 2017 corporate tax rate cut went to the top 10 percent of the income distribution.⁸

⁶ CBO, June 2012 Long-Term Budget Outlook [here](#). Note the Bureau of Economic Analysis has since updated its GDP concept, so the GDP that CBO uses in its 2012 projection cannot be directly compared to current projections. The calculations in this testimony adjust the 2012 GDP numbers to account for this difference.

⁷ Tax Policy Center [analysis of the combined effect of the 2001-2006 tax cuts](#) and Tax Policy Center [analysis of the 2017 tax cuts](#).

⁸ A summary and explanation of the recent study from Patrick Kennedy, Paul Landefeld, Jacob Mortenson, and Christine Dobridge can be found [here](#).

Now, let me be very clear. Federal spending is indeed higher today than what it used to be in the late 1990's and early 2000's. But it has grown more slowly than expected. Some growth was always expected as the population ages and more Americans retire and rely on Social Security, Medicare and Medicaid. But the actual increase has been smaller than expected, not larger. We are spending less today on those three bedrock commitments to America's seniors than what we thought we would have to spend two decades ago, or even a decade ago.

Healthcare spending growth in particular has slowed dramatically compared to what was predicted a dozen years ago. In its 2012 projection, the CBO expected that federal spending on Medicare, Medicaid and the Affordable Care Act would average 7.3 percentage points of GDP over the ten-year period from 2024 to 2033. Now, the CBO expects that spending to average just 5.9 percent of GDP. That difference of 1.4 percent of GDP is equivalent to \$4.7 trillion in savings over the next decade.

Those trillions of dollars in savings from lower-than-expected healthcare spending will, however, be more than wiped out by trillions of dollars in lower tax revenues, the result of repeated tax cuts. Over the next 10 years, the CBO now expects the federal tax code to generate an average of 17.7 percent of GDP in revenue, and that assumes the expiring provisions of the 2017 tax cuts do, indeed expire or that any extensions are fully offset with new revenue. That is fully 4.5 percentage points of GDP lower than what the CBO projected the tax code would generate over that period had the Bush tax cuts not been extended. Those 4.5 points of GDP are equal to \$15 trillion over the next 10 years.

So, we may be spending \$5 trillion less on healthcare than expected over the next decade, but we're also essentially "spending" \$15 trillion more on tax cuts, roughly half of which is going to the richest 5 percent of households. And that is why the debt is on an upward trajectory, rather than downward.

When I look at that debt trajectory, I see risk. The magnitude of that risk is uncertain, yes, and that should make us cautious about taking drastic actions. But by employing a "risk management" approach we can see that there are prudent steps we can take now without causing unnecessary harm, such as investing in ways that we know support shared growth and prosperity. And we can certainly begin to reverse the revenue losses that are the primary contributor to our fiscal risks by asking the wealthy and corporations to pay more in taxes.

Thank you, and I look forward to taking your questions.

Risks and Opportunities in the 2025 Tax Debate

Testimony of
Kimberly A. Clausing
Eric M. Zolt Professor of Tax Law and Policy
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Before the
Joint Economic Committee

12 March 2024

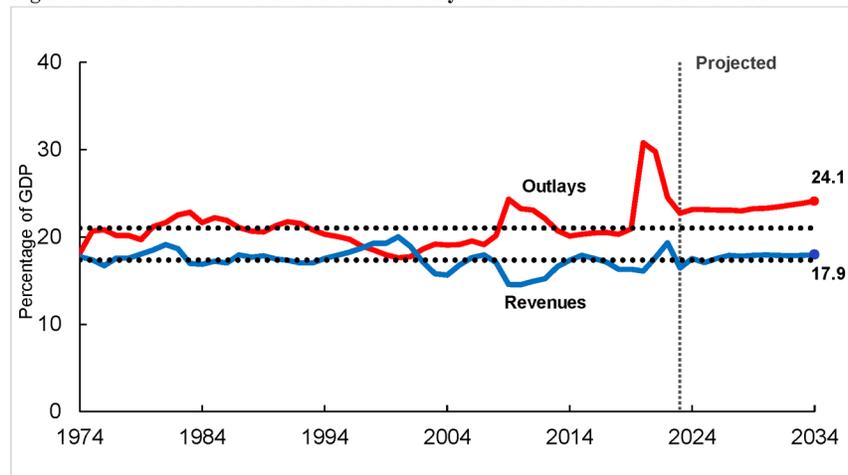
Chairman Heinrich, Vice Chairman Schweikert, Members of the Committee: Thank you for inviting me to share my views on the U.S. fiscal situation. The time ahead marks an important moment in U.S. tax and budget policy. In my testimony today, I will make five key points.

1. Our fiscal situation comes with important challenges. In an environment of rising deficits and debt, the looming expiration of many Tax Cuts and Jobs Act (TCJA) provisions will create pressures for lawmakers to extend these provisions. However, simply extending these unaffordable tax cuts without a broader rethink of tax policy principles would be unwise.
2. In 2025, tax reform can be a key component of responding to fiscal pressures and building a tax system that is fairer, more efficient, and better suited to U.S. economic leadership.
3. A suite of corporate and international tax reforms would help meet these challenges while reducing the offshoring and profit shifting incentives that are baked into current law. Such reforms are now more desirable than ever due to the adoption of the international tax agreement in many jurisdictions abroad, which is reducing tax competition pressures.
4. Climate policy can help achieve both fiscal and environmental goals in 2025. Layering a modest carbon fee on top of the Inflation Reduction Act could reduce emissions, generate large streams of revenue, and facilitate cooperative efforts with our partners abroad to incentivize worldwide emissions reduction.
5. Many other sensible revenue-raisers are available to finance fiscal priorities and reduce the deficit while simultaneously building a more fair and efficient tax system. At the same time, we can afford to better support workers and families. Toward that end, both the child tax credit and the earned income tax credit should be expanded.

Fiscal Pressures

The latest Congressional Budget Office (CBO) budget forecasts are concerning. Deficits for the decade ahead are expected to average about 5.7 percent of GDP, and federal debt (held by the public) is expected to rise over the next decade from its current level of about 99 percent of GDP to 116 percent of GDP. Due to higher interest rates, interest costs are estimated to be about 3 percent of GDP in 2024, or about \$870 billion, which is an amount very similar to what we spend on national defense; interest spending will rise to about 4 percent of GDP by the end of the decade. According to the CBO, the fiscal outlook for decades further out is even more concerning, with deficits steadily rising over the coming three decades, and federal debt reaching about 160 percent of GDP by mid-century.

Figure 1: CBO Forecasts of Total Federal Outlays and Revenues as a Share of GDP



Source: Figure 1-3 of [CBO \(2024\)](#).

In fact, these forecasts are optimistic since they assume current law will remain in effect. This means all TCJA provisions slated to expire next year truly expire, and several important TCJA business tax provisions continue to become less taxpayer-favorable over time, provisions that are currently raising the after-tax costs of research and development and investment.

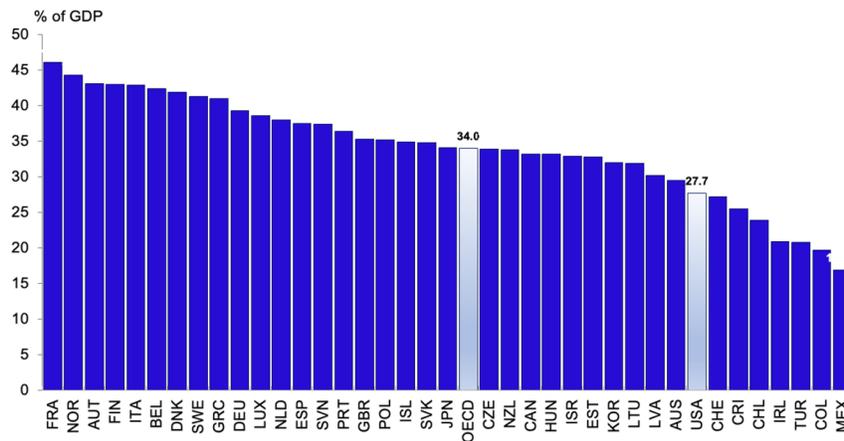
Such fiscal forecasts are concerning for several reasons. First, high levels of deficits and debt reduce the fiscal flexibility of the U.S. government, flexibility that may be needed to respond to future emergencies or recessions. Second, government borrowing redistributes fiscal resources away from our children and grandchildren toward current taxpayers. Third, government

borrowing (all else equal) will tend to increase interest rates, resulting in either a reduction in domestic investment, an appreciation of the dollar (and thus a weakening of our trade balance), or most likely, some of both effects.

In [recent work](#), I've suggested that Congress should seek to cut primary deficits in half in order to stabilize the debt to GDP ratio. To do so, there is a role for both spending reductions (when feasible) and tax increases. In my testimony, I will focus on tax increases, since my expertise lies in that area. But regardless, spending cuts alone will not be sufficient to address our fiscal situation.¹

At present, U.S. federal revenues are simply inadequate to meet our fiscal needs. Over the last fifty years, government outlays have averaged 21 percent of GDP. When we last ran a balanced budget, at the turn of the century, we collected about 20 percent of GDP in federal taxes. At present, we collect about 17.5 percent of GDP in federal taxes. Even considering state and local taxes, U.S. tax revenues as a share of GDP are quite low. The United States was ranked 32 out of 38 well-off countries in terms of tax relative to GDP, with only Switzerland, Costa Rica, Chile, Ireland, Turkey, Columbia, and Mexico having lower tax shares.

Figure 2: OECD Rankings of Tax Revenues as a Share of GDP, 2022

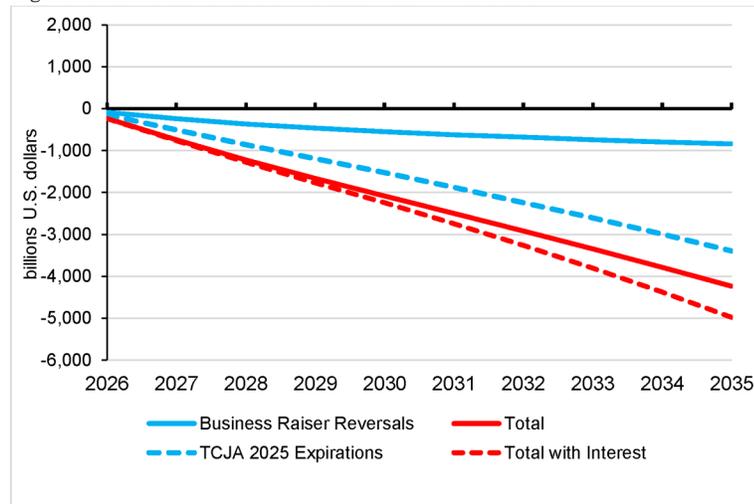


Source: [OECD Revenue Statistics](#).

¹ As one example, a [recent CBO analysis](#) found that, if the Tax Cuts and Jobs Act provisions are extended past 2025, it is mathematically impossible to balance the budget in ten years without either tax increases or spending cuts in Social Security, Medicare, defense, or veterans' programs. Even if the Tax Cuts and Jobs Act provisions are not extended, budget balance would require draconian (86 percent) cuts in every other program, should Social Security, Medicare, defense, and veterans' programs be left untouched.

In recent decades, the U.S. federal government has engaged in a tax policy ratchet whereby Republican lawmakers lower tax rates and revenues, and Democratic lawmakers raise them again, but only partially making up the difference. After the Bush tax cuts were due to expire in 2012, a compromise kept tax cuts from being extended for the highest income taxpayers, but other tax cuts were retained. Now, as many Tax Cuts and Jobs Act provisions expire at the end of next year, we simply cannot afford to extend them as they stand. A full extension of the expiring TCJA provisions, alongside a reversal of the business tax raisers that are built into TCJA, would cost more than \$4 trillion (\$5 trillion with interest) over the 2026-2035 budget window, adding substantially to current CBO estimates of deficits and debt, which assume that TCJA provisions evolve (and expire) according to current law.

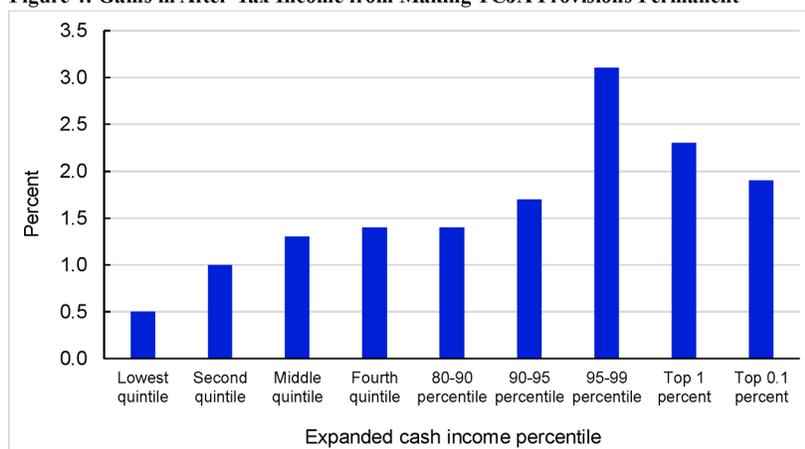
Figure 3: Cumulative Deficit Effects of TCJA Extensions



Source: Estimates are from the Committee for a Responsible Federal Budget. These estimates are similar to those published by the Congressional Budget Office if the latter are extended to the 2026-2035 window.

Further, extending TCJA provisions would disproportionately benefit those at the top of the income distribution. When Congress passed the 2017 tax legislation, they made the most unpopular and regressive parts of the tax bill permanent, while making more popular provisions temporary.² Still, even the individual tax cuts disproportionately benefited those at the top. This is not just the case for the estate tax and the top-income tax bracket; those with high incomes also benefit from the entire structure of lower tax rates on portions of their income.

² This strategy was acknowledged by former Speaker Paul Ryan during a [recent event](#).

Figure 4: Gains in After-Tax Income from Making TCJA Provisions Permanent

Source: [Tax Policy Center](#). Analysis includes all expiring individual income tax, estate tax, and pass-through business tax provisions. It does not include reversing corporate tax provisions that would otherwise become less favorable under TCJA; that inclusion would further skew the benefits of extension toward the top of the distribution.

Several expiring TCJA provisions simultaneously lose revenue, create a less fair tax system, and generate new inefficiencies; such provisions should be at the top of the list for expiration. For example, the Section 199A provision provides a 20 percent tax cut for some recipients of pass-through business income. This provision is complicated, it distorts investment across sectors of the economy, and it is also [highly regressive](#), with about 55 percent of benefits going to the top 1 percent of households, and only 3 percent going to the bottom half of the income distribution. Extending the provision would be costly, costing about \$700 billion over 2026-2035. Likewise, extending the estate tax cut (which only benefits the richest 2 in 1,000 estates) would be costly and regressive, costing about \$170 billion over the same window and helping only a tiny fraction of wealthy heirs.³ Other TCJA provisions raise more difficult questions. By far the most expensive extension is the current rate structure. While policymakers may be tempted to extend the tax cuts in all but the top tax brackets, doing so would drive trillions of dollars of deficits in the decades ahead, while mostly benefiting higher-income households.

Instead of blindly extending the TCJA tax provisions, I suggest a revenue-neutral extension of parts of TCJA in [recent work](#); this would allow lawmakers to keep elements of TCJA that have worked well without increasing deficits.

³ These estimates simply extend prior estimates published by CBO to the budget window 2026-2035.

In general, we should view 2025 as an opportunity to make the U.S. tax system better. Prior decades of high and rising inequality have strengthened the case for progressive tax reforms, even as tax policy has too often moved in the opposite direction. Many changes in our economy, such as rapid technological progress, create both winners and losers, even as they improve productivity and economic growth. Progressive tax reforms would ask somewhat more from those that have seen strong income growth while at the same time better supporting lower-income workers and families.

There are also ample opportunities to make our tax code more efficient; such opportunities will allow the government to raise revenue while reducing distortions at the same time. Finally, there are important opportunities to use tax reform to work better with partners abroad in addressing global challenges such as climate change and tax competition. I describe two examples of reforms that meet these criteria next.

Key Tax Policy Priorities for 2025

Corporate and International Tax Reform

2025 presents an important opportunity to make our corporate tax system fit for purpose: raising revenue, creating a more efficient system, and reducing the profit shifting and offshoring incentives that are baked into current law. Further, progress in addressing tax competition abroad makes it easier for the U.S. government to pursue these corporate and international tax reforms. Since jurisdictions throughout the world are adopting coordinated minimum taxation on the world's largest multinational companies, the United States can undertake its own reforms without creating undue worry about the ability of U.S.-headquartered companies to compete in global merger and acquisition bids.

As I've argued at more length in [recent testimony](#) before the Senate Committee on the Budget, the U.S. corporate and international tax system is in great need of reform. [An OECD analysis](#) recently indicated that, out of more than 110 jurisdictions, the United States is in the bottom ten percent in terms of corporate tax revenue relative to the GDP, despite the fact that the United States has a disproportionate share of the world's most profitable companies.⁴ The 2017 Tax Cuts and Jobs Act reduced corporate tax revenues substantially; these changes also made the tax system less progressive, since the corporate tax disproportionately burdens higher-income taxpayers.⁵

⁴ See data from recent Forbes Global 2000 lists of top global companies.

⁵ Both conventional scoring authorities and outside experts (e.g., JCT, CBO, Treasury, and the nonpartisan Tax Policy Center) agree that the corporate tax predominately burdens shareholders and the owners of capital income, whereas alternative tax instruments (such as payroll or income taxes on earned income) much more heavily burden labor. For JCT modeling assumptions on the corporate tax incidence, see [here](#). For CBO, see [here](#). For Treasury, see [here](#). For the Tax Policy Center, see [here](#). Further, taxing capital income at the entity level reaches more of capital

Moreover, TCJA's international tax rules contain a large tax preference for earning income abroad, perversely incentivizing *all* sources of foreign income relative to U.S. income and encouraging the offshoring of physical investments. For example, TCJA's "GILTI" provision provides a 50% deduction for all foreign income relative to U.S. income, and tax credits from income earned in high-tax countries can offset tax due on low-tax jurisdiction income, incentivizing both types of foreign income relative to domestic income. Further, GILTI's exemption for the first ten percent return on foreign tangible assets, together with another provision that makes export subsidies less generous as U.S. tangible assets increase (holding constant other factors), encourages investments offshore. Early evidence indicates that companies have responded to these tax incentives by increasing foreign investment.⁶

International tax reform can simultaneously raise revenue and reduce such profit shifting and offshoring incentives. The GILTI tax can be strengthened by eliminating the exemption for a certain return on foreign assets, reducing the 50% deduction for foreign income, and levying the tax on a country-by-country basis so that credits from high tax operations no longer offset tax due on income earned in low-tax jurisdictions. This feature would also have the beneficial consequence of better aligning the U.S. international tax system with the international ("Pillar 2") reforms being adopted throughout the world that levy coordinated minimum taxation on multinational income. Better alignment would reduce the number of overlapping tax regimes that U.S. multinational companies face when they do business abroad, while providing greater tax certainty for global business.

Strengthening the taxation of the world's largest companies also creates a fairer tax system *between* corporate taxpayers, building a more vibrant capitalism. At present, large multinational companies pay lower tax rates than smaller domestic firms.⁷ Further, an underappreciated fact is that the corporate tax base is very concentrated. Fewer than one-half of one percent of corporations account for 87 percent of the tax base.⁸ Ensuring that large, dominant multinational companies pay adequate tax on their foreign income will help create a level competitive playing field, benefiting the many small, domestic companies that compete against these large multinational companies.

income, since [more than 70 percent of U.S. equity income goes untaxed](#) at the individual level by the U.S. government. Foreign shareholders bear a significant burden from the corporate tax since they own more than one-third of U.S. equity.

⁶ This evidence is described in [Dharmapala \(2023\)](#), [Atwood et al. \(2020\)](#), [Huang, Osswald, and Wilson \(2023\)](#), and [Beyer et al \(2021\)](#).

⁷ For example, the U.S. Joint Committee on Taxation calculated that U.S. multinational companies paid an average tax rate of only 7.8 percent on their worldwide income in 2018. See table 3 on page 58 [here](#). These tax rates are far lower than those paid by domestic companies, and lower than tax rates faced by MNCs abroad. JCT finds that our top ten trading partners levied an average tax rate of 18.1 percent. A recent [Reuters study](#) found that U.S. multinational companies pay *effective* tax rates that are 8 percentage points lower than those of multinational companies in other countries.

⁸ Data are from the [2019 IRS SOI report](#).

Shoring up the U.S. international tax system helps support the mainline corporate tax rate. Raising the corporate rate to 28 percent alongside a suite of international tax reforms can raise well over \$1 trillion in the budget window. One corporate reform package outlined in [recent work](#) would also reform the research and experimentation tax credit so that it is both more effective and more aligned with international tax rules; that package raises about \$1.5 trillion. A similar suite of corporate and international reforms outlined in the FY25 Biden Administration Greenbook raises about \$2 trillion. (The FY25 budget also includes other corporate reforms that raise the total further.)

Opportunities for a Greener Tax System

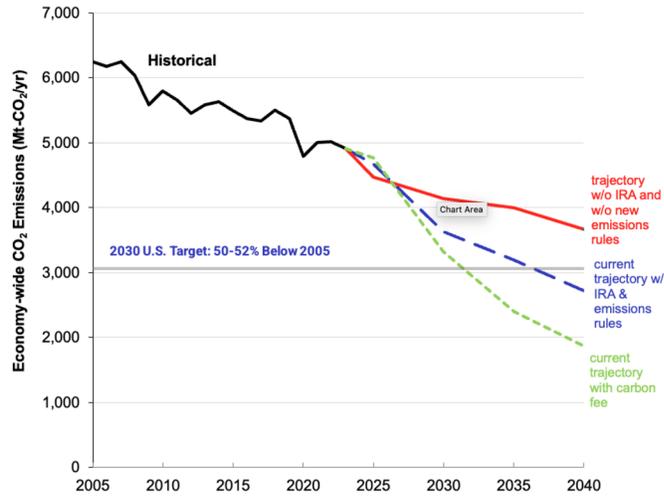
Climate-oriented tax policy reform in 2025 can also boost both emissions reduction and fiscal health. As a first step, repealing existing fossil fuel subsidies in the tax code (including those that affect foreign oil and gas income), as consistently proposed in Biden Administration Greenbooks, would raise more than \$100 billion over the budget window and take an important step toward a cleaner tax code. But far more significant, the emissions reductions achieved through the Inflation Reduction Act can be turbocharged through the adoption of a modest carbon fee, while simultaneously protecting households from increases in energy and fuel costs.

In a [recent working paper](#), we consider the emissions, fiscal, and abatement cost effects of layering a modest carbon fee on top of the existing emissions reduction progress due to the investments in the Inflation Reduction Act and forthcoming emissions rules. While recent policy actions during the Biden Administration have made enormous progress in reducing U.S. greenhouse gas emissions, the United States will still likely fall short of Paris Agreement emissions reduction commitments.

One option worth careful consideration is a modest economy-wide carbon fee. We model one that would begin at only \$15 per metric ton (in the second year post-enactment), and then rise slowly until eventually reaching \$65 per metric ton at the end of the budget window (thereafter increasing with inflation); this modest carbon fee would be accompanied by a nondiscriminatory carbon border adjustment on imports. The carbon fee would also exempt retail gasoline. Layered on top of the Inflation Reduction Act, such a fee would have minimal effects on household energy costs, raising them by about \$30 compared to the status quo. Yet emissions reductions are very significant, as demonstrated in Figure 5 below, and fiscal benefits are also quite large.

Traditional methods are likely to score even such a modest carbon fee in the range of \$600 billion in revenue, and the score could be hundreds of billions of dollars higher if exports are not rebated on the border, a policy design that may be desirable. By pricing the emissions of fossil fuels that are exported, the policy acknowledges that the consumption of fossil fuels contributes to global climate change irrespective of its location.

Figure 5: Emissions Reductions from a Modest Carbon Fee



Source: [Bistline et al. \(2024\)](#).

In addition to driving down abatement costs, a final benefit of adopting a carbon fee is that it would better align U.S. climate policy with important policy developments in the European Union, Canada, the U.K., and elsewhere, allowing us to work with partners throughout the world on policies that would encourage emissions reduction. For example, collaboration on a nondiscriminatory carbon border adjustment mechanism would ensure that any seller serving markets with carbon pricing faces an incentive to decarbonize, alongside the incentives faced by domestic firms. This could encourage countries throughout the world to adopt carbon pricing systems of their own, insulating their exporters from border adjustments and serving their own fiscal capacity and decarbonization goals. These policy dynamics are discussed in [other recent work](#).

Other Important Tax Policy Priorities for 2025

[Elsewhere](#), I've discussed a full menu of tax policy options that would provide important sources of revenue for the years ahead; these include reforming SECA/NIIT rules to treat all income similarly, and capital gains tax reforms that include ending step-up in basis at death for unrealized capital gains as well as the carried interest loophole. Two additional topics merit some attention here.

First, IRS funding has become an intensely political issue, but it really should not be. Adequately funding our tax administration system provides very significant benefits for taxpayers:

- The IRS can provide taxpayer services and process returns in a timely and efficient manner. Too often in the past, an underfunded IRS left phone calls unanswered and returns piling up, since there simply wasn't enough manpower to handle tax filings.
- The IRS can work to close our large tax gap (i.e., the amount of tax due under the laws enacted by Congress that we fail to collect); thus, bringing in revenue and enabling lower tax rates elsewhere in the tax system. The federal tax gap is [very large](#), at over a half trillion dollars per year, so fully funding the IRS has the potential to [increase revenue substantially](#).
- An adequately funded IRS will have the technological tools required to better target their audits toward areas of concern rather than randomly targeting taxpayers; this means that audits will become less of a concern for many taxpayers.
- A fully funded IRS helps build tax morale by assuring honest taxpayers that they are not overpaying relative to those who would shirk their tax obligations. It can also help level the competitive playing field between businesses that pay their tax in full and those that do not.

Second, expanding the child tax credit, the earned income tax credit, and the premium tax credit are all important steps toward increasing economic security, labor force participation, and children's outcomes. Recent expansions in the child tax credit under the American Rescue Plan (ARP) led to the most significant decrease in children's poverty in recent decades, but the expiration of that expansion reversed those gains. We can afford to invest in children, to encourage labor force participation by expanding the earned income tax credit, and to address health insurance affordability. The fiscal measures outlined above provide enough revenue to substantially reduce deficits, even as we invest in the future and support the most vulnerable.

The unifying conceptual framework for the policy suggestions in this testimony is that they build a tax system that better suits today's challenges. By addressing our fiscal needs through stronger tax revenues, the U.S. government will have the resources needed to respond to future emergencies or priorities. By building a more progressive tax system, these tax reforms help respond to economic forces that act to exacerbate income inequalities. By focusing on efficiency through revenue sources that reduce emissions and tax the excess profits of large corporations, these proposals build a more cost-effective tax system. And by working together with partner countries abroad, U.S. tax policy can also help tackle important global collective action problems such as climate change and tax competition.

Question from Senator Klobuchar for Mr. Linden:

In your testimony you discuss healthcare spending. I'm leading several bills that would lower healthcare costs by allowing Medicare to negotiate on more drugs, limit anticompetitive "pay-for-delay" deals, and increase competition through generic alternatives.

As the population continues to age, how important is addressing healthcare spending to bring down the deficit?

Response:

The United States has made enormous progress in holding down increases in healthcare spending, even as more people have been able to access affordable coverage. In 2010, just after the enactment of the Affordable Care Act, the CBO projected that federal spending on healthcare would reach roughly 7 percent of GDP annually by 2024.¹ In fact, spending on healthcare this year will be under 5.7 percent of GDP, a savings of nearly \$350 billion relative to 2010's projections.² Over the next decade, we are now projected to spend roughly \$7 trillion less on healthcare relative to what CBO projected at the time of the ACA enactment.

It is very encouraging that we have been able to slow the growth of healthcare spending without reducing quality and still expanding access and coverage. It will be important to continue this progress in the future. While current healthcare spending projections are much lower today than they were a decade ago, the CBO nevertheless expects that healthcare cost growth will still exceed GDP growth consistently over the next decade and beyond. That means there is still room to improve and generate fiscal savings. Congress should consider policy options that achieve those savings without sacrificing quality or coverage, and without shifting costs onto households. One example of such a policy would be to further expand Medicare's ability to negotiate drug prices. That approach would reduce federal spending on healthcare while simultaneously reducing costs for Medicare beneficiaries.

¹ Congressional Budget Office, The Long Term Budget Outlook, June 2010

² Congressional Budget Office, An Update to the Budget and Economic Outlook: 2024 to 2034, June 2024

Question for the Record Submitted by Senator Amy Klobuchar
For Dr. Kimberly Clausing
“The Fiscal Situation of the United States”
Hearing Date: March 12, 2024

Question:

As you know, achieving fiscal sustainability in our country will require putting in place policies that save taxpayers money, making sure we have a tax system where everyone pays their fair share, and keeping our economy strong.

- Would you comment on the importance of adequately funding the Internal Revenue Service?

IRS funding is very important for the broader integrity of our tax system, and it serves both households and businesses to make sure the IRS has the resources that it requires to administer our tax system fairly.

As I mention in my testimony, IRS funding has become an intensely political issue, but it really should not be. Adequately funding our tax administration system provides very significant benefits for taxpayers and the economy as a whole.

- The IRS can provide taxpayer services and process returns in a timely and efficient manner. Too often in the past, an underfunded IRS left phone calls unanswered and returns piling up, since there simply wasn't enough manpower to handle tax filings.
- The IRS can work to close our large tax gap (i.e., the amount of tax due under the laws enacted by Congress that we fail to collect); thus, bringing in revenue and enabling lower tax rates elsewhere in the tax system. Collecting the tax that is due lightens tax burdens for the vast majority of taxpayers that pay their taxes in full each year.
- The federal tax gap is [very large](#), at over a half trillion dollars per year, so fully funding the IRS has the potential to [increase revenue substantially](#).¹

¹ See <https://crsreports.congress.gov/product/pdf/IF/IF11887> and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4449161 for evidence on the tax gap and the revenue potential of IRS funding.

- An adequately funded IRS will have the technological tools required to better target their audits toward areas of concern rather than randomly targeting taxpayers; this means that audits will become less of a concern for many taxpayers.
- A fully funded IRS helps build tax morale by assuring honest taxpayers that they are not overpaying relative to those who would shirk their tax obligations. It can also help level the competitive playing field between businesses that pay their tax in full and those that do not.

3 ways to treat America's debt pandemics

America's fiscal crisis isn't just national debt. Household debt reached a new high of \$17.5 trillion

By Rep. Ron Estes Fox News

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America is facing new coinciding fiscal pandemics – where household debt and government debt are on unsustainable trajectories at the same time. The symptoms are evident, most prominently in the form of a stubborn disconnect between the state of the economy and the sentiments of the public. Despite some seemingly positive economic indicators of GDP and job growth, many Americans are gripped by anxiety, feeling as though their financial security is on shaky ground.

Clearly, the almost 18% increase in prices since President Biden took office – caused by Democratic overspending in Washington – has fueled inflationary pain.

But there is more. Fear about a swift and sharp financial downturn – in spite of *some* currently good economic statistics – is another symptom of the dueling financial pandemics. And this fever is fired by worry that both the federal government and their own households are borrowing too much money.

So the root of this fiscal malaise lies in the impact of both personal spending and government accountability. The New York Fed recently announced that total household debt reached a new all-time high of \$17.5 trillion in the fourth quarter of 2023. With goods and services costing more across the board, household debt has soared to unprecedented levels. Credit card balances alone have increased by \$359 billion under President Biden. This "provisional prosperity" is akin to building castles on sand – unsustainable and fraught with risk. It is the bane – and pain – of Bidenomics.

Living beyond your means through piling up excessive indebtedness builds a personal wall of worry. It forces you to begin making unthinkable choices about what you can afford week to week, and whether you will ever be able to save and plan for the future.

More and more, Americans are living on borrowed time and money – and so is their government.

On February 14, Director of the Congressional Budget Office Dr. Phil Swagel testified before the House Budget Committee and reviewed the latest Budget and Economic Outlook. The report clearly highlights our unsustainable fiscal path, particularly when it comes to federal debt and deficits.

The 2024 budget deficit is projected at \$1.6 trillion and thereafter steadily mounts, reaching a whopping \$2.6 trillion by 2034. Just the cost of paying the interest on the debt will exceed defense and Medicare spending this year. CBO notes that our annual deficits will produce the highest levels of debt relative to the size of the economy ever recorded in American history.

Americans are looking for several signposts to assuage this new fiscal debacle.

First, they want the truth. Leaders need to listen and acknowledge these long-term problems that could quickly lead to an economic death spiral if left unaddressed. We need to level with the people we serve.

Second, they want a plan. We need to put forward ideas and solutions to get our balance sheet back on track.

Finally, they want political courage. Entrenched dysfunction has blocked any reasonable path to tackle these challenges – it has been more than two decades since Congress has passed all 12 individual appropriations bills on time. That needs to change.

Biden’s FY2025 budget in March will do none of the above. By every indication, we can expect more of the same – catastrophic levels of taxes, spending and borrowing. In a moment that calls for being bold, it stands to set a new low for fiscal cowardice.

In stark contrast, House Republicans on the Budget Committee stepped up last year and advanced our 10 year, balanced budget framework. It is a pro-growth blueprint designed to address these fiscal pandemics and we plan to advance a similar plan in the coming weeks.

Our framework will focus on advancing policies that reduce Washington’s debt burden by ending the Biden spending spree, right-sizing the bloated bureaucracy, and reining in runaway automatic spending once and for all. We will root out waste and fraud in entitlement programs so benefits reach the most vulnerable and needy.

To help families, we will lock in the pro-growth Trump tax cuts to unlock opportunities for all. Our plan will put patients in charge of health care, restore American energy dominance and restore the dignity of work.

As James Madison once warned, “A public debt is a public curse.” It’s time for both the individual and the federal government to break free from the curse of overspending and live within their means. By implementing smart policies, telling the truth about our fiscal challenges, and demonstrating political courage, we can restore our fiscal health and build a more secure financial future for all Americans.

Ron Estes, one of only a handful of engineers in Congress, worked in the aerospace, energy and manufacturing sectors before representing Kansas’ 4th Congressional District since 2017. He is a fifth-generation Kansan, former state treasurer, and serves on the House Committee on Ways and Means, Budget Committee, and Education and the Workforce Committee.

