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THE FISCAL OUTLOOK

HEARING

BEFORE THE

SUBCOMMITTEE ON FISCAL RESPONSIBILITY
AND ECONOMIC GROWTH

OF THE

COMMITTEE ON FINANCE
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THE FISCAL OUTLOOK

WEDNESDAY, OCTOBER 7, 2020

U.S. SENATE,
SUBCOMMITTEE ON FISCAL RESPONSIBILITY
AND ECONOMIC GROWTH,
COMMITTEE ON FINANCE,
Washington, DC.

The WebEx hearing was convened, pursuant to notice, at 2 p.m., in the Dirksen Senate Office Building, Hon. Bill Cassidy (chairman of the subcommittee) presiding.

Present: Senators Scott, Young, Wyden, Carper, and Hassan.

Also present: Republican staff: Katie Hadji, Tax and Economic Counsel for Senator Bill Cassidy; Democratic staff: Jay Weismuller, Policy Advisor for Senator Hassan.

OPENING STATEMENT OF HON. BILL CASSIDY, A U.S. SENATOR FROM LOUISIANA, CHAIRMAN, SUBCOMMITTEE ON FISCAL RESPONSIBILITY AND ECONOMIC GROWTH, COMMITTEE ON FINANCE

Senator CASSIDY. I thank everybody for participating in a committee hearing which has become virtual with all the events we are aware of related to COVID in the past week.

So it is the Senate Finance Committee's Subcommittee on Fiscal Responsibility and Economic Growth, and it is a virtual hearing on the fiscal outlook. I thank you all for participating, and I think it is going to be good. And I am sorry that we could not have had it in a more, oh what to say, a more kind of formal setting, because it may have been better attended, because I am not sure that there is any hearing we have that will be more important than this.

Our witnesses today will be Phillip Swagel, the Director of the Congressional Budget Office; and Gene Dodaro, who is the Comptroller General of the United States and the head of the U.S. Government Accountability Office.

And so with that, I will make my opening statement. I will turn to Maggie Hassan, my ranking member, and then I think Ranking Member Wyden for the entire committee has a statement he would like to make as well.

So again, thank you all for being here. I am grateful for all who are there joining us by Internet.

Today's hearing will address a topic that we prefer to shy away from: seriously addressing our Nation's runaway debt and deficit. When it comes to our health, we make choices that are not so easy. We want to exercise. We exercise when we want to relax, and we eat healthily when we would prefer to splurge. But these things promote our health and fitness; they are worthwhile for our overall well-being. Similarly, if we want to be strong as a Nation, we have to monitor our fiscal position and keep revenues in balance with our spending.

Unfortunately, we have become fiscally soft and flabby, if we want to pursue the analogy to our own physical health. The Congressional Budget Office expects debt to rise to 107 percent of GDP by 2023, which would be the highest in our Nation's history. They also project that debt held by the public will be equal to 195 percent of GDP in 2050, if all goes well. That is "if all goes well."

Meanwhile, the highway, Medicare, and Social Security trust funds are on glide paths to insolvency. All three will be depleted by 2031, by current projections.

CBO's long-term report says to just get us back to 2019 levels by 2050 would require some combination of spending cuts and tax increases amounting to $2,700 per person per year, and the longer we wait, the worse it gets. This will not be an easy fix.

The current coronavirus pandemic reminds us that we live in an impermanent and unpredictable world. Even in our country's relatively short history, we have seen powerful nations decline. Most recently, the Soviet Union went from the first nation to put a satellite in space to collapse in a little bit over 30 years. That is the time frame of the long-term CBO report.

I am not saying that the United States is like the Soviet Union or that debt led to its downfall. Instead, I am saying that the unthinkable happens all the time. We should not be so arrogant as to assume our current position will last forever and does not need to be addressed.

Since World War II, the United States has become the greatest economic power in the history of the world. We have used this power to maintain a long period of relative global peace. As part of our success, we have enjoyed the benefits of a prosperous economy and a dominant role in foreign affairs.

We cannot take this status for granted. One way we show complacency is by spending without thinking for the future, which wastes, if you will, our inheritance. History assures us nations rise and fall, and to face threats we need to stay lean and strong. And I think we all agree that our children and grandchildren will have their own challenges. One contribution we can make is not to leave them in a financial bind.

Right now, we are in a unique situation. I and others have advocated for additional fiscal stimulus. Our failure to pass another relief package has much more to do with politics than with a willingness to spend.

Whether or not a relief package gets passed, we will spend trillions in coronavirus relief this year—a number so massive we can hardly fathom. None of it is paid for. So there is a disagreement on exactly how much should be spent, but Congress is not being stingy.

When it comes to our current fiscal situation, there is enough blame for all. I hope this will not go into a conversation of who is more at fault, which is not a particularly productive conversation. Nothing will be done without collaboration, give and take. As has been said so many times during this coronavirus crisis, we are all in it together. And when it comes to solving our debt and deficit and making sure our different trust funds remain strong and there for those who need them, we are truly all in it together.

I have seen recent polling that suggests that people want to see action to reign in the national debt. But I think we all know that addressing the issue will force tough tradeoffs. There are no easy answers. It is something that Congress must lead on, to do its job.

The first step is to acknowledge the problem. Some in the public square have argued that deficits do not matter, and I disagree and I think history disagrees.

I hope to hear details from the witnesses about the scope of what we are up against and a frank appraisal of the consequences of not acting.

Thank you all for being here, and I will now turn to Senator Hassan for her opening statement.

[The prepared statement of Senator Cassidy appears in the appendix.]

OPENING STATEMENT OF HON. MAGGIE HASSAN, A U.S. SENATOR FROM NEW HAMPSHIRE

Senator HASSAN. Well, thank you, Senator Cassidy. Thank you to Director Swagel and Comptroller General Dodaro for testifying today, and for your work and the work that your entire teams do for our country.

This subcommittee is charged with promoting fiscal responsibility and economic growth because, of course, the two go hand in hand. As a Nation, we must be concerned about the growth in the national debt. If not handled carefully, it could threaten to slow the economy and jeopardize our ability to make key investments in everything from innovation to national security.

The first step to improving our Nation's fiscal outlook is improving the economic outlook of families, businesses, communities, and States that have been hit hard by the COVID–19 virus.

Yesterday, Federal Reserve Chair Powell warned that, quote, "Too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses," close quote.

Providing assistance to families who cannot make ends meet, and helping hard-hit businesses stay afloat, is not only the right thing to do, it is also the fiscally responsible thing to do. It will help ensure that families can pay their rent or buy groceries at their local stores, and that small businesses can continue to employ their workers, which will help to keep local economies moving and improve our Nation's economic outlook.

The second step to getting our Nation's fiscal house in order, after recovering from COVID–19, is for Congress to implement common-sense bipartisan measures that promote fiscal responsibility and reduce the national debt.

As recommended by GAO, we need to address the so-called "tax gap," which comes from corporations and millionaires avoiding taxes by under-reporting income to the Treasury. We need to revisit the partisan tax giveaways that were jammed through Congress in 2017 in order to ensure that major corporations are paying their fair share in taxes. And we need to eliminate waste, fraud, and abuse across the Federal Government—one of my top priorities as the ranking member of the Homeland Security and Governmental Affairs Subcommittee on Federal Spending Oversight.

In seeking a bipartisan path to improving our fiscal standing, Congress must also strengthen and protect Social Security and Medicare, while making it absolutely clear that seniors will receive the full benefits that they have earned over a lifetime of work.

Overall, it is clear that once we have recovered from COVID–19, the sooner we address the national debt the better. As shown by CBO and GAO, the difficulties of addressing the fiscal outlook only compound over time, making it all the more pressing that we work together in a bipartisan way to get through the crisis and then develop a fiscally responsible long-term plan for the Federal budget.

Senator Cassidy, I look forward to working with you and the other members of the Finance Committee, and I look forward to hearing from Director Swagel and Comptroller General Dodaro on ways to improve our fiscal outlook.

Thank you.

Senator CASSIDY. Thank you, Senator Hassan.

[The prepared statement of Senator Hassan appears in the appendix.]

Senator CASSIDY. And now I think Ranking Member Wyden would like to make a statement.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Senator WYDEN. Thank you very much, Mr. Chairman. And I also see we have been joined by our colleague, Senator Scott—at least he was there—and also possibly Senator Carper. So we have a good contingent of Finance members out today.

And I too want to thank Phil Swagel, the CBO Director who worked so closely with us on the prescription drug bill that we worked to get out of the Finance Committee and showed opportunity for some fresh approaches to, in effect, create incentives to hold down subsidies when there is price gouging. So we appreciate him. And Gene Dodaro has repeatedly done good and professional work, and we are so appreciative of him.

Chairman Cassidy, Ranking Member Hassan, I am glad you all have put this hearing together. Senator Hassan has, in my view, kind of been the gold standard for elected officials in showing that you can care deeply about the human needs of our people, and do it in a fiscally responsible way; that the two are not mutually exclusive. You can do both. And I so appreciate her leadership, and I agree with so much of what she said for her opening statement.

I am joining you from my dining room table in southeast Portland this morning, and I hope that everybody participating and watching is healthy and safe.

I would like to make just a few key points, Mr. Chairman, and then, with your leave, I will read my full statement into the record. Would that be acceptable to you, Mr. Chairman?

Senator CASSIDY. Yes.

Senator WYDEN. Very good. First, appropos of Senator Hassan's points, I think Jerome Powell's statement yesterday ought to be required reading for every single member of Congress, because he laid out so clearly, and in an objective way, backed by the nonpartisan fact-driven approach that they have at the Fed, what is at stake here.

So I think he summed up my views very clearly, and I think that obviously if you walked into a coffee shop in America, most people would not be talking about the fiscal outlook. But I think the topic is going to dominate a lot of discussions in the Congress in years ahead.

And I will just say that when you set aside all the fiscal lingo, this is a debate about whether the Congress ought to quit prematurely on the pandemic recovery, while locking in cuts to Social Security, Medicare, and Medicaid down the road. This is essentially the far-right Republican agenda behind a bunch of vague fiscal buzzwords. I personally think it is a recipe for nightmares in middle-class households.

Now, the country has only recovered half the jobs lost when the pandemic hit. The $600 enhanced unemployment benefits that we worked so hard for, did so much to allow millions of families in America to make rent and buy groceries and also, as has now been reported, did an awful lot to keep the economy afloat during the spring. It has expired now. Republicans blocked an extension. Permanent job losses and corporate layoffs are stacking up.

I was particularly concerned, Chairman Cassidy and Senator Hassan, about this new report that I just saw of people permanently dropping out of the workforce. In other words, they just thought there was not an opportunity for them to get ahead. A patchwork of policies holds back an avalanche of evictions, and millions of Americans lost their health care when they lost their jobs.

Over the month of September alone, just one month, colleagues, nearly a million women dropped out of the workforce, which is why I have been looking at those numbers with such care. The economy still has a lot of open wounds here. And yet a lot of people on the far right, and conservative Republicans, say: cut, cut, cut. And apparently those are the folks who do not want another major economic rescue package. And I think we need one. I think we need to make sure that if you are laid off through no fault of your own, you have an opportunity to make rent and pay for groceries.

People who get those unemployment benefits, colleagues, are not using those dollars to buy a bunch of fancy cars from Europe. They are using that money to pay for essentials. And I think that is why the safety net is so important, and why we should oppose any kind of back-door cuts to programs like Social Security, Medicare, and Medicaid.

The other point I just want to make deals with this question of tax fairness, and it was raised by Senator Hassan very eloquently. So, we have seen substantial evidence just in the last few weeks that Donald Trump is a tax cheat. So to me it is absurd for Republicans in Congress to tell working people they are the ones who ought to sacrifice in order to clean up America's finances.

Americans have not forgotten that, in effect, there was a fiscal time bomb put in place in 2017 when Republicans passed these tax handouts to corporations and the wealthy. Those tax handouts had a deficit-finance price tag of $2 trillion. So, folks, that is what we are talking about here, and appropriately so: how we can care for the needs of people and be fiscally responsible. We were told that tax cut was going to pay for itself, and we have seen a price tag of $2 trillion.

And obviously, you then have people come and say, "Well, we have to slash Medicare and Medicaid and Social Security." That is a Republican playbook we have seen too many times: spend freely on corporate goodies, defense contractors, tax handouts to the top, but once the recession arrives, then you have harsh cuts in programs that matter to working people and the middle class.

And it seems to me that when you have millions of people out of work a lot longer than we have seen before, we have got to make sure we are putting in place policies that keep it from happening again.

So there is a lot of work for the Congress to do. I see colleagues here who worked very closely, particularly Chairman Cassidy, to try to find common ground on prescription drugs, and I very much appreciate that. The next Congress is going to have to keep Medicare out of insolvency and bring down prescription drug costs, and I am sure we will talk a little bit about some of the challenges of the Medicare trust fund, given this dip that the economy has taken, what it has meant for those programs.

Finally, I think we understand—and this is why I appreciated Senator Hassan's comments so much—we have got to make some important investments, and do that in a way that is fiscally responsible. Those investments are in infrastructure: roads, ports, clean energy, and broadband. Those are challenges that cannot wait.

So we have a lot of heavy lifting to do. Tax policy has always been priority business for the Finance Committee. I will just say, as one member, it makes a lot more sense to crack down on tax cheats like Donald Trump, rather than inflicting harsh cuts on working Americans.

I look forward to working with my colleagues and appreciate this hearing, and particularly to have our experts whom we have worked with often, Phil Swagel and Gene Dodaro, here. They do it by the book, and they give us good, hard data, and we appreciate them and their professionalism.

Thank you, Mr. Chairman.

Senator CASSIDY. I would say, just for the correction—this is an election hear, but I will say, just to correct the record, that President Trump has not proposed cuts on either Medicare or Social Security, and that tax receipts actually went up after the Tax Cuts and Jobs Act.

Senator WYDEN. Mr. Chairman, I will not prolong this. I will give you, for the record, the article on the reduction in funds for Medicare and entitlement programs I mentioned. If we can make that part of the record, I will include it. Okay?

Senator CASSIDY. I would like that.

[The article appears in the appendix on p. 53.]

Senator CASSIDY. And I will make a part of the record the President's public statements as regards protecting those trust funds.

[The President's statements appear in the appendix on p. 32.]

Senator CASSIDY. So, that said, I want to say one more thing. Republicans did propose to continue the unemployment benefits while we are negotiating a broader deal, but that was not accepted by Speaker Pelosi.

So let me introduce our witnesses.

Dr. Swagel became the tenth Director of the Congressional Budget Office in June 2019. Previously, he was a professor at the University of Maryland School of Public Policy and a visiting scholar at the American Enterprise Institute and the Milken Institute. He has taught at Northwestern University, the University of Chicago's Booth School of Business, and Georgetown University. From 2006 to 2009, Dr. Swagel was Assistant Secretary for Economic Policy at the Treasury Department. He has also served as Chief of Staff and Senior Economist at the Council of Economic Advisors in the White House, and as an economist at the Federal Reserve Board and the International Monetary Fund. He earned his Ph.D. in economics from Harvard University and his A.B. in economics from Princeton.

Welcome, Dr. Swagel.

Mr. Dodaro became the eighth Comptroller General of the United States and head of the U.S. Government Accountability Office on December the 22, 2010, when he was confirmed by the U.S. Senate. He had been serving as Acting Comptroller General since March of 2008. Mr. Dodaro has held a number of senior leadership positions during his long career at GAO, dating back more than 45 years—oh, my gosh—including Chief Operating Officer and head of GAO's Accounting and Information Management Division. He holds a bachelor's degree in accounting from Lycoming College in Williamsport, PA.

Well, Mr. Dodaro, and thanks to you both for joining. I will now turn to Dr. Swagel for his 5-minute statement.

STATEMENT OF HON. PHILLIP L. SWAGEL, Ph.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, DC

Dr. SWAGEL. Thank you. Good afternoon, Chairman Cassidy, Ranking Member Hassan, and members of the subcommittee. Thank you so much for inviting me to testify about the fiscal outlook. And it is a pleasure to testify here with Gene Dodaro. We benefit so immensely from the work of the GAO.

The fiscal outlook is a tale of two horizons. Over the longer term, the Nation's fiscal challenges are daunting. At the same time, the United States is not facing an immediate fiscal crisis. The current low interest rates indicate that the debt is manageable for now and that fiscal policy could be used to address national priorities if the Congress chose to do so.

In our projections, interest rates remain low as the economy recovers from the effect of the pandemic, partly because the Federal Reserve is working to keep them low. At the same time, the Federal debt is already high, and it is projected to rise substantially, reaching 195 percent of GDP by 2050, at the end of our 30-year long-term budget outlook. That far exceeds the previous high of 106 percent recorded just after World War II.

So over the longer horizon, action is needed to address the Nation's fiscal challenges. In this year of 2020, we began with a strong economy and labor market, but also with a $1-trillion projected budget deficit that was already high by historical standards. And of course the pandemic changed the situation dramatically.

The deficit for the fiscal year that just ended exceeded $3 trillion, mostly reflecting the budgetary effects of legislation enacted to address the pandemic, and the resulting economic downturn. At 16 percent of GDP, the deficit relative to the size of the U.S. economy was the largest since 1945.

In our projections, we see Federal revenues rising from 16 percent of GDP in 2019 to 19 percent of GDP in 2050, while spending grows from 21 percent of GDP last year to 31 percent of GDP in 2050. So that is the situation as the horizon lengthens.

After the economy recovers from the effects of the pandemic, rising interest costs especially contribute to wider deficits, along with rising health costs and other factors. Interest rates remain low while the economy recovers from the pandemic, and that holds down projected borrowing costs. But we still have continued deficits, and those lead to rising debt. And then, combined with rising interest rates after we recover from the pandemic, that drives up the cost of servicing the debt.

So the bottom line is that the fiscal path over the coming decades is unsustainable, because the cost of financing the deficit and servicing the debt cannot consume an ever-growing proportion of our Nation's income. High and rising debt eventually will reduce business investment, will slow economic growth, and lead to larger interest payments to foreign holders of U.S. debt that subtract from our Nation's income and increase the risk of a fiscal crisis when interest rates rise abruptly or other disruptions occur.

Now there is no set tipping point at which a fiscal crisis becomes likely or imminent, and there are no identifiable points at which interest costs as a percentage of GDP become unsustainable. But of course the higher the debt, the greater the risks.

And just one last point is that the status of the Federal trust funds is one indication that action may be needed soon. In our projections, the highway trust fund is exhausted in this fiscal year, in 2021; Medicare's hospital insurance trust fund is exhausted in 2024; and Social Security's disability trust fund in 2026. And the main fund of Social Security, the Old-Age and Survivor's Insurance trust fund, is exhausted in 2031.

So the fiscal challenge is not over the horizon but is really within our sight, within the budget window. Again, just to summarize, the current low interest rates on Treasury securities indicate that we do not face an immediate fiscal crisis. We face considerable fiscal challenges over the longer term that will require difficult adjustments after the economy has emerged from the effects of the pandemic.

Thank you. I look forward to questions.

[The prepared statement of Dr. Swagel appears in the appendix.]

Senator CASSIDY. Thank you, Dr. Swagel.

Mr. Dodaro?

STATEMENT OF HON. GENE L. DODARO, COMPTROLLER GENERAL OF THE UNITED STATES, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Mr. DODARO. Thank you very much, Mr. Chairman, Ranking Member Hassan, Senator Wyden, and Senator Scott. I appreciate the opportunity to appear today with Phillip Swagel to talk about the fiscal outlook of the Federal Government.

Before the pandemic, I had been concerned about the Federal Government because it has become heavily leveraged in debt by historic norms. By the end of fiscal year 2019, debt held by the public as a percent of gross domestic product was 79 percent, compared to 46 percent on average from 1946. So the Federal Government entered the pandemic already accumulating debt at a rapid clip.

The pandemic obviously has complicated this fiscal situation, as the government has taken much-needed action to address the public health emergencies and the profound economic disruption that have occurred as a result of the pandemic. For the immediate future, I believe attention should continue to be focused on the public health needs and stabilizing and healing our economy. As the country comes out of this situation and it has met public health goals, and it has met economic goals, and it is on a better glide path, policy-makers need to swiftly turn their attention to establishing a plan to put the Federal Government on a more sustainable long-term path.

I have been calling for such a plan since 2017. I believe it is very much needed. The plan would benefit by having some fiscal rules and targets. Right now, the United States has no fiscal policy as to how much debt the Federal Government wants to accumulate, or believes that it can service over a long period of time, while meeting other important goals of serving its citizens, protecting vulnerable populations, and promoting economic growth. We believe that a plan must have fiscal rules such as a debt-to-GDP target.

Everyone has mentioned so far CBO's estimate that it could go up to 195 percent of gross domestic product by 2050, but over the longer term it will keep going up, unchecked and without a plan. And that, by definition, is not a sustainable path.

Now swiftly I say, for the same reasons that have been pointed out already, the trust funds are going to force decisions. The highway trust fund is being supported by other general appropriations. It has not operated on the user-pay premise that it was founded on for a number of years, and is now insolvent.

The Medicare fund, as pointed out, the hospital trust fund, will by 2024, according to CBO's projections, only have enough to pay 83 cents on the dollar in payments. The Pension Benefit Guaranty Corporation, which has not been mentioned yet, is due to be insolvent in the multiemployer portion by 2026. This puts 11 million Americans at risk, and potentially being failed because, if their company goes bankrupt, the government will not have enough funds to step in and provide them with an adequate pension.

And the Social Security fund, by 2031, will only have enough money to pay 75 cents on the dollar. Now, none of this will happen, because the United States is not going to allow these cuts to affect these programs, but it indicates the magnitude of the changes that need to be put in place. And the sooner Congress does this, the better, as has been pointed out, because it will allow time to adjust.

Right now, compounding is working against the Federal Government as the debt begins to accumulate. And even at low interest rates, the base of the debt continues to grow. And so over time, as pointed out by CBO's projections, over the long run there is tremendous interest rate exposure, and that can precipitate a lot of problems.

The United States paid $376 billion last year in interest costs, and conceivably interest costs can get to be a trillion dollars over time without a plan.

We have outlined and issued reports about how a plan can be constructed to be in line with the fiscal goals of the Federal Government, to be integrated with the budget process, to allow for flexibilities for emergencies, and to be able to provide for checks and balances over time so that the rules are enforced when appropriate, and when not appropriate allow for flexibilities to meet emergencies.

Also, while these issues will not solve existing fiscal problems alone without these fiscal policy changes, there are a number of areas we have pointed to that could make contributions to making these adjustments a lot easier.

First would be addressing the sizable tax gap. The last estimated net tax gap is $381 billion a year on an annual basis. The Federal Government is also, last year, continuing an accelerating trend. There was over $175 billion in improper payments made among 29 different Federal programs in the agencies.

This has been growing over time. These are payments that should not have been made, or were made in the wrong amounts. There also is over a trillion dollars in tax expenditures that are allowed every year without any regular review as to whether they are working effectively or not and need to be reconsidered.

There is overlap and duplication in the Federal Government that could yield tens of billions of dollars in additional benefits. Implementation of our recommendations so far have yielded $429 billion in financial benefits to the Federal Government, and I think with additional things in the works, it will be close to half a trillion dollars this year.

So, while these things alone can make important contributions, they can also begin to impose much-needed fiscal discipline in how to manage the country's finances. So having a plan in place to guide the Nation, and aggressively addressing these areas where there are benefits for the taking in the short term, would greatly improve the prospect for putting the Federal Government on a more sustainable fiscal path.

I appreciate the opportunity to be here today. I am very pleased that you are holding a hearing on this essential topic. I will be happy to respond to questions.

[The prepared statement of Mr. Dodaro appears in the appendix.]

Senator CASSIDY. Thank you very much. Thank you both for your testimony. I have to be in this session the entire time, so, Maggie, if you are ready, I will let you go first. There may be some who have to leave early, and I do not mind kind of deferring to colleagues to make their life more convenient, if you are ready to go.

Senator HASSAN. Well, I appreciate that very much, Mr. Chairman. And let me just draw up my questions for a second. I just want to start by thanking both our witnesses again for your testimony and for your work.

And, Mr. Chairman, thank you for your courtesy.

Let me start with a question to Dr. Swagel. The CBO's long-term budget outlook points out that short-term increases in the national debt can support the economy during challenging times, such as those we are in right now.

Can you explain to the committee how, especially given historically low interest rates, providing fiscal support during COVID–19 can have a positive effect on the economy?

Dr. SWAGEL. Yes, I can. And we have a report on our website that goes through some of the different fiscal actions taken by the Congress and looks at the effectiveness of each one.

The economy, of course right now, is operating far below potential. The unemployment rate is much higher than it was before the pandemic began. The fiscal actions taken by the Congress have supported spending by families, have supported businesses, including small businesses, and kept the relationships between employees and small businesses together, helping those businesses make it through.

It is in all these ways, on the demand side, both the demand side and supply side, we are supporting the economy.

Senator HASSAN. Excellent. Thank you. We all know that ultimately, we do need to address the national debt, but it is also clear that in the short term, our economy urgently needs additional support.

Mr. Dodaro, last year I led a bipartisan bill titled Acting on the Annual Duplication Report Act of 2019. It would take action on several recommendations that the GAO made to Congress in its annual duplication, fragmentation, and overlap report. Two weeks ago, I introduced the 2020 iteration of this bill, again with the bipartisan support of some of my colleagues, responding to this year's GAO report on duplication, fragmentation, and overlap, as well as opportunities to achieve financial benefits in government programs.

Mr. Dodaro, can you explain how adopting GAO's recommendations to reduce duplication, fragmentation, and overlap would help improve the fiscal outlook?

Mr. DODARO. Yes. Since we have been doing that work over the last decade, we have made over a thousand recommendations to the Congress and the executive branch agencies. Over 57 percent have been fully implemented. And as I mentioned in my opening statement, we are on track to see close to half a trillion dollars in financial benefits already being produced as a result of acting on our recommendations.

Now, acting on open recommendations can result in tens of billions of dollars in additional savings to the Federal Government. The two pieces of legislation that you mentioned would go a long way to implementing this and have the potential to yield billions of dollars.

For example, the legislation would allow DoD to capture the full cost of providing foreign military sales. Right now, the salaries and benefits of people who work on these foreign military sales to help sell U.S. equipment to other countries, their costs are not included. So the people buying this equipment and using the services of the U.S. military are not paying for the full cost of using those services. That would yield benefits.

The legislation would also require 17 million tax returns that come in to have a scannable bar code that would allow IRS to be more effective in enforcing the tax laws in a fair and equitable manner.

Also, the legislation would require the Navy to put more emphasis on operations and maintenance costs when they are actually acquiring ships. Seventy percent of the cost of these multi-billion-dollar enterprises are in operations and maintenance costs, and the United States accepts ships before they are fully completed and tested, and then the operation and maintenance costs go up over time.

So there are a lot of recommendations, and this is a good way to deal with this.

Senator HASSAN. Well, thank you very much for that, and I appreciate it. And I look forward to working with you and others on it.

I want to see if I can do one more question before my time is up, to Dr. Swagel. In its long-term outlook report, CBO considers how school closures during COVID–19 will have long-term effects on the workforce. Can you explain the importance of education for America's economic future and how COVID–19 could affect the workforce in the long run?

Dr. SWAGEL. Yes, I can. It is something we worry a lot about, both in the near term and the long term. In the long term, productivity growth is a key driver of our economic output and our trajectory, and the school closures mean less effective or, for many children, utterly ineffective education and schooling.

So I am worried about them in the long term. In the short term, it seems to be affecting the quality, with the most disadvantaged kids having it the worst. I worry at both horizons.

Senator HASSAN. Well, thank you. I think to reduce some of these longer-term effects, Congress needs to dedicate Federal relief dollars to help the education workforce to continue to meet the needs of the students and workers during these unprecedented circumstances. Again, thank you for your work, and thank you, Mr. Chairman, for your courtesy.

Senator CASSIDY. And, Senator Hassan, I apologize for not giving you a heads-up. I had it typed, but I did not hit "send."

Is Senator Scott back on?

[No response.]

Senator CASSIDY. Okay; Senator Wyden?

Senator WYDEN. Mr. Chairman and colleagues, I am just going to make a quick statement, and then I have some questions.

We have a huge crisis coming from Medicare with the insolvency of the hospital insurance trust fund. The budget experts have already projected it is due to become insolvent in as little as 3 years. And I am of the view that the problems that they are having are particularly due to the economic downturn and the Republicans' downplaying of COVID–19.

Now, the Affordable Care Act put in place policies to secure Medicare's long-term future. It did this by decreasing how much Medicare spends, increasing how much money it takes in. So the crisis that is already serious is going to be compounded if Republicans are successful in gutting the Affordable Care Act. So I just want to put on the record—as I have indicated with the chairman, in the budgets I am going to give him on the Trump cuts to entitlements programs—that tearing down the ACA is going to threaten the health-care services of millions of American seniors.

Dr. Swagel, thank you for working with us so often in the past. I want to ask you a question about unemployment insurance. Where is Dr. Swagel? Is he up there somewhere?

Dr. SWAGEL. I am here, sir.

Senator WYDEN. Oh, very good. I think you know I am the principal author of the expanded unemployment insurance, the extra $600 per week that ran for 4 months through July 31st, and the coverage for workers and self-employed independent contractors and the like.

What would have happened, in your view, if these folks had not had those benefits? Because I have listened to Mr. Powell and others talk about how it would have been really a huge hit on the economy, but I would be curious what your take is of what life would have been like for those folks if Congress had failed to act on that.

Dr. SWAGEL. So I agree with what Chair Powell said, and with his other statements that were alluded to earlier in the hearing as well. And we have some of the CBO analysis in a letter to Chairman Grassley which said that, without the extra UI benefits, demand would have been weaker, and the economy weaker as a result, without the assistance until now. And as the economy reopens, then there is more of a push and pull between the added spending and the diminished incentives to work. But clearly until now, as the economy was essentially closed, the extra UI was an important factor in sustaining demand in the economy.

Senator WYDEN. Very good. Let me ask you one other question, because I think worsening inequality also affects entitlement programs, and particularly Social Security financing.

My question to you, Mr. Director, on this issue is, how have stagnating middle-class wages since the 1980s impacted the long-term financing of Social Security, in your view?

Dr. SWAGEL. It affects Social Security in a couple of ways. An important one is, stagnating wages mean lower revenues going into the Social Security trust fund. With rising inequality, it means more of the wages are above the tax maximum, and that affects the revenues going in. And wage growth overall is the key revenue source for Social Security, so slow wage growth has a negative effect on the system.

Senator WYDEN. Thank you. We are going to work closely with you and Chairman Cassidy, Senator Hassan, and colleagues, because by my reading, if you look at several decades of, in effect, wages stagnating—wages and other income of those in the top fifth have gone through the roof, while middle-class wages have generally been pretty stagnant. And the result is, Social Security takes in less and less funding over time, and we all understand the demographic tsunami that the program is facing.

So, Mr. Director, thank you for your answer to that. Thank you for your answer to the unemployment insurance question. And I want to repeat for my colleagues that I thought the Director and his team did particularly professional work on the prescription drug issue, because nobody thought that the Senate Finance Committee could produce a bill which had a fair amount of bipartisan support, including Chairman Cassidy. And we took a fresh approach, which was to say that we were going to reduce subsidies to those drug companies that were engaged in price gouging, and we could not have done it without the professionalism of Dr. Swagel and his team. So we thank you for that.

Thank you, Mr. Chairman. And I look forward to hearing from the rest of our colleagues.

Senator CASSIDY. Great. Is Senator Young on?

Senator YOUNG. Well, thank you so much.

Senator CASSIDY. I am sorry, Todd. I think Senator Carper is next. I apologize.

Senator YOUNG. No worries.

Senator CASSIDY. Tom?

Senator CARPER. Todd, if you are in a hurry, I am not in a hurry.

Senator YOUNG. No, I will yield to the gentleman from Delaware.

Senator CARPER. All right; thanks so much.

To our chair and ranking member, thank you, more than you know, for holding this hearing. I oftentimes describe myself as a recovering Governor. Before I was a Governor, I was a Congressman. Before that, I was a Treasurer, a State Treasurer. I became Treasurer of the State of Delaware in 1976. We had the worst credit rating in the country. We could not balance a budget for nothing. We had no pension trust fund. We were just a mess. We could not—we had the highest marginal income tax rate in the country: 19.8 percent was our personal income tax rate—19.8 percent.

And 3, 4, 5, 6 years later, we had begun to address all that. Do you know what was the key? Great leadership. The key was great leadership. Our Governor, new Governor, was a guy named Pete Du Pont, Republican moderate, former Congressman. And we had Democrats and Republicans in the House, in the Legislature, who worked together to get us on a fiscally responsible course. But the key is always leadership.

And I want to thank Senator Cassidy, and I want to thank especially former Governor Hassan, for their leadership that brings us here today.

I also want to say to Senator Wyden, the ranking member on the Finance Committee, my thanks to him and Senator Grassley for helping us produce and report out a prescription bill that was actually fiscally responsible, and I think humane and appropriate in terms of our economic development to making sure we still provided incentives for investments in pharmaceuticals and biopharmacy.

That legislation unfortunately has not moved on the floor. I think that is a good example of the kind of stuff we need to be doing.

Starting with our witnesses today, Director Swagel, we are delighted to have you here. Gene Dodaro has been one of my heroes for, what has it been since you were at Yale, like 40 years or something? He has been our Comptroller General for about 10 of those. I have loved working with him.

And one of the things, colleagues, that he and GAO report out at the beginning of every new Congress, in the beginning of January—January, February of next year they will hand over to the administration, hand over to the Congress, something called a "high-risk list." A high risk of wasting money, high-risk ways of wasting money.

And when I was chairman of the Homeland Security Committee, that was on our to-do list. And I hope when we get that high-risk list from General Dodaro and his folks in January/February, we will use that as a to-do list as well.

You already heard people quoting Jay Powell, our Federal Reserve Chairman. What he said in the last couple of days makes a whole lot of sense to, I hope not just we here in the Congress, but I hope the administration, including the President, might pay some attention to those words.

I want to thank Senator Cassidy for allowing me and a number of others to join him in supporting legislation that he has co-authored. Who was your Democratic lead on that, Mr. Chairman, on the next COVID package? Who was your Democratic lead? Menendez?

Senator CASSIDY. Menendez was on our—yes, sir. Menendez was our Democratic lead on the State to local aid bill.

Senator CARPER. I want to thank you for that as well.

State and local governments are one area that continues to be under enormous and unprecedented strain. According to the Department of Labor, State and local public loss, I think just in September alone, 180,000 jobs—180,000. And without some additional Federal support, many more jobs are going to be lost, which means fewer front-line workers like firefighters, like EMS workers, police, as the pandemic continues to sweep through our communities, through our teachers, through our bus drivers, our janitors in the school, school nurses, as we try to open safely.

In a recent report, CBO confirmed what former Governors like Senator Hassan and myself already know from experience. That is, that State and local government aid is one of the most effective means of economic stimulus.

Dr. Swagel, let me just ask you, if I could, the first question. Could you tell us why aid to State and local governments has such a mutiplier effect, and discuss the importance of these governments for economic recovery, please? Dr. Swagel?

Dr. SWAGEL. Yes, sir, Senator Carper. Our analysis of assistance for State and local governments enacted so far, especially in the CARES program, found that those monies by and large were spent immediately. You know, not every penny, but by and large they were spent quickly, and so it had a rapid and large impact.

Additionally, the money given to State and local governments headed off, or reduced the tax increases and other spending cuts that the State and local governments would have had to do. So it had an important part in sustaining demand in that way as well.

Senator CARPER. Thanks so much.

I want to turn to the Comptroller General to talk a little bit more about improper payments, something that he and his folks have been on forever over, as long as I can remember. We handled it too in the Homeland Security and Governmental Affairs office.

General Dodaro—and I think it is just for 2019—agency's across the government made an estimated $175 billion in improper payments, up from about $151 billion in fiscal year 2018. It was not that long ago that that number was under $100 billion. It was not that long ago that number was under $75 billion.

Today, we are talking about $175 billion. Further, as part of the CARES Act, the Treasury Department, as you know, issued over a billion dollars' worth of checks, $1,200 checks, to deceased persons, one of them, as I recall, being your late mother.

So, given our current fiscal condition, we are in no position to continue issuing these kind of errant payments. Earlier this year, legislation was co-authored by Senator Cassidy's colleague, our colleague from Louisiana, John Neely Kennedy, and also with a hand from Rand Paul, a comprehensive update to—no, I am getting ahead of myself.

I guess that was more recently, but earlier this year something called the Payment Integrity and Information Act was signed into law—into law. It was a comprehensive update to the improper payments law which will provide agencies with the tools—provide agencies with the tools—that they need to curb improper payments.

Further, the Stopping Improper Payments to Deceased People Act has passed as a separate piece of legislation, has passed the Senate and now is pending in the House. That is the one co-sponsored by Senator Kennedy, co-sponsored by Senator Paul, over in the House now. And this bill will widely share the death data available to the Social Security Administration to help them prevent payments to deceased people.

General Dodaro, what actions do the executive branch and the Congress need to take in the immediate term to address this particular issue? And that is, sending payments to deceased people.

Mr. DODARO. First, Senator Carper, I think that the executive branch needs to effectively implement the Payment Integrity and Information Act of 2019 that you alluded to. This would require a government-wide effort.

I am concerned that the $175 billion is an understatement, because there are several programs, like Temporary Assistance for Needy Families, where there are no estimates made at all.

Also, it would require more rigor in doing risk assessments, because there are some programs that, because of their risk assessment, they do not make estimates either. And I think that might not be appropriate. And also it would include the estimates that will allow for these areas to be able to detect what some of the root causes are of the problems so that they could be addressed.

The two largest areas for improper payments are in Medicaid and Medicare. And actually the jump between the $150 and $175 billion in the past year or so has been largely due to Medicaid for the review of eligibility determination after the changes from the Patient Protection Act and the review of provider revalidation screening, to make sure everybody is properly screened and enrolled.

And so, that is why I am very concerned, because those are two of the fastest-growing programs in the Federal Government. Congress needs to get on top of this.

There are some recommendations we made. There could be some additional prior authorizations in Medicare that would make sure that the payments are appropriate before they are being made.

This has been demonstrated to be effective and to not harm anybody's care.

There should be more timely auditing of the Medicare Advantage program. In Medicaid, the big growth has been in the Medicaid Managed Care. And that has received virtually little scrutiny. And I think that needs to be more rigorously pursued in that area, with the help of State auditors. I have been trying to work with the Centers for Medicare and Medicaid Services to get them more involved in this process over time.

And the legislation that you mentioned to stop payments to deceased people, if Congress could get Treasury the proper master file, the more complete master file, this can be done very easily, which was what was done with the stimulus payments once they decided they were not going to go that route anymore. They were given temporary access to this file, and it stopped it immediately.

So those are some of the areas.

Senator CARPER. Has my time expired, Mr. Chairman?

Senator CASSIDY. Yes. Thank you very much, sir.

Senator CARPER. Thank you, sir.

Senator CASSIDY. I cannot read that clock on the bottom very well, so I think it is really running long.

Now, Senator Young?

Senator YOUNG. Well, I thank you, Mr. Chairman, and I thank our witnesses for what you do and for your appearance before the committee today.

Today, the Paycheck Protection Program, what most Americans now know as PPP, funded more than 5.2 million loans, for a total of $525 billion. But the program closed with almost $135 billion of funds remaining. For the hardest-hit businesses, the PPP funds have run out, and more funds are going to be needed to weather this storm.

In the United States as a whole, data suggests that nearly a quarter of all small businesses remain closed. Let me say that again. Data suggests that nearly one-quarter of American small businesses remain closed.

These closures, on average, have caused revenues to drop around 40 percent, and even up to 70 percent in the hardest-hit sectors, for example, the hospitality sector. Some estimates indicate that by June, just 3 months after the start of the shutdown, more than 400,000 businesses permanently closed, which is more than what was typically lost during an entire year following the Great Recession.

To ensure more businesses do not fall through the cracks, I introduced the RESTART Act with Senator Bennet. Our legislation would provide low-interest, long-term working capital loans to cover up to 6 months of payroll, benefits, and other fixed operating costs, including rent and utilities. These loans would be eligible for forgiveness based on how much their revenues declined.

Now so far, the RESTART Act is widely supported across a multitude of sectors, including manufacturing, retail, minor league sports, hospitality, even live events. As we wait for a vaccine, I still worry of a domino effect of sorts of lost jobs, as well as lost services and lost products, to say nothing of the lost innovative capacity that can be financially catastrophic if small businesses are allowed to fail.

Dr. Swagel, regardless of the budgetary effects, regardless of the CBO score, do you believe it is necessary to provide additional stimulus, like my RESTART proposal, for the hardest-hit businesses?

Dr. SWAGEL. Thank you, Senator Young. You have put your finger on the challenge that the economy faces and the policy-makers face, that we cannot freeze the economy where it was before the pandemic. There will be reallocation. The PPP, as you said, played an incredibly important role, both in supporting spending and especially in supporting small businesses.

This is needed to provide a buffer to slow down the upheaval. And the RESTART Act, as you said, would extend that. The economy is still evolving, and hopefully we will have scientific progress that will allow us to continue the reopening. And the RESTART Act, as you said, would provide a further buffer.

And anything that—I just want to agree with you here—you said it is targeted. The PPP was very broad, and incredibly rapid. The SBA and Treasury did an incredible job in making that happen rapidly and getting the money out. And now what you are proposing is targeted, with the most assistance going to the most in need to continue to support the economy.

So we at CBO are ready to work with you and look forward to evaluating it, including a cost estimate when the time comes.

Senator YOUNG. Well, thank you, Dr. Swagel. And I am grateful for you and your team's work. You should know that. I just wanted you to set aside all the CBO strictures and rules that we ask you to live by, and offer your analysis. You of course did that.

As a follow-up, generally speaking, could you quantify, or perhaps you would like to qualitatively characterize the direct and indirect economic impact of permanent closure of more small businesses?

I spoke to, for example, the innovation effects. One could perhaps—and I guess this is a bit of a leading question, as I offer some examples—you might also talk about the erosion of skills, or what sorts of things ought my colleagues and I be thinking about when we contemplate the permanent closure of more small businesses?

Dr. SWAGEL. I would just second what you are saying, that the disruptive effect is playing out especially on small businesses, and especially on workers at the bottom of the income distribution. And the unusual part of this pandemic recession is the skewedness for people at the bottom, and the disruption that RESTART is meant to shield against, hitting people at the bottom, and small businesses especially—and as you said, the innovation and job creation, and of course the support for local communities that is focused in small businesses.

So RESTART would buffer against that. And just a last thought, which is again you said—we will always give you the cost, but as much as possible, CBO is here to help provide information to the Congress on other effects, the benefits, and other things like that.

Senator YOUNG. Yes, sir. Yes, sir. If time permits, I am going to head down this road, Dr. Swagel, and see where it leads. But I have real concerns about State and local debt as well. Outside of the Federal budget, States and local governments owe over $3 trillion, plus trillions more in unfunded State pension liability.

It is clear that State and local government debt comprises a huge collective liability. However, that liability is of course spread across numerous municipalities, making the actual burden of debt and risk of default less transparent.

My home State of Indiana was much more prepared than most States to weather this crisis by utilizing its rainy day fund. And I have to say, this is the rainiest of days. And we have been drawing that down.

Due to the pandemic, debt has surged for some States. And while it is unlikely, there is still the possibility of defaults, plus corporate bonds, student loans, mortgages, and SBA loans that could change CBO's debt projections.

Dr. Swagel, can you elaborate on some of the consequences that the Federal Government would face if State or local governments default on their debt obligations?

Dr. SWAGEL. Yes, sir. Yes, Senator. As you said, many States entered the pandemic in relatively good shape, with overall State rainy day funds at an all-time high. If I remember right, they are around $75 billion or so. So States had some buffer. The Federal Government provided assistance. Revenue has actually come in reasonably strongly. And then many State and local government property taxes are an important source of revenue, and property values have not been negatively affected in much of the country as has the overall economy.

Yet still, of course many State and local governments will have trouble. You know, those are localized and can be explained to date suggesting that that will not have an effect on the country as a whole, or the Federal Government as a whole. And we have seen the problems in Illinois and Puerto Rico and some other States, and localities in California, for example.

You know, if the problem is broader, well then there could be a more meaningful impact. But as long as it is localized and the States start in pretty good shape overall, that should not have a huge negative effect for the overall economy.

Senator YOUNG. Okay, so——

Senator CASSIDY. Todd, you are about 3 minutes over. Do you mind if we move on? We will have a second round.

Senator YOUNG. Oh, my apologies to my colleagues. Of course, Mr. Chairman; I yield.

Senator CASSIDY. No, believe me, your questions are great and I wanted to be lenient, but on the other hand, there would be a second round, and folks may want to do that.

Are there any other of my colleagues on? If not, I will now go.

Gentlemen, several questions. Let me set it up like this. It seems as if at least you, Dr. Swagel, are okay with—in fact, even endorse—another round of COVID relief. And we are talking anywhere from $1 to $2 trillion, maybe more. And yet both of you express alarm regarding the debt and deficit, and you highlight the trust funds.

So it tells me, at least it implies to me—and I would like both of you to affirm—that the problem is not so much the discretionary spending, if you will, that spending over which Congress has control, but rather the so-called mandatory spending, the trust fund spending, which goes out the door without Congress necessarily allocating it. And because all of your testimony of alarm has centered around that, and your testimony of maybe we need to think about it, even though it is deficit spending, has centered around the discretionary spending.

Dr. Swagel, will you go first and address that observation?

Dr. SWAGEL. Yes, Senator. And I should start—of course the CBO will give you our analysis. We will never say, you know, this is the right policy or anything. So I am not endorsing any particular policy, even when saying what the beneficial effects would be. Of course that is for the Congress to decide.

As I started with, and as you said, the deficit was large even before the pandemic, a trillion dollars a year into the future, and those trends continue. We have an aging society, and we have health-care costs growing more rapidly than the overall economy—excess cost growth, as we call it. And those are driving entitlement spending up.

That challenge was there before the pandemic. It is exacerbated by the pandemic, but it still remains just as you cited.

Senator CASSIDY. And now, Mr. Dodaro, would you agree with my observation?

Mr. DODARO. Absolutely. The primary drivers are the entitlement programs, as Phil just alluded to, health-care costs, and then interest costs because of the growing debt.

Senator CASSIDY. Let me say this—let me ask you this.

Mr. DODARO. Yes, sir.

Senator CASSIDY. Based on that now, I have read and been told—and I know what I am told, not necessarily what I know—that baby boomers becoming eligible for Medicare and Social Security at a rate of 10,000 a day is kind of driving this. The last boomer turns 82, the average age, I guess, thereabouts, in 2042 or 2046. And that means boomers begin to die off—I am a boomer, so I am speaking of myself—somewhere in the mid-2030s, and that there might be some relief upon this demand for Medicare and Social Security when that big population of boomers begins to decrease relative to the rest of the population. That in turn would give relief to the picture.

Your thoughts on that?

Mr. DODARO. I do not think that that will happen, for the following reason. Life spans are increasing. We have low fertility rates, and the number of people who will continue to be hitting Medicare and Social Security will continue. There is a chart in my written statement that shows 10,000 people a day, going out to at least 2050, will turn 65. It may go out beyond that. I am a boomer too—even though I plan to live forever—but I want to say that I do think the problem has been exacerbated by the boomers, but it is also coinciding with longer life spans and fewer children being born.

And so that is also going to change the financing arrangements that the Federal Government has had for these retirement systems that have been based upon the working population paying payroll taxes to pay the benefits of the senior citizens.

Now, that worked when you had 5, 7, 10 people working for every one Social Security beneficiary. Right now, you only have a little over 2.8 people working for each Social Security beneficiary, and it will eventually get closer to 2 to 1.

So you are not going to be able to accumulate the type of balance that was accumulated in the Social Security fund over the past several decades as a buffer to go into that period. So I do not think anyone should breathe a sigh of relief when the boomer bulge gets through that period of time.

Senator CASSIDY. So let me ask you this. Going back to discretionary spending versus mandatory, we are basically borrowing money—some people call it "free money," the interest rate is so low now. There has been an argument for a large infrastructure package, both because it would stimulate employment among those who are associated with the service industry, construction, manufacturing, and mining, and also it would take care of inefficiencies in our economy related to inadequate infrastructure.

Now again, differentiating this sort of discretionary spending from mandatory spending, do you think—I will start with you, Mr. Dodaro. Would a trillion-dollar over 10 year infrastructure package pose the same issues for accumulating debt and deficit as the baby boomers retiring, as we just described, the so-called mandatory spending?

Mr. DODARO. It would not have the same long tail on it that those things would have. And hopefully there would be able to be some financing arrangements, as there have been in the past, with the highway trust fund basically self-financing.

You could have some self-financing mechanisms also to help with the infrastructure package. But it would not pose the same issue.

And just to emphasize the point, the Budget Control Act of 2011 put limits on discretionary spending. There were some on Medicare—it was very little, though. And it was an attempt to bring the deficit down. And it helped a bit, but discretionary spending is not the problem. The problem is the other areas.

And so I would feel better if we made the 10-year investment in infrastructure, if we had a long-term plan in place to address those issues, so that there is not a tendency to make decisions on all of the above areas where you then complicate things for others.

This is why you need a plan, so you can make investments in infrastructure and national security, and you have flexibility to deal with emergencies. Right now, the Federal Government does not budget for major natural disasters or economic downturns, and all these numbers that CBO is generating do not even consider all these other uncertainties and fiscal exposures that we have as a Nation.

Senator CASSIDY. Let me impose my discipline on myself for time. I will have a second round. I will ask you about the disaster relief fund, because that does seem to be a prefinancing of natural disasters.

Let me go back to my colleague with whom—she and I are going to come up with a robust plan to address this debt and deficit.

Senator Hassan?

Senator HASSAN. Thanks so much, Senator Cassidy. And thanks again to our witnesses.

I want to just start by expressing my agreement and support of Senator Carper's comments about the importance of State and local aid, and compliment Senator Cassidy who, along with our colleague Senator Menendez, introduced critical legislation on State and local aid.

I just wanted to add my comments before moving on to another question, which is simply this: that if we do not add and address the need for more State and local aid in this, what I hope will be another stimulus package, what I know is happening in my State is that revenues are going down. And that results in layoffs of critical front-line workers, including law enforcement, public safety, teachers, at a critical time.

I also know how badly hit our local communities are by the loss of commercial property taxes. Because, while residential property taxes may not have been hit as hard, commercial property taxes and tax revenue that comes from large events at our entertainment arenas, for instance, are really impacting our local communities significantly and will result in, not only a critical reduction of services at a time when we need them more than ever, but layoffs, which obviously add to a drag on the economy, not to mention human misery.

So I do hope we are able to invest in State and local aid, because it is needed, and because, as Dr. Swagel's report indicates, it is a very effective way of getting aid out there at a time when we need it.

Dr. Swagel, I wanted to ask you and Mr. Dodaro to really drill down on this issue of how we go about addressing the debt.

As I mentioned in my opening remarks, the difficulty of addressing the debt only compounds with time. This means that, after recovering from COVID–19, the sooner we can come together to address the debt, the better.

So first, Dr. Swagel, and then I will move to Mr. Dodaro. Can you explain how addressing the debt sooner rather than later would mean that we need a smaller amount of deficit reduction to reach our long-term objectives?

Dr. SWAGEL. Yes. And we have some information on this in our long-term budget outlook report. The intuition is that the longer we wait, that means that there are some generations, or some people within a generation who in a sense do not share in the burden of the fiscal adjustment. And so that is why waiting means that the burden of the adjustment is concentrated in a smaller number of people, and therefore is a larger adjustment, a bigger burden on each generation that does have to pay for the adjustment.

Senator HASSAN. Well, thank you.

In a recent report on the Nation's fiscal health, GAO recommended that Congress adopt a long-term fiscal plan with fiscal rules and budget targets. And, Mr. Dodaro, you began to reference this in the answer to the last set of questions. Can you outline some more of the key considerations that Congress should use in establishing a fiscal plan and how this plan would facilitate appropriately timed deficit reduction?

Mr. DODARO. The anchor of the plan would be a fiscal rule which is designed, according to the International Monetary Fund, to be a sustainable rule that is in place over a long period of time. The

Federal Government is not going to be able to address this issue, so big and so problematic, in a short period of time.

So you would have a debt-to-GDP ratio target—let's say, not being in a position to owe more than the economy is producing. So that would be a target of 100 percent debt-to-GDP. The goal would be to not go above that, or if it happens for a little bit, bring it back down. So we have to set a target. Right now, there are no boundaries. It is what it is. We spend the money we need.

Secondly, the fiscal rule would then—because you are putting it in place, you could then look at some targets. Mandatory spending and discretionary spending and tax expenditures all are going to be needed to be adjusted to deal with the scope of the problem that we have.

Then you would take this fiscal rule—that would be our goal as a country—and these targets for revenues and expenditures over a period of time, as sort of interim benchmarks, and then we could move toward this. You would integrate it with the budget process. You would have enforcement mechanisms. You would have independent people like CBO to say we are meeting our targets, we are meeting our goals, here is how we need to adjust it. But we would have a plan. Right now there is no game plan.

This basically sets out a game plan and provides some rules. Other countries do this, and it has helped them, according to the IMF, to constrain their debt. It has not helped a lot of people to actually reduce it from what it was, but it constrained it from growing larger. And that is really what is needed.

Senator HASSAN. And I take it—and I'm running over, so I am just going to say quickly, I take it that the fiscal rule would also have appropriate escape clauses for a national emergency or something like that; but again, it is a way of getting us to a plan with this rule in place, and then being very specific about when we needed to adjust it.

Mr. DODARO. Yes, that would be one of the design features: escape clauses and emergency clauses. For example, the European Union has these kind of rules, and they have waived them for the COVID–19 situation.

So yes, it definitely would have escape clauses for emergencies.

Senator HASSAN. Thank you very much. And thank you for your indulgence, Mr. Chairman.

Senator CASSIDY. Let me observe that, with Senator Carper, I have been presiding in the Senate when he has given very good speeches about the need to truly finance infrastructure in a fiscally accountable way.

So hats off to Senator Carper for being an advocate for fiscal responsibility for some time.

Senator Carper?

Senator CARPER. Can you hear me?

Senator CASSIDY. Yes, sir.

Senator CARPER. That is great. Thanks for those kind words. I again, with my recovering Treasurer hat on, I am a long-time believer that if things are worth having, they are worth paying for. As it turns out, I think we have reported, unanimously, a 5-year surface transportation bill out of the Environment and Public

Works Committee coauthored by Senator Grassley and myself, supported bipartisanly by folks.

It never came up for a vote on the Senate floor. And the Finance Committee did not do their job. The Commerce Committee did not do their job. The other committees of jurisdiction did not do their job, so we did not have a bill to report out, which is unfortunate. The hardest part in passing transportation legislation is figuring out how to pay for it.

As it turns out, we have not raised the gas or diesel taxes in this country in, I want to say, 20, 25 years. And they are worth about half of what they were when they were enacted all those years ago. If we would simply restore the purchasing power of the gas and user tax, we could make great progress in terms of actually paying for the roads and highways and transit systems that we badly need.

I think 10 years from now most of the cars, most of the vehicles bought and sold in this country will be powered by batteries, be electric vehicles. A lot of them will be powered by hydrogen, vehicles powered by fuel cells to move largely cargo. But what I think we are going to need to do in the long term is move to a vehicle-miles-traveled approach. So the actual amount of money that we pay for use of our roads will be determined by how many miles we traveled on those roads and highways.

That is a story for another day, but let me talk about the tax gap again. We talked about it a little bit today. The tax gap is monies that are owed, the taxes that are not being collected.

Comptroller General Dodaro, my information here indicates that the IRS has estimated the tax gap to be about $440 billion this year—$440 billion. And we have had testimony before the Finance Committee where folks have come in, including former IRS Commissioners, who said that if you would give, if the Congress, the administration would provide an extra dollar for the IRS to do their job, we could reduce the deficit by maybe $5, $10 with each extra dollar.

General Dodaro, give us a number for that. For every dollar that we would provide to the IRS for doing their job—additional, marginal dollars—how much would they be able to do?

Mr. DODARO. According to the fiscal year 2020 Congressional Budget Justification, IRS's enforcement and collection programs had a return on investment of about $10.7 for each dollar spent on these programs in fiscal year 2018, up from $9.7 in 2017. But we have had a lot of recommendations too about how they could use some of the information they have to evaluate their compliance programs to also leverage whatever resources Congress decides to give to them.

Senator CARPER. As a Congressman, I used to have a lot of town hall meetings—hundreds of them. And every now and then we would have town hall meetings where people would go through an exercise on the budget and figure out how to reduce deficits.

I remember this one lady—I mentioned to the group, I said, "You know, one of the ways to reduce the deficit is to increase revenues." And the lady said, "I don't mind paying extra taxes, I just don't want to waste my money."

So I do not want to waste her money either. She also said, "I want to make sure that other people pay their fair share of taxes." We were told by *The New York Times* last week that our President paid $750—not millions of dollars—$750 last year on Federal income taxes. That's not the kind of example we need to set.

Are there any comments you want to make on the tax gap, what we can and should be doing, how we in Congress could help IRS and work with you?

Mr. DODARO. Yes. There are a number of things that Congress could do to help. One is to give IRS what is called math error authority. Where IRS has administrative records, they could correct the tax return rather than start an audit and then explain to the taxpayer what they did, and then the taxpayer would have a right to appeal. It would be less intrusive and burdensome to the taxpayer than audits, making IRS more efficient by correcting obvious noncompliance errors.

Secondly, there could be more third-party reporting, which IRS can use to compare to the tax return filings. This is particularly true for businesses, for example, on commercial real estate in terms of repairs that could be reported by the service provider. Same thing for services of the corporations.

Also, Congress can give IRS the authority to regulate paid tax preparers. IRS data indicate, particularly for the Earned Income Tax Credit, where there is about $17 billion in improper payments, that paid tax preparers actually have a higher error rate than people who prepare their own taxes.

Now I do not know if Senator Wyden is still on the line, but I know the State of Oregon has this in place, and they have found they have greatly benefited their revenue collection agency.

We have recommended this to IRS. They did it in the past, but then the courts ruled they did not have the authority to do it. So Congress really needs to give them the legislative authority to do this. I think it would be very effective.

So those are the things Congress could do.

Senator CARPER. Well, you have given us a great to-do list. I will just close with this thought.

Earlier this year, the Treasury Inspector General for Tax Administration found that the IRS failed to audit nearly 900,000 high-income taxpayers who did not file a complete tax return for tax years 2014 to 2016—900,000—resulting in over $45 billion in unpaid taxes.

There is a great to-do list here. And, God willing, we will make it to the new calendar year, hopefully with a new President and a new Congress, and we will work with you and with Dr. Swagel as we tackle what is an enormous problem, an enormous challenge. We want to do it in a way that is fiscally responsible, but we also want to do it in a way that is sensitive to the needs of the least of these in our society.

I think one of—and actually, I will close with this. If you say, "What kind of Democrat are you, Tom Carper?" I would say, "I am the kind of Democrat who believes we have a fiscal responsibility to the least of these in our society, and I think we have a fiscal obligation to meet that need in fiscally sustainable ways."

I think most everybody would agree with that. But I look forward to that mission. Thank you all.

Senator CASSIDY. Thank you, Senator Carper. I think I am the last questioner. I do not see Todd Young still on. Are you still there? Okay.

Dr. Swagel, let me start with you. I am getting the sense, because both of you are speaking about the amount of money we are putting toward interest payments increasing, that you have an interest rate forecast that obviously interest rates are rising over time. Right now we have this incredibly low interest rate.

What is your interest rate forecast? I presume that at some point it must be rising, because you have incorporated such a higher expense level relative to that.

Dr. SWAGEL. Yes, that is right. And essentially we have interest rates remaining low for the next couple of years and then starting to rise as the economy reaches potential, meaning, we get back to where we were before the pandemic in our projection in the middle of 2022. So not next year, but the year after. But we are still below potential, because our potential has kept going. So that is more like 2028. So as we approach 2028, when the labor market is back, you know, fully back in our projection, that is when interest rates start to inflect upward.

Senator CASSIDY. So if we—now let me go to my next question. I want to build upon what I spoke of earlier about a large infrastructure package. We could actually, therefore, borrow the money at an extremely low interest rate and do an infrastructure package with minimal impact upon the amount of money being applied towards debt service.

Now does CBO have a multiplier effect that they commonly use for infrastructure investment? We have to say what impact would a large infrastructure package have upon the economy in terms of economic growth, tax receipts, reduced efficiencies of the economy, et cetera.

Dr. SWAGEL. We have the ability to do that, that sort of dynamic analysis. It works on the spending side just like on the tax side that a well-targeted infrastructure program, as you said, would expand the productive capacity of the country, increase GDP, increase revenues, and the spending would cost less than the full amount of the dynamic estimate. We have the ability to do that. We do not have a rule of thumb, but we would look at the particulars of the legislation to do that.

Senator CASSIDY. And to say though, therefore, that with interest rates being so low, obviously you are more likely to describe it from the principal as opposed to the principal plus interest, again because interest rates are so low.

Dr. SWAGEL. That is exactly right. I mean, the long-term interest rate now is below our projected rate of inflation. So there is a negative real interest rate for a while. And of course the challenge is that the primary deficit is still pretty wide. So our debt ratio keeps going up. But like you said——

Senator CASSIDY. I am not an economist, but I just read an article that said if your interest rate is less than your rate of inflation, actually you can borrow to increase growth without economic consequence per se. Now again, that is about as far as I understand that concept, but I am sure you must be familiar with that idea.

Any comments on that?

Dr. SWAGEL. That is right. It is something that former Treasury Secretary Larry Summers has made a point of, and others—former Obama advisor Jason Furman has made the point recently. And of course, the challenge is making sure that the spending is effective.

You know, if interest rates are low and we just burn resources with ineffective investment spending, that does not improve our productive capacity. So that is the challenge. But the way you put it is spot-on, just conditional on effective investment.

Senator CASSIDY. So going back to an effective infrastructure package, that would meet that criteria? And by the way, you come from a more conservative background than Furman and Summers, but do you agree with their assertion? They are left-of-center; you are right-of-center, I gather, so is it fair to say that this analysis would find agreement on both sides of the political spectrum?

Dr. SWAGEL. Yes. I mean, their analysis is spot-on. And of course the challenge is that, depending on how quickly we pay off the debt, we may have to refinance. And you know, if we borrow for 10 years and then in the 11th year we have not paid it off and we have to refinance it at a higher rate, that is always the challenge.

But you know, I quickly have to present the downsides here, the other considerations, because that is part of my job.

Senator CASSIDY. And, Mr. Dodaro, you raised something earlier that we have not discussed that much, except for one hearing that we had in Finance, which is the Medicaid Managed Care. With lack of scrutiny, for the first time there are more improper payments relative to Medicaid. And this relates to eligibility determination.

Again, I am familiar with people in Louisiana doing an analysis on that, but you suggest that it is pretty widespread. And as you said, it is now surpassing Medicare in terms of improper payments.

Will you elaborate on that, please? And tell me what you are gathering your data from. That is what I am really interested in.

Mr. DODARO. The estimates are coming from the Centers for Medicare and Medicaid Services. After the Affordable Care Act was passed in 2010 and became effective in 2014, they did not do any reviews of beneficiary eligibility determinations until they started about a year or so ago. And they are doing 17 States at a time.

So the first tranche of 17 States' error rates showed up in the 2019 estimates. And they increased the improper payments about $25 billion, I believe—somewhere around that neighborhood.

Senator CASSIDY. Can I ask, those States, were they small States or big States? Can you tell me some of those?

Mr. DODARO. I think it is a mixture of States. These States are Arkansas, Connecticut, Delaware, Idaho, Illinois, Kansas, Michigan, Minnesota, Missouri, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Virginia, Wisconsin, and Wyoming. So they still have 33 more States and the District of Columbia to go before they have one round of these reviews.

Senator CASSIDY. Now that $25 billion, is that from the inception of Obamacare? Or is that only for 2019 or 2018? What is the time frame for that $25 billion?

Mr. DODARO. I believe it's a 2018 time frame.

Senator CASSIDY. So it is $25 billion in 1 year, and potentially we could multiply that times three and we would come up with the improper eligibility Medicaid recipients. Federal taxpayers are out $75 billion. You cannot say that, but you might be able to imply that?

Mr. DODARO. Correct. Well, we do not know what it is. That is the problem I have had, is that, we do not know what it is. And Managed Care spending for Medicaid is over 50 percent. That has been growing. When it first started, it was more like 15 percent. And those Managed Care reviews are not being carried out at all.

In fact, I have worked with Daryl Purpera, the State Auditor in Louisiana, and we have been trying to work with the State Auditors Association and CMS to get the State Auditors to do more like what Daryl is doing in Louisiana. And we are moving in that direction, but that is going to take some period of time. I think they could help address this and reduce the improper payments if they are given the proper authority and the proper data to do matching and to provide some fiscal discipline.

Senator CASSIDY. Are the States obligated to pay back the money the Federal taxpayer puts up if they are not auditing to ensure appropriate enrollment into Medicaid programs?

Mr. DODARO. I do not think they are if they are not auditing. I think they are if they are found not to be paying properly. And some of that is offset against their future spending. But my experience is that that does not happen that often, that there are not that many penalties put on States in the Medicaid program.

Senator CASSIDY. So you could, theoretically, but in reality it does not seem to be the case in practice?

Mr. DODARO. That is correct.

Senator CASSIDY. So really, with the Federal Government picking up 90 percent, then that means that that limits the incentive for the States to go after these folks. They are only getting 10 percent of the investment, so to speak.

Mr. DODARO. That is correct. Although, the Medicaid program is the fastest-growing program in the State's budget as well. So there is some sort of incentive for them. In fact, we were talking earlier about the State and local fiscal positions from a debt standpoint. We do a projection of the State and local fiscal sector like we do the Federal Government's long-term fiscal path. The State and local sector as a whole is on the same path as the Federal Government, is on an unsustainable basis, largely for the same reason, which is rising health-care costs, not just for Medicaid but for their own employees, both current employees and retirees.

Senator CASSIDY. I would have thought for those folks it would have been more the unfunded accrued liability and pension plans. Is that not the case?

Mr. DODARO. Well, the pension plans are part of the problem, but that is more isolated in particular States that have taken different paths on that issue. The health-care impact is across the board.

Senator CASSIDY. So if we can reduce health-care costs, that would do positive things for State and local governments—obviously problem things for the average American—and positive things for the Federal fisc.

Mr. DODARO. Health care is the key. It is the key to fiscal sustainability. We need to manage health care, because costs are growing faster than the economy, even though it has slowed a little bit more. And the cost for beneficiaries is rising. And with an aging population, if we do not do that, we are only going to have relatively modest effects on this fiscal path that we are on as a Nation.

Senator CASSIDY. Okay. Well, that is probably the best way to summarize this. The primary problem driving it for all levels of society down to the individual is health-care costs. And I say that as a physician.

Well, thank you, everybody. Maggie, I saw your light just lit up. Do you have one more comment?

Senator HASSAN. Yes, I do. Well, I wanted to thank you, Mr. Chairman, for the hearing, and the witnesses again for excellent testimony which reflects the long-term excellent work that you and your teams do.

But I also was just going to thank you for raising the issue of health-care costs, Mr. Chairman, and also reiterate what Senator Wyden said, which is our entire Finance Committee passed out of committee a bipartisan prescription drug price reduction bill. Senator Cassidy and I both voted in favor of it. And by estimates, it would reduce spending by about $100 billion on prescription drugs.

So there is some common ground to be had on, certainly, making sure that we lower the cost of prescription drugs. There is some common ground to be had as well in overseeing Medicaid expenditures. I will say that one of my experiences as Governor when we expanded Medicaid was talking to the number of people who got on Medicaid, for instance for substance use disorder, and got treated and then got jobs and moved off of Medicaid into private insurance in a situation they never would have had if they had not had the access to Medicaid to begin with.

So I look forward to studying this issue some more with you, Senator Cassidy, because I do think if we cannot get a handle on health-care costs, a lot of the rest of our discussion will be more marginal.

Senator CASSIDY. Yes, I agree with that.

I would like to thank everybody. I would like to thank our witnesses, Ranking Member Hassan, the rest of my colleagues, for joining us this afternoon for discussion on such an important issue. It was incredibly illuminating. So I really thank our witnesses who provided a lot of good information.

The numbers and implications are clear. The current course is not sustainable. Congress needs to start thinking about solutions of how to head off the negative consequences of inaction.

I again thank colleagues for being here. I look forward to continued partnerships and commitment to finding pragmatic and common-sense solutions.

There is a time period by which additional questions can be submitted. I was not putting that in my closing remarks, so arbitrarily I am going to say we have 5 days.

The hearing is now adjourned.

[Whereupon, at 3:38 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Hon. Bill Cassidy, a U.S. Senator From Louisiana

Good afternoon, and thank you all for being here for today's hearing on the Nation's fiscal outlook. I am grateful to the witnesses who took the time to testify today.

Today's hearing will discuss a topic that we prefer to shy away from seriously addressing: our Nation's runaway debt and deficit issues.

When it comes to our health, we make choices that aren't so easy. We choose to exercise when we want to relax, and we choose to eat healthy when we'd prefer to splurge. But these things promote our health and fitness, and it's worth it for our overall well-being.

Similarly, if we want to be strong as a Nation, we must monitor our fiscal position and keep our revenues in balance with our spending. Unfortunately, we have become fiscally soft and flabby.

CBO expects debt to rise to 107 percent of GDP in 2023, which would be the highest in our Nation's history. They also project that debt held by the public will be equal to 195 percent of GDP in 2050, if all goes well.

Meanwhile, the highway, Medicare, and Social Security trust funds are on a glide path to insolvency. All are expected to be depleted by 2031.

CBO's long-term report says to get us back just to 2019 levels by 2050 would require some combination of spending cuts and tax increases amounting to $2,700 per person per year. The longer we wait, the worse it gets. So, this is not going to be an easy fix.

The current coronavirus pandemic reminds us that we live in an impermanent and unpredictable world. Even in our country's relatively short history, we have seen powerful nations decline. Most recently, we saw the Soviet Union go from the first nation to put a satellite in space to collapse in a little over 30 years. I'll note that that's the time frame of the long-term CBO report.

I am not saying that the United States is like the Soviet Union or that debt led to its downfall. Instead, I'm saying that the unthinkable happens all the time. We should not be so arrogant as to think our current position will last forever.

Since World War II, the United States has become the greatest economic power in history. We have used this power to maintain a long period of relative global peace. As part of our success, we have enjoyed the benefits of a prosperous economy and a dominant position in foreign affairs.

I worry that we take our status for granted. One way we show our complacency is by spending without thinking about the future. We are wasting our inheritance.

History assures us nations rise and fall. To face threats, we need to stay lean and strong. I think we all agree that our children and grandchildren will face new and unprecedented challenges. Surely, one contribution we can make to the next generation is to not put them in a financial bind.

Right now, we are in a unique situation, and I have advocated for additional fiscal stimulus. Most other members of this body have as well. Our failure to pass another relief package has much more do with politics and priorities than a willingness to spend.

Whether or not another relief package gets passed, we will spend trillions in coronavirus relief this year—a number so massive we can hardly fathom. None of it is paid for. So, there is disagreement on exactly how much should be spent, but Congress is not being stingy.

When it comes to our current fiscal situation, there's plenty of blame to go around. I hope this will not devolve into a discussion of who's more at fault. That is not a productive conversation. Nothing will get done without collaboration and give and take.

I've seen recent polling that suggests people want to see action to reign in the national debt. But I think we all know that actually addressing this challenge involves tough choices and tradeoffs. There is no easy answer. That's why it's something we have to lead on in Congress.

The first step is to acknowledge the problem. Some in the public square have made the argument that deficits do not matter.

I hope to hear details from the witnesses about the scope of what we're up against and a frank appraisal of the consequences of not acting.

Thank you all for being here today, and I will now turn to Senator Hassan for her opening statement.

REFUTATION OF PARTISAN ATTACKS ON PRESIDENT TRUMP'S POLICIES ON SOCIAL SECURITY AND MEDICARE

In recent weeks, some on the left have argued that President Trump plans to cut Social Security, Medicare and other entitlements. Unfortunately, Ranking Member Wyden raised this attack in the October 7, 2020 hearing on "The Fiscal Outlook" in the Senate Finance Committee.

These claims are flat-out bogus. President Trump has always protected entitlement programs, and few have been as emphatic in their advocacy. As President, candidate for President, and as a private citizen, he has been a vocal and passionate supporter of the Social Security and Medicare programs.

President's public statements:

<u>Press Briefing—August 13, 2020</u>

"When we win the election—when I win the election, I'm going to completely and totally forgive all deferred payroll taxes without in any way, shape, or form hurting Social Security. That money is going to come from the General Fund. We're not going to touch Social Security. I said from day one that we're going to protect Social Security, and we're going to protect our people. And Social Security is one of the things that will be protected. Pre-existing conditions will be protected. Medicare will be protected."

<u>Roundtable Discussion on Fighting for America's Seniors—June 15, 2020</u>

"We're strongly defending Medicare and Social Security, and we always will. We'll always protect our senior citizens and everybody against pre-existing conditions."

<u>Protecting Seniors with Diabetes event—May 26, 2020</u>

"Nothing will ever stop me from fulfilling my solemn duty to America's seniors. I'll use every power at my disposal to lower drug prices, and my administration will always protect Medicare and Social Security—and, by the way, pre-existing conditions."

<u>Twitter—March 15, 2020</u>

"I must say, that was a VERY boring debate. Biden lied when he said I want to cut Social Security and Medicare. That's what they ALL said 4 years ago, and nothing happened, in fact, I saved Social Security and Medicare. I will not be cutting, but they will. Be careful!"

<u>Signing of an Executive Order Protecting and Improving Medicare for our Nation's Seniors—October 3, 2019</u>

"So in my campaign for President, I made you a sacred pledge that I would strengthen, protect, and defend Medicare for all of our senior citizens. And you see it's under siege, but it's not going to happen."

Remarks before bilateral meeting with the Amir of Kuwait—September 5, 2018

"We're saving Social Security. The Democrats will destroy social security. We're saving Medicare. The Democrats want to destroy Medicare. If you look at what they're doing, they're going to destroy Medicare. And we will save it."

Weekly Address—May 26, 2017

"We will balance the budget without making cuts in Social Security and Medicare."

Republican Presidential Debate—March 11, 2016

"And it's my absolute intention to leave Social Security the way it is. Not increase the age and to leave it as is."

Republican Presidential Debate—February 13, 2016

"There's tremendous waste, fraud and abuse, and we're going to get it. But we're not going to hurt the people that have been paying into Social Security their whole life and then all the sudden they're supposed to get less."

Campaign event in Birch Run, Michigan—August 12, 2015

"We're going to save social security. You are going to love President Trump."

Twitter—May 21, 2015

"I am going to save Social Security without any cuts. I know where to get the money from. Nobody else does."

Twitter—May 7, 2015

"I was the first and only potential GOP candidate to state there will be no cuts to Social Security, Medicare, and Medicaid. Huckabee copied me."

Remarks at CPAC—March 15, 2013

"As Republicans, if you think you're going to change very substantially for the worse Medicare, Medicaid, and Social Security in any substantial way, and at the same time you think you're going to win elections, it just really is not going to happen."

Twitter—August 28, 2012

"I am very worried that if @BarackObama is re-elected then Medicare will be destroyed. We must take care of our seniors."

Twitter—July 8, 2011

"House GOP wants to cut Medicare, Obama took $500 billion from Medicare for Obamacare. Both Wrong!"

Press and "fact check" organizations:

Politifact—August 12, 2020

"Social Security Works said, 'Donald Trump says he will 'terminate' Social Security if re-elected.' Trump never said he will terminate Social Security. . . ."

USA Today—September 21, 2020

"Trump recently signed an order offering temporary relief from the payroll tax that funds Social Security, and he has repeatedly said he'd terminate the tax entirely if he's reelected. But ending the tax that pays for Social Security and ending the Social Security program itself are not the same. When asked, Trump said the measures would have 'zero impact' on Social Security, and he said he'd 'protect' the program."

Factcheck.org—September 14, 2020

"A Biden campaign TV ad falsely claims that a government analysis of President Donald Trump's 'planned cuts to Social Security' shows that 'if Trump gets his way, Social Security benefits will run out in just 3 years from now.'"

PREPARED STATEMENT OF HON. GENE L. DODARO, COMPTROLLER GENERAL OF THE UNITED STATES, GOVERNMENT ACCOUNTABILITY OFFICE

The Nation's Fiscal Health: A Long-Term Plan Is Needed for Fiscal Sustainability

WHY GAO DID THIS STUDY

By the end of fiscal year 2019, debt held by the public had climbed to 79 percent of GDP. The Congressional Budget Office (CBO) projects debt to reach 107 percent of GDP by 2023, its highest point in history. In addition, CBO projects that annual deficits will exceed $1 trillion in each of the next 10 years.

As currently structured, the Federal debt limit is not a control on debt, but a legal limit on the total amount of Federal debt that can be outstanding at one time. It restricts the Department of the Treasury's (Treasury) authority to borrow to finance fiscal decisions that have already been made. Uncertainty around the debt limit increases borrowing costs and decreases demand for Treasury securities, among other things.

This statement focuses on (1) the Federal Government's unsustainable long-term fiscal path, (2) actions needed to address the Federal Government's fiscal challenges, and (3) executive agencies' opportunities to contribute to fiscal health.

This statement is based upon GAO's September 2020 report on fiscal rules and targets, and GAO's March 2020 annual report on the Nation's fiscal health. GAO updated certain information with new data from CBO and others.

WHAT GAO RECOMMENDS

GAO has previously suggested that Congress (1) establish a long-term plan that includes fiscal rules and targets and (2) consider alternative approaches to the debt limit.

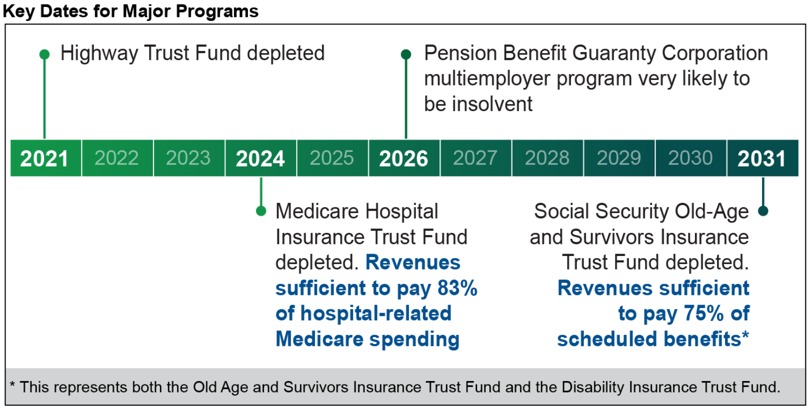
WHAT GAO FOUND

The Federal Government faced an unsustainable long-term fiscal path—even before complications resulting from COVID–19—caused by an imbalance between revenue and spending built into the structure of current law. Congress and the administration have taken necessary actions—which totaled $2.6 trillion—to respond to COVID–19 and the resulting severe economic downturn. Once public health goals have been attained and the economy has substantially recovered, Congress and the administration should swiftly implement a broad plan to address the long-term fiscal outlook.

This plan could benefit from the inclusion of fiscal rules and targets, which guide fiscal policy by controlling factors like expenditures, revenue, or the ratio of debt to gross domestic product, as well as from an alternative approach to the debt limit.

The Nation also faces impending fiscal pressures for major programs, which add to the need for action (see figure).

Key Dates for Major Programs



Sources: Pension Benefit Guaranty Corporation and Congressional Budget Office. | GAO-21-161T

Notes: Years above may reflect either fiscal or calendar years. The Congressional Budget Office projections for the trust funds reflect the effects of COVID-19. Pension Benefit Guaranty Corporation projections do not reflect the effects of COVID-19.

The Federal Government also faces certain fiscal exposures—including unforeseen events like COVID–19 and natural disasters—that present risks to its future fiscal condition. In addition, executive agencies could achieve billions of dollars in financial benefits by reducing improper payments and the tax gap; increasing scrutiny of tax expenditures; and continuing to address duplication, overlap, and fragmentation in Federal programs.

Chairman Cassidy, Ranking Member Hassan, and members of the subcommittee, I appreciate the opportunity to be here today to discuss our Nation's fiscal health and the actions needed to chart a more sustainable long-term fiscal path.

I have long been concerned about the Federal Government's long-term fiscal outlook. Recently, the Coronavirus Disease 2019 (COVID–19) pandemic has necessitated a major Federal response to address our national public health emergency and resulting economic turmoil. While it is essential to confront COVID–19 and heal our economy, these efforts further complicate our government's fiscal condition.

Congress and the administration have taken action on multiple fronts to address challenges that have contributed to the loss of life and profound economic disruption. These actions have directed much-needed Federal assistance—totaling $2.6 trillion—to support individuals and many public and private entities, including local public health systems and private-sector businesses. These short-term fiscal decisions have appropriately focused on protecting public health and the economy, and more assistance will likely be warranted. However, over the longer term, Congress and the administration need to take action to address the Federal Government's fiscal challenges.

This necessary fiscal response, combined with the severe economic contraction from the pandemic, have generated a substantial increase in Federal debt which is expected to continue, as expenditures increase and tax revenues fall. These fiscal challenges will require attention once the economy has substantially recovered and public health goals have been attained.

Once the current crisis abates, Congress and the administration need to swiftly put in place a broad plan to put the Federal Government on a sustainable long-term fiscal path. Such a plan is needed to ensure that the United States remains in a strong economic position to meet its social and security needs, as well as to preserve flexibility to address unforeseen events like COVID–19. This plan could benefit from the inclusion of fiscal rules and targets—which guide fiscal policy by controlling factors like expenditures, revenue, or the ratio of debt to gross domestic product (GDP)—as well as an alternative approach to the debt limit as currently structured.

My statement today focuses on (1) the Federal Government's unsustainable long-term fiscal path, (2) actions needed to address the Federal Government's fiscal challenges, and (3) executive agencies' opportunities to contribute to fiscal health. My statement is based upon our September 2020 report on fiscal rules and targets and our March 2020 annual report on the Nation's fiscal health.[1]

For the September 2020 report, we analyzed Congressional Budget Office (CBO) data on the Nation's fiscal condition, analyzed relevant literature, and interviewed experts, among other things. For the March 2020 report, we leveraged our fiscal year 2019 audit of the U.S. government's consolidated financial statements and our 2019 High-Risk List, among other things.[2] More information about our objectives, scope, and methodology for that work can be found in the issued reports. We updated certain information in this statement with the most recent available data from CBO and other sources. Our work was performed in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives.

THE FEDERAL GOVERNMENT'S UNSUSTAINABLE LONG-TERM FISCAL PATH

Federal Debt Is Rising to Historic Levels

Even before the pandemic, the Federal Government was on an unsustainable long-term fiscal path caused by an imbalance between revenue and spending that is built into the structure of current law. Both spending and revenue have increased in recent years; however, growth in spending has outpaced modest revenue growth, deepening the Federal Government's fiscal imbalance. CBO projects that the annual deficit will exceed $1 trillion in each of the next 10 years.

This imbalance has contributed to growing Federal debt. By the end of fiscal year 2019, Federal debt held by the public had climbed to 79 percent of GDP. In September 2020, CBO estimated that it will continue to grow in the coming years, reaching 107 percent of GDP in 2023, its highest point in history (see fig. 1). CBO projects that debt held by the public will reach 195 percent of GDP in 2050. That the debt is growing faster than GDP means that the Federal Government is on an unsustainable fiscal path.

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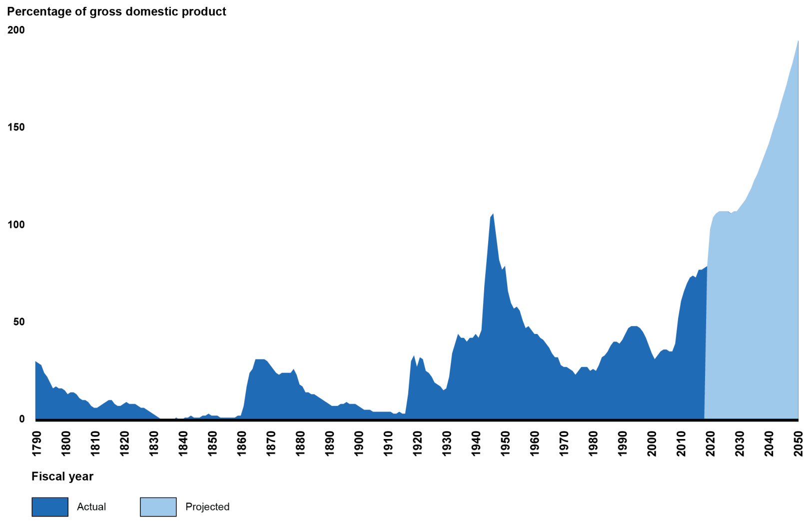
[1] See GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets,* GAO–20–561 (Washington, DC: September 23, 2020); and *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future,* GAO–20–403SP (Washington, DC. March 12, 2020). We plan to issue our next annual report on the Nation's fiscal health in January 2021.

[2] GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas,* GAO–19–157SP (Washington, DC: March 6, 2019); and *Financial Audit: Fiscal Years 2019 and 2018 Consolidated Financial Statements of the U.S. Government,* GAO–20–315R (Washington, DC: February 27, 2020).

Figure 1: Federal Debt Held by the Public



Source: GAO analysis of Congressional Budget Office data. | GAO-21-161T

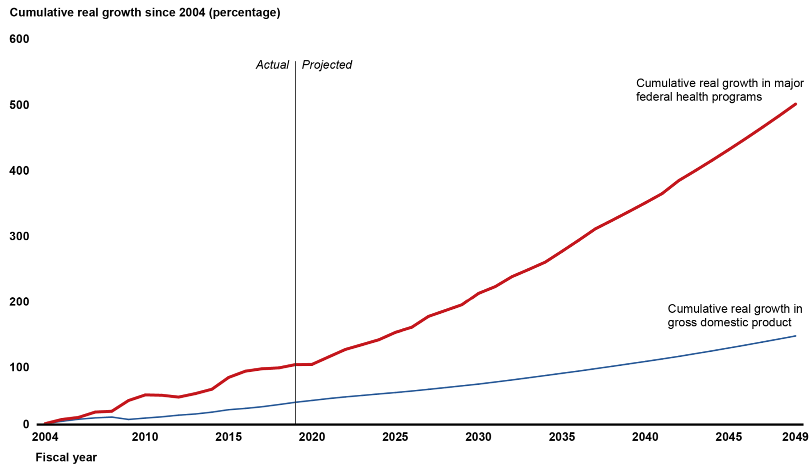
Health-Care Spending Is a Key Driver of the Long-Term Outlook

Federal spending on major health-care programs and Social Security each exceeded $1 trillion in fiscal year 2019. Together, they accounted for more than half of total noninterest spending. Spending on these programs is expected to grow over the coming decade.

Over the long term, Federal spending on health care is a key driver of growth in spending on Federal programs. In March 2020, even before the fiscal and economic effects of COVID–19, we projected that Federal spending on major health-care programs would continue to grow faster than the economy. This spending has exceeded the growth of GDP historically and is expected to continue to do so (see fig. 2).[3]

[3] CBO's September 2020 long-term projections of real GDP growth, which reflect the effects of COVID–19, are comparable to its pre-pandemic long-term projections. In September 2020, CBO slightly lowered its projections of long-term spending for major health-care programs.

Figure 2: Federal Spending on Major Health Care Programs Grows Faster than GDP



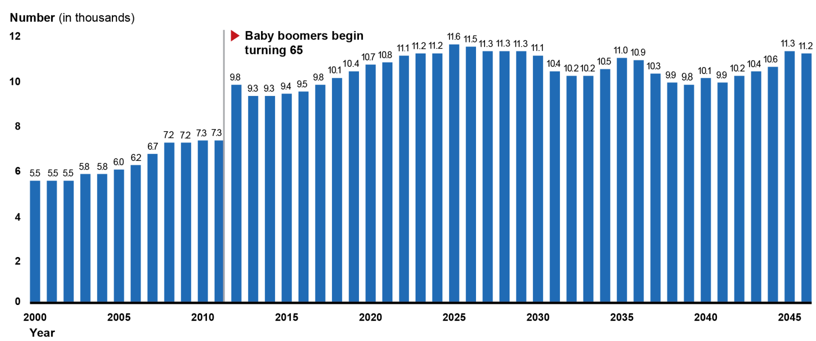
Source: GAO analysis of Congressional Budget Office and Bureau of Economic Analysis data. | GAO-21-161T

Note: This figure does not reflect the effects of COVID-19. It compares projections of real growth in spending on health care programs to real growth in GDP over 30 years. Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and federal subsidies for health insurance purchased through the marketplace established by the Patient Protection and Affordable Care Act and related spending. The Congressional Budget Office's September 2020 long-term projections of real GDP growth, which take the pandemic into account, are about the same as its 2019 long-term projections. Cumulative growth in both GDP and federal spending on major health care programs has been adjusted for inflation.

Growth in Federal spending on health care is driven by increasing enrollment, particularly in Medicare, stemming primarily from the aging population, and by the increase in health-care spending per beneficiary.

- **Aging population.** In its 2020 long-term budget outlook report, CBO projected that by 2050, 22 percent of the population will be age 65 or older, compared to 16 percent in 2019. This demographic trend is driven largely by lower fertility rates and increases in life expectancy. This trend has been accelerated by the relatively large baby boom generation, which began turning 65 in 2011 (see fig. 3). Medicare enrollment is expected to increase over the next decade as the number of people older than 65 increases.

Figure 3: Daily Average Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau information. | GAO-21-161T

- **Per-beneficiary spending.** The amount of money spent on health care per person historically has risen faster than per capita economic output and is projected to do so in the future. In its 2020 long-term budget outlook report, CBO projected that the growth in health-care spending per person will account for about two-thirds of the increase in spending for the major health-care programs as a share of GDP between 2019 and 2050. During the past several years, health-care spending per person grew more slowly than it has historically, but CBO and the Medicare Trustees both project that spending per enrollee in Federal health-care programs will grow more rapidly over the coming decade. Various factors can affect per beneficiary spending, including the emergence of new medical procedures and treatments.

Net Interest Spending Is Growing Over the Long Term

Growth in spending on Federal programs contributes to long-term growth in Federal outlays both directly and indirectly, as spending financed by debt leads to increased payments of interest. Spending on net interest totaled $376 billion—or 8.4 percent of total Federal spending—in fiscal year 2019. As net interest grows with the Federal Government's mounting debt, it is projected to exceed several types of spending, including Medicare, Social Security, and total discretionary spending over the long term.

Net Interest

Net interest primarily consists of interest costs on the Federal Government's debt held by the public. The amount of net interest spending is a function of the size of the debt to be financed and the level of interest rates. Spending on net interest means less room in the budget for Federal programs to support national goals and priorities or for tax cuts.

Source: GAO analysis. | GAO–21–161T

CBO estimated that spending on net interest will fall to $338 billion in fiscal year 2020, primarily due to historically low interest rates. CBO projects that average interest rates on debt held by the public will be 2.0 percent in 2020, falling to 1.2 percent in the middle of the decade and subsequently increasing to 2.1 percent in 2030.

However, CBO anticipates that interest rates will rise over the long term. For example, CBO projects interest rates on 10-year Treasury notes will rise from an average of 0.7 percent in mid-2020 to 3.2 percent in 2030 and 4.8 percent in 2050. For any given level of debt, a change in interest rates changes interest costs. Interest rates also have a compounding effect on the debt when the Federal Government borrows to make interest payments.

Treasury Securities

The Department of the Treasury (Treasury) issues securities in a wide range of maturities to appeal to a broad range of investors to support its goal of borrowing at the lowest cost over time. Treasury refinances maturing debt by issuing new debt in its place at prevailing interest rates.

Source: GAO analysis. | GAO–21–161T

Future interest costs will also depend, in part, on the outstanding mix of Treasury securities the public holds. At the end of fiscal year 2019, 61 percent of the outstanding amount of publicly held marketable Treasury securities (about $9.9 trillion) was scheduled to mature in the next 4 years.[4] If interest rates are higher when securities mature than when they were issued, and Treasury refinances these securities at the higher interest rates, the higher interest costs will add to the growing Federal debt. As of March 2020, international investors held 37.5 percent of Treasury securities.

Since the outbreak of COVID–19, the major credit rating agencies have maintained their rating of U.S. debt at AAA or, in the case of Standard and Poor's, AA+.[5] The agencies note the continued strength and resilience of the U.S. economy and institutions. However, in July 2020, the credit rating agency Fitch revised the U.S. outlook from stable to negative, citing the ongoing deterioration in the outlook for Federal debt. The absence of a credible plan to address it, according to Fitch, may

[4] Marketable securities are securities that can be resold by whomever owns them. At the end of fiscal year 2019, 97 percent of the outstanding amount of securities that constitute debt held by the public was marketable. For more information, *see* GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2019 and 2018 Schedules of Federal Debt,* GAO–20–117 (Washington, DC: November 8, 2019).

[5] In August 2011, Standard and Poor's lowered its long-term sovereign credit rating on the United States from AAA to AA+, citing the United States' rising public debt burden and greater policy-making uncertainty.

weaken institutions and has already started to erode the traditional credit strengths of the Treasury market.[6]

Although Moody's U.S. outlook remains stable, in June 2020 the rating agency noted that despite low interest rates, over the longer term, it expects U.S. debt affordability to deteriorate, driven mainly by lower government revenues, higher average levels of unemployment, and higher debt accumulation.[7]

COVID–19 Has Complicated the Fiscal Outlook

In response to the unprecedented global crisis caused by COVID–19, the Federal Government has taken actions that have helped direct much-needed assistance to support many aspects of public life, including local public health systems and private-sector businesses. Specifically, four relief laws were enacted as of September 2020 that appropriated $2.6 trillion across the government to fund response and recovery efforts, as well as to mitigate the public health, economic, and security effects of COVID–19.[8]

In addition, COVID–19 prompted serious economic repercussions, which has caused tax revenue to fall. In July 2020, CBO estimated that real (inflation-adjusted) GDP will contract by 3.8 percent in fiscal year 2020. CBO also expects revenues to be sharply lower in 2020 than in 2019. In September 2020, CBO estimated that revenues for fiscal year 2020 will be about $3.3 trillion, or $167 billion less than in fiscal year 2019.

As we reported in September 2020, State and local governments also face deteriorated fiscal conditions due to COVID–19.[9] Similar to the Federal Government, they have experienced increased expenditures and decreased revenues stemming from the pandemic and the resulting economic effects. Increased unemployment and reduced consumption and economic activity contributed to reduced state and local revenues. In addition to updating their revenue forecasts, State and local governments have taken actions to respond to these fiscal challenges, including freezing hiring, furloughing staff, restricting contracts and new spending, and freezing discretionary spending.

In addition, as the number of continuing unemployment claims remains historically high, more States are facing increased financial strain, and some have sought loans from the Federal Government to pay unemployment insurance (UI) benefits.[10] As of September 29, 2020, 6 months since the March 2020 spike in UI claims, 18 States and the U.S. Virgin Islands have taken out Federal loans totaling about $33.7 billion to pay UI benefits.

A number of States also tapped their reserve funds to balance budgets for fiscal year 2020. The four COVID–19 relief laws provided an estimated $335 billion in funds to agencies for assisting U.S. States, localities, territories, and tribes, including the Coronavirus Relief Fund, which provided $150 billion in direct assistance to help offset costs of their response to the COVID–19 pandemic.

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[6] *See* Fitch Ratings, *Fitch Revises United States' Outlook to Negative; Affirms at 'AAA'* (New York: July 31, 2020). A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive, or developing outlook indicates a higher likelihood of a rating change over the medium term.

[7] *See* Moody's Investors Service, *Rating Action: Moody's affirms United States' AAA rating; maintains stable outlook,* (New York: June 19, 2020).

[8] The four relief laws are the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116–123, 134 Stat. 146 (2020); Families First Coronavirus Response Act, Pub. L. No. 116–127, 134 Stat. 178 (2020); Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116–136, 134 Stat. 281 (2020); and Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116–139, 134 Stat. 620 (2020).

[9] GAO, *COVID–19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions,* GAO–20–701 (Washington, DC: September 21, 2020). For more information on the State and local fiscal outlook, *see* GAO, *Intergovernmental Issues: Key Trends and Issues Regarding State and Local Sector Finances,* GAO–20–437 (Washington, DC: March 23, 2020) and *State and Local Governments' Fiscal Outlook: 2019 Update,* GAO–20–269SP (Washington, DC: December 19, 2019).

[10] While the CARES Act UI programs are federally funded, regular UI is primarily funded through State and Federal taxes on employers. When a State exhausts the funds available for regular UI benefits, it may borrow from the Federal Government. According to Department of Labor data, even before the pandemic, many States were not taking in enough UI tax revenue to satisfy the solvency standard specified in the Department's regulations providing for interest-free loans to States. See 20 CFR § 606.32 (2019).

FISCAL SUSTAINABILITY WILL REQUIRE A LONG-TERM PLAN

Since 2017, we have stated that the Federal Government needs a long-term plan to help put it on a sustainable fiscal path. Once the current crisis abates, having a long-term plan with clear goals and objectives agreed to by Congress and the administration, as well as strategies for achieving those goals and objectives, would provide transparency over the fiscal impacts of budget decisions for each year as well as over the long term.

Fiscal Rules Could Help Form a Long-Term Plan

According to the International Monetary Fund (IMF), a fiscal rule is a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates, such as expenditures and revenue. Fiscal targets are the interim benchmarks that may be established within the parameters set by the fiscal rules. There are various types of fiscal rules. For example, a debt rule sets an explicit limit or target for debt held by the public, typically as a share of GDP. A budget balance rule constrains deficit levels or targets a budget surplus.

In September 2020, we suggested that Congress consider including fiscal rules and targets, such as a debt-to-GDP target, as part of a long-term fiscal plan.[11] According to the IMF and the Organisation for Economic Co-Operation and Development (OECD), fiscal rules have the potential to contribute to fiscal sustainability.

The IMF has reported that well-designed fiscal rules have been effective in containing excessive deficits in other countries. In addition, the OECD has reported that debt-to-GDP targets can serve as a fiscal policy anchor for a country's government to help ensure the sustainability of fiscal policy and maintain sufficient policy room for the government to cope with adverse shocks.

The two Federal fiscal rules currently in effect—the Statutory Pay-As-You-Go Act of 2010 (Statutory PAYGO Act) and the Budget Control Act of 2011 (BCA)—have not corrected the imbalance between spending and revenues that has led to rising debt.[12] From fiscal year 2012 through fiscal year 2019, when both laws were in effect, Federal debt held by the public continued to grow (from 70 percent to 79 percent of GDP), even though the economy was expanding during this period.[13]

These fiscal rules have not put the Nation on a sustainable fiscal path because they were not designed to encompass the entire range of factors that contribute to the Federal Government's fiscal imbalance. Specifically:

- The Statutory PAYGO Act requires that new direct (or mandatory) spending and revenue legislation cannot increase the deficit in any given year.[14] However, Federal spending can increase as a result of programs established by previously enacted laws, such as Medicare.
- The BCA set limits on annual discretionary spending, which constituted only about 30 percent of Federal outlays in fiscal year 2019.[15] In addition, the BCA addresses only the spending side of the Federal Government's fiscal imbalance and does not address revenues.

Likewise, Congress has passed and the President has signed numerous laws amending the BCA that have limited its effectiveness. Most of these laws increased the BCA's discretionary spending limits, which in turn increased annual deficits.

The Federal Government's experience with fiscal rules illustrates that no process can force choices that policymakers are unwilling to make. In other words, Congress cannot be forced to pass and the president cannot be forced to sign into law decisions that may lead the Nation towards fiscal sustainability.

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[11] GAO–20–561.

[12] Pub. L. No. 111–139, 124 Stat. 8 (2010) and Pub. L. No. 112–25, 125 Stat. 240 (2011). The Statutory PAYGO Act has been in effect since 2010 and does not have an expiration date. The BCA is in effect for fiscal years 2012–2021 for discretionary spending and fiscal years 2012–2030 for direct (*i.e.,* mandatory) spending.

[13] Other factors being equal, increasing GDP lowers the debt-to-GDP ratio, while decreasing GDP raises this ratio.

[14] The Senate and the House of Representatives also have PAYGO rules, which generally provide that legislation affecting direct spending or revenues may not be considered if it would increase the deficit over a given period. These rules are internal rules that are not enforceable by the Statutory PAYGO Act.

[15] Implementation of the BCA also resulted in automatic, across-the-board spending reductions—known as sequestration—because Congress and the President did not reach agreement on further deficit reduction as required by the BCA. However, in fiscal year 2019 these reductions totaled less than $20 billion, or about 2 percent of the $984 billion deficit for that year.

To help formulate such a plan, we identified seven key considerations based on a literature review and interviews with experts on fiscal policy and fiscal rules. These key considerations are intended to help Congress if it were to adopt new fiscal rules and targets (see table 1).[16]

Table 1: Key Considerations for the Design, Implementation, and Enforcement of Fiscal Rules and Targets

Key consideration	Supporting explanation
Alignment With Fiscal Policy Goals and Objectives	Setting clear goals and objectives can anchor a country's fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.
Design Tradeoffs and Features	The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, as well as the time frames over which the rules apply.
Legal Framework and Permanence	The degree to which fiscal rules and targets are binding, such as being supported through a country's constitution or nonbinding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.
Integration With Budgetary Processes	Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.
Flexibility to Address Emerging Issues	Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.
Clear Roles for Supporting Institutions	Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and targets.
Transparency and Communication	Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.

Source: GAO analysis of literature review and interviews. | GAO–21–161T.

Alternative Approaches to the Debt Limit Could Improve Debt Management

We also have previously suggested that Congress consider alternative approaches to the debt limit as part of a long-term fiscal plan.[17] Such action would avoid serious disruptions to the Treasury market and increases in borrowing costs, as well as allow Congress to better manage the Federal Government's level of debt. As currently structured, the Federal debt limit only restricts Treasury's authority to borrow and finance the decisions already passed by Congress and signed into law by the President.

[16] For more information on these key considerations, including examples from Australia, Germany, and the Netherlands, *see* GAO–20–561.

[17] *See* GAO, *The Nation's Fiscal Health: Actions Needed to Achieve Long-Term Fiscal Sustainability,* GAO–19–611T (Washington, DC: June 26, 2019).

The Federal Debt Limit

The Federal debt limit is a legal limit on the total amount of Federal debt that can be outstanding at one time.

Source: GAO analysis of applicable laws. | GAO–21–161T.

The debt limit is not a fiscal rule because it does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt.[18] Without legislation to suspend or raise the debt limit, Treasury cannot continue issuing debt to finance the decisions already passed by Congress and signed into law by the President.

We have reported on the negative impacts of uncertainty around the debt limit that includes (1) increased Treasury borrowing costs, (2) decreased demand for Treasury securities, and (3) constrained Treasury cash management.[19] Delays in raising the debt limit could lead to a default on legal debt obligations, which would have devastating effects on U.S. and global economies and the public. We have stated numerous times that the full faith and credit of the United States must be preserved.

In prior work, we identified three options that would enable Congress to delegate its borrowing authority, avoid impasses on the debt limit, and minimize disruptions to the Treasury securities market:

1. Link action on the debt limit to the budget resolution.
2. Provide the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
3. Delegate broad authority to the administration to borrow as necessary to fund enacted laws.[20]

Each of these options has strengths and weaknesses but would maintain congressional control and oversight of Federal borrowing and better align decisions about the level of debt with decisions on spending and revenue.

Congress is considering legislation that, if enacted, could help avoid impasses on the debt limit and provide a fiscal target to help manage the debt. For example, a Senate bill would automatically adjust the debt limit to conform to levels established in the budget resolution and would require budget resolutions every 2 years rather than annually. It would also specify target ratios for debt as a share of GDP and track legislation against that target.[21]

Impending Fiscal Pressures Will Require Action

Action is also needed to address impending financial challenges for major programs and fiscal exposures that are both straining the Federal budget and contributing to the growing debt (see fig. 4).[22]

[18] The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and applies to Federal debt issued pursuant to authority under 31 U.S.C. chapter 31. However, the debt limit was suspended and is scheduled for reinstatement on August 1, 2021, with the debt limit increased to the amount of obligations outstanding on that date. Bipartisan Budget Act of 2019, Pub. L. No. 116–37, § 301, 133 Stat. 1049 (2019), codified at 31 U.S.C. § 3101 note.

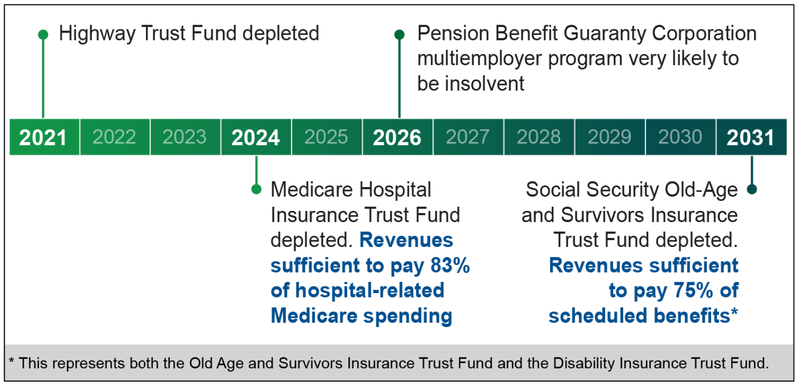
[19] GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches,* GAO–15–476 (Washington, DC: July 9, 2015).

[20] More detail on these ideas and a discussion of the advantages and challenges to each can be found in GAO–15–476.

[21] Bipartisan Congressional Budget Reform Act, S. 2765, title II, § 202(e)(5), 116th Cong. (2019). As of October 2020, the bill has been reported out of committee but has not passed the Senate.

[22] In April 2020, the trustees for Social Security and Medicare published projections for when the Social Security Old-Age and Survivors Insurance trust fund and the Medicare hospital insurance trust fund will be depleted. These projections do not reflect the effects of COVID–19 and differ from CBO's projections, which were published in September 2020 and reflect the effects of the pandemic.

Figure 4: Key Dates for Major Programs



Sources: Pension Benefit Guaranty Corporation and Congressional Budget Office. | GAO-21-161T

Notes: Years above may reflect either fiscal or calendar years. The Congressional Budget Office projections for the trust funds reflect the effects of COVID-19. The Pension Benefit Guaranty Corporation projections do not reflect the effects of COVID-19.

The Federal Government faces certain additional fiscal exposures that present risks to its future fiscal condition. Fiscal exposures are responsibilities, programs, and activities that may legally commit the Federal Government to future spending or create expectations for future spending based on current policy, past practices, or other factors. It is important to have budgetary flexibility to respond to these and other unforeseen events, like COVID–19.

These crises often cannot be predicted and are difficult to budget for. A more complete understanding of fiscal risks can help policymakers anticipate changes in future spending and can enhance oversight of Federal resources.

Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC) insures benefits, up to statutory limits, in private-sector defined benefit pension plans. PBGC's single-employer program covers defined benefit pension plans that are generally sponsored by individual employers, while the multiemployer program covers defined benefit pension plans created through collective bargaining agreements generally between labor unions and two or more employers.

Source: GAO analysis. | GAO–21–161T

The following are examples of fiscal exposures or risks:[23]

- **The Pension Benefit Guaranty Corporation.** The Pension Benefit Guaranty Corporation (PBGC) faces an uncertain financial future. PBGC reported that its liabilities exceeded its assets by more than $56 billion as of the end of fiscal year 2019.[24] The multiemployer program reported a deficit of about $65 billion for that year. PBGC projects that without structural legislative reforms, there is a high likelihood the multiemployer program will become insolvent during fiscal year 2026 and that insolvency is a near certainty by the end of fiscal year 2027.[25]

In addition, PBGC estimated that its exposure to potential additional future losses for underfunded plans was $155 billion for the single-employer program and $11 billion for the multiemployer program. Although the single-employer program is currently in surplus—about $8.7 billion for fiscal year 2019—its financial position

[23] For additional examples of fiscal risks, *see* GAO–20–403SP.
[24] Pension Benefit Guaranty Corporation, *Annual Report 2019* (Washington, DC: November 15, 2019).
[25] PBGC's projection does not take into account the effects of the COVID–19 pandemic. For more information on PBGC insurance programs, *see* Pension Benefit Guaranty Corporation, *FY 2019 PBGC Projections Report* (Washington, DC: September 14, 2020), and GAO–19–157SP, 267.

is highly sensitive to prevailing economic conditions, and past experience with large claims shows that its condition can change quickly and precipitously.

- **Natural Disasters and Climate Change.** The rising number of natural disasters and increasing state, local, and tribal reliance on Federal disaster assistance also pose a risk to the Federal fiscal outlook. Since 2005, Federal funding for disaster assistance has totaled at least $460 billion, which consists of obligations for disaster assistance from 2005 through 2014 totaling about $278 billion [26] and select appropriations for disaster assistance from 2015 through 2019 totaling $183 billion.[27] In 2019 alone, 14 weather and climate disaster events had losses exceeding $1 billion each, with total costs of at least $45 billion, according to the National Oceanic and Atmospheric Administration (NOAA). As of July 8, 2020—the most recent date for which data are available—NOAA reported that the U.S. experienced 10 weather and climate disasters that incurred losses exceeding $1 billion each.

Federal Disaster Assistance

Federal disaster assistance can come from Federal responsibilities, programs, and activities, such as the National Flood Insurance Program, that may legally commit or create the expectation for future Federal spending. Federal agencies can become involved in responding to a disaster when effective response and recovery are beyond the capabilities of the affected state and local governments.

The Disaster Relief Fund is the primary source of Federal disaster assistance for State, local, territorial, and tribal governments when a major disaster or emergency is declared.

Source: GAO analysis. | GAO–21–161T

Although the Disaster Relief Fund receives funding through the annual appropriations process, the Federal Government does not budget fully for the costs of disaster assistance. According to Congressional Research Service data, since 1964 more than 82 percent of overall net appropriations for disaster relief has been through supplemental appropriations.[28] These appropriations, as well as most annual appropriations to the disaster relief fund, generally do not count toward existing discretionary budget limits.[29]

Disaster costs are projected to increase as extreme weather events become more frequent and intense because of climate change.[30] Limiting the Federal Government's fiscal exposures to climate change has been on our High-Risk List since 2013, in part because of concerns about the increasing costs of disaster response and recovery efforts.[31]

EXECUTIVE AGENCIES HAVE OPPORTUNITIES TO CONTRIBUTE TOWARD FISCAL HEALTH

Changes in spending and revenue to ensure long-term fiscal sustainability require legislative actions to alter fiscal policies, but in our prior work we have also identified numerous actions for executive agencies to contribute toward a sustainable fiscal future. Although executive actions alone cannot put the U.S. government on a sustainable fiscal path, it is important for agencies to act as stewards of Federal resources.[32]

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[26] *See* GAO, *Federal Disaster Assistance: Federal Departments and Agencies Obligated at Least $277.6 Billion During Fiscal Years 2005 Through 2014,* GAO–16–797 (Washington, DC: September 22, 2016).

[27] This total includes, for fiscal years 2015 through 2019, $143 billion in supplemental appropriations to Federal agencies for disaster assistance and approximately $40 billion in annual appropriations to the Disaster Relief Fund. It does not include other annual appropriations to Federal agencies for disaster assistance.

[28] Congressional Research Service, *The Disaster Relief Fund: Overview and Issues,* R45484 (Washington, DC: November 22, 2019).

[29] The Budget Control Act of 2011 allows spending limits to be adjusted upward to accommodate appropriations for disaster relief. Pub. L. No. 112–25, tit. I, § 101, 125 Stat. at 244–45.

[30] See USGCRP, 2018: *Impacts, Risks, and Adaptation in the United States: Fourth National Climate Assessment,* Volume II [Reidmiller, D.R., C.W. Avery, D.R. Easterling, K.E. Kunkel, K.L.M. Lewis, T.K. Maycock, and B.C. Stewart (eds.)]. U.S. Global Change Research Program, Washington, DC, USA, 1515 pp. DOI: 10.7930/NCA4.2018, and National Research Council 2020, *Climate Change: Evidence and Causes: Update 2020;* Washington, DC: The National Academies Press, *https://doi.org/10.17226/25733*.

[31] GAO–19–157SP, 110.

[32] GAO–20–403SP.

Improper Payments

Improper payments are payments that should not have been made or that were made in an incorrect amount.

Source: GAO analysis. | GAO–21 161T

- **Reduce Improper Payments.** Since fiscal year 2003, cumulative improper payment estimates have totaled almost $1.7 trillion.[33] For fiscal year 2019, agencies reported total improper payment estimates of about $175 billion. To address this issue, agencies should first identify the root causes of improper payments and then implement internal controls aimed at both prevention and detection. However, the government's ability to understand the scope of the issue is hindered by incomplete, unreliable, or understated estimates; risk assessments that may not accurately assess the risk of improper payment; and noncompliance with statutory improper payments criteria.[34]

Tax Gap

The tax gap is the difference between tax amounts that taxpayers owe and what they actually pay voluntarily and on time. It arises when taxpayers, whether intentionally or inadvertently, fail to (1) accurately report tax liabilities on tax returns (underreporting), (2) pay taxes due from filed returns (underpayment), or (3) file a required tax return altogether or on time (nonfiling).

Source: GAO analysis. | GAO–21–161T

- **Address the Persistent Tax Gap.** The net tax gap—after late payments and Internal Revenue Service enforcement—amounted to $381 billion per year for tax years 2011–2013, according to the Internal Revenue Service's most recent estimates.[35] This persistent issue has been on our High-Risk List since its inception in 1990.[36] Even marginal reductions in the gap between taxes owed and those paid would increase tax collections by billions of dollars annually.

Tax Expenditures

Tax expenditures are provisions of the tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates.

Source: GAO analysis. | GAO–21–161T

- **Increase Scrutiny of Tax Expenditures.** In fiscal year 2019, tax expenditures reduced income tax revenues by approximately $1.32 trillion based on our calculation summing Treasury estimates for each tax expenditure.[37] Although they are routinely used as a policy tool, tax expenditures are not regularly reviewed and their outcomes are not measured as closely as spending programs' outcomes. Since 1994, we have recommended greater scrutiny of tax expenditures.[38]
- **Continue to Address Duplication, Overlap, and Fragmentation.** Federal agencies also have the potential to achieve billions in financial benefits by continuing to address duplication, overlap, and fragmentation. Actions taken by the executive branch and Congress on these issues have resulted in

[33] Certain agencies were required by statute to begin reporting estimated improper payments for certain programs and activities beginning in 2003.

[34] *See* 31 U.S.C. §§ 3351–3353.

[35] IRS released its most recent tax gap estimate in September 2019 for tax years 2011 to 2013.

[36] For more information on addressing the tax gap, *see* GAO–19–157SP, 235.

[37] The sum of the specific tax expenditure estimates is useful for gauging the general magnitude of reduced revenue through provisions of the tax code, but aggregate tax expenditure estimates must be interpreted carefully. Summing revenue loss estimates does not take into account possible interactions between individual provisions or potential behavioral responses to changes in these provisions on the part of taxpayers. Additionally, Treasury's tax expenditure estimates include the effect of certain tax credits on receipts only and not the effect of the credits on outlays, which Treasury reports separately, but do not take into account interactions between individual provisions.

[38] For more information on our work on tax expenditures, *see* GAO, *Key Issues: Tax Expenditures,* accessed on October 1, 2020, *http://www.gao.gov/key_issues/tax_expenditures/issue_summary*.

roughly $429 billion financial benefits since fiscal year 2010.[39] As of March 2020, about 57 percent of the actions we have identified to address duplication, overlap, and fragmentation were fully addressed, about 22 percent were partially addressed, and about 12 percent were not addressed.[40]

Duplication, Overlap, and Fragmentation

Since 2011, we have reported on Federal programs, agencies, offices, and initiatives that have duplicative goals or activities as well as opportunities to achieve greater efficiency and effectiveness that result in cost savings or enhanced revenue collection. In our 10 annual reports from 2011 through 2020, we presented more than 1,000 actions for executive branch agencies or Congress to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue.

Source: GAO analysis. | GAO–21–161T

In summary, responding to COVID–19 and the resulting severe economic downturn must continue to be the national priorities. However, a broad plan to address the long-term fiscal outlook needs to be swiftly implemented once public health goals have been attained and the economy has substantially recovered. It is essential and prudent to move toward a sustainable fiscal path.

To do this, policy-makers will need to consider policy changes to the entire range of Federal activities (including tax expenditures) and spending (entitlement programs, other mandatory spending, and discretionary spending). As we and CBO have both reported, the longer we postpone actions to address the Federal debt, the more drastic changes to spending and revenues will need to be.

Chairman Cassidy, Ranking Member Hassan, and members of the subcommittee, this completes my prepared statement. I would be pleased to respond to any questions.

PREPARED STATEMENT OF HON. MAGGIE HASSAN,
A U.S. SENATOR FROM NEW HAMPSHIRE

Thank you, Senator Cassidy, and thank you to Director Swagel and Comptroller General Dodaro for testifying today.

This subcommittee is charged with promoting fiscal responsibility and economic growth, because the two go hand-in-hand. As a Nation, we must be concerned about the growth in the national debt. If not handled carefully, it could threaten to slow the economy and jeopardize our ability to make key investments in everything from innovation to national security.

The first step to improving our Nation's fiscal outlook is improving the economic outlook of families, businesses, communities, and States that have been hit hard by the COVID–19 crisis. Yesterday, Federal Reserve Chair Powell warned that "too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses."

Providing assistance to families who can't make ends meet and helping hard-hit businesses stay afloat is not only the right thing to do—it is also the fiscally responsible thing to do. It will help ensure that families can pay their rent or buy groceries at their local stores, and that small businesses can continue employing their workers—which will help to keep local economies moving and improve our Nation's economic outlook.

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[39] The $429 billion includes about $393 billion from 2010 through 2019 and $36 billion projected to accrue in 2020 or later. In calculating these totals, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits and have been rounded down to the nearest $1 billion.

[40] Nine percent of the actions have been consolidated or other—replaced or subsumed by new actions based on additional audit work or other relevant information—or closed as not addressed because the action is no longer relevant due to changing circumstances. For more information, *see* GAO, *2020 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits,* GAO–20–440SP (Washington, DC: May 19, 2020); and Duplication and Cost Savings: Action Tracker, updated on May 19, 2020, *https://www.gao.gov/duplication/overview#t=1*.

The second step to getting our Nation's fiscal house in order—after the recovery from COVID–19—is for Congress to implement common-sense, bipartisan measures that promote fiscal responsibility and reduce the national debt.

As recommended by GAO, we need to address the so-called "tax gap," which comes from corporations and millionaires avoiding taxes by underreporting income to the Treasury. We need to revisit the partisan tax giveaways that were jammed through Congress in 2017, in order to ensure that major corporations are paying their fair share in taxes. And we need to eliminate waste, fraud, and abuse across the Federal Government—one of my top priorities as the ranking member of the Homeland Security and Governmental Affairs Subcommittee on Federal Spending Oversight.

In seeking a bipartisan path to improving our fiscal standing, Congress must also strengthen and protect Social Security and Medicare—while making it absolutely clear that seniors will receive the full benefits that they earned over a lifetime of work.

Overall, it is clear that—once we have recovered from COVID–19—the sooner we address the national debt, the better. As shown by CBO and GAO, the difficulties of addressing the fiscal outlook only compound over time—making it all the more pressing that we work together in a bipartisan way to get through this crisis and then develop a fiscally responsible long-term plan for the Federal budget.

Senator Cassidy, I look forward to working with you and the other members of the Finance Committee, and I look forward to hearing from Director Swagel and Comptroller General Dodaro on ways to improve our fiscal outlook.

Prepared Statement of Hon. Phillip L. Swagel, Ph.D., Director, Congressional Budget Office

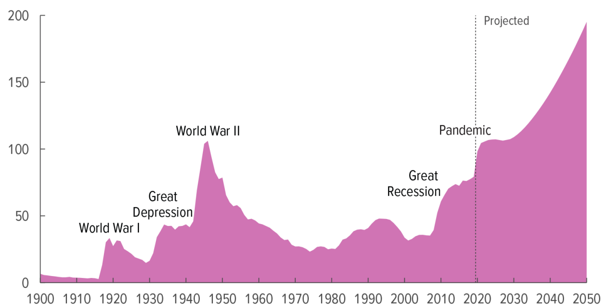
THE 2020 LONG-TERM BUDGET OUTLOOK

Chairman Cassidy, Ranking Member Hassan, and members of the subcommittee, thank you for inviting me to testify about the Congressional Budget Office's most recent long-term budget projections, which the agency released in September in the report *The 2020 Long-Term Budget Outlook.* Today, I will focus on the long-term fiscal challenges facing the nation that are the subject of that report.

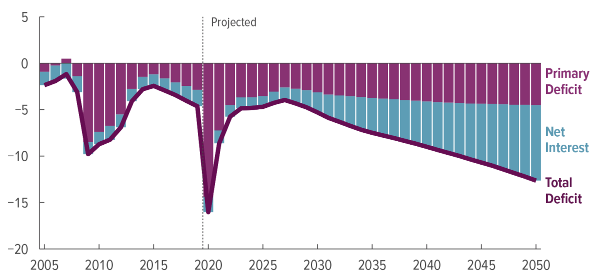
Each year, CBO issues a set of long-term budget projections—often referred to as the extended baseline projections—that provide estimates of what Federal debt, deficits, spending, and revenues would be over the next 30 years if current laws generally remained unchanged. Relative to the size of the economy, Federal debt is higher in this year's projections than it was in last year's projections. The economic disruption caused by the 2020 coronavirus pandemic and the Federal Government's response to it contribute significantly to that difference.

Debt and Deficits

Federal debt held by the public is projected to equal 195 percent of gross domestic product (GDP) in 2050, and the deficit is projected to equal 13 percent of GDP.

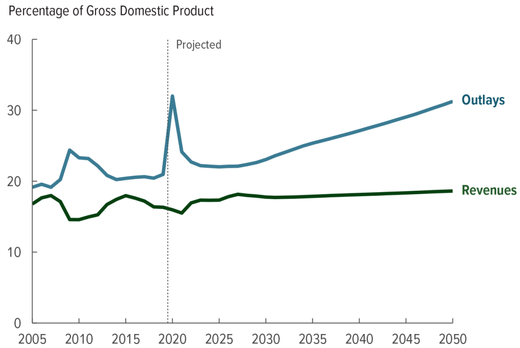


In CBO's projections, federal debt held by the public surpasses its historical high of 106 percent of GDP in 2023 and continues to climb in most years thereafter. In 2050, debt as a percentage of GDP is nearly 2.5 times what it was at the end of last year.



Deficits grow from an average of 4.8 percent of GDP from 2010 to 2019 to an average of 10.9 percent from 2041 to 2050, driving up debt. Net spending for interest rises rapidly and accounts for much of the growth in total deficits in the last two decades of the projection period.

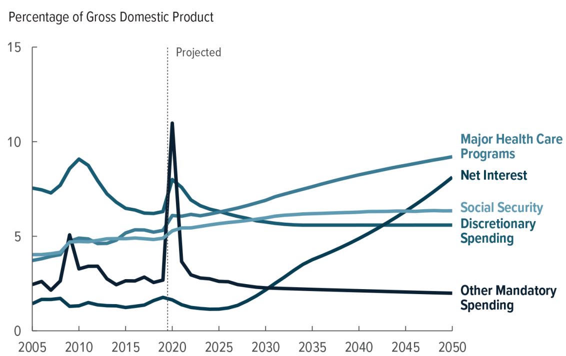
Debt and Deficits (Continued)



In CBO's projections, growth in outlays outpaces growth in revenues, resulting in larger budget deficits over the long run.

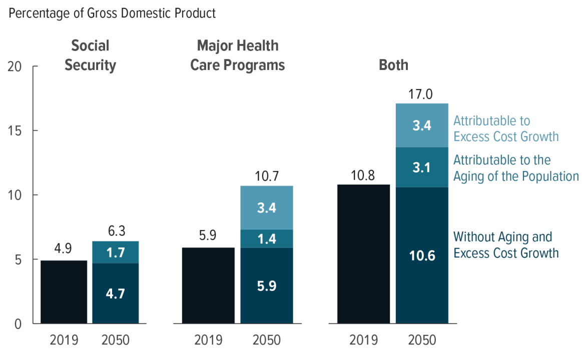
Spending

Federal spending grows from an average of 21.3 percent of GDP from 2010 to 2019 to an average of 29.3 percent from 2041 to 2050.



Net spending for interest, measured as a share of GDP, nearly quadruples over the last two decades of the projection period. In addition, after the effects of increased spending associated with the pandemic dissipate, spending as a share of GDP increases for the major health care programs and Social Security.

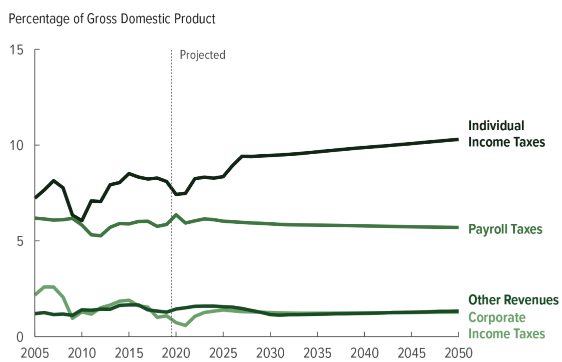
Spending (Continued)



Much of the growth in combined spending for Social Security and the major health care programs results from the aging of the population. Growth in spending for the major health care programs is also driven by excess cost growth—the extent to which the growth rate of health care costs per person (adjusted for demographic changes) exceeds the growth rate of potential GDP (the economy's maximum sustainable output) per person.

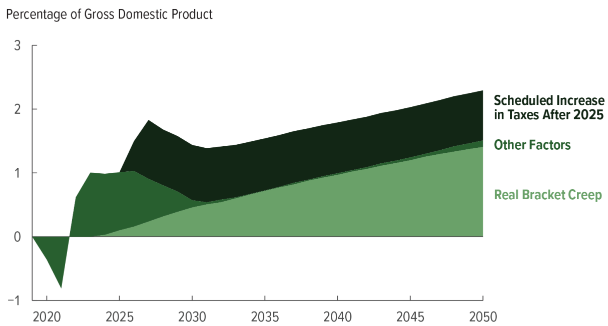
Revenues

In CBO's projections, federal revenues increase from an average of 16.4 percent of GDP from 2010 to 2019 to an average of 18.4 percent from 2041 to 2050.



Increases in receipts from individual income taxes account for most of the rise in total revenues. Those receipts increase in 2025 because of the expiration of nearly all provisions of the 2017 tax act that affect individual income taxes.

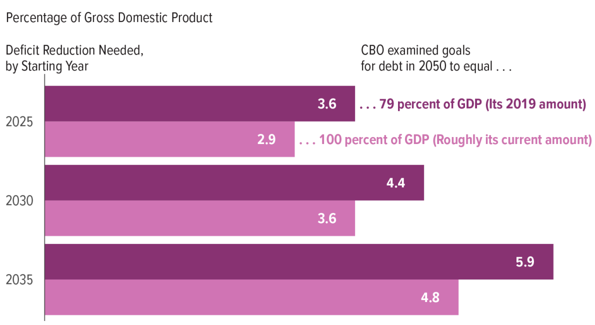
Revenues (Continued)



Over the long term, the largest source of growth in tax revenues is real bracket creep—the process in which, as income rises faster than inflation, a larger proportion of income becomes subject to higher tax rates.

Policy Changes Needed to Meet Various Targets for Debt

The reduction in the annual primary deficit (which excludes net spending for interest) needed to make federal debt held by the public in 2050 equal a certain goal would be smaller the sooner the policy changes were implemented.



Even if policymakers took action soon, significant cuts to primary deficits would be necessary for debt to equal 100 percent of GDP in 2050.

The 2020 Long-Term Budget Outlook is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. This testimony summarizes that report. In keeping with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations.

The full report and supplemental data files, which were prepared by many people at CBO, are available on the agency's website at *www.cbo.gov/publication/56516*. This testimony is available at *www.cbo.gov/publication/56665*.

SUBMITTED BY HON. RON WYDEN, A U.S. SENATOR FROM OREGON

From *The New York Times,* January 22, 2020

TRUMP OPENS DOOR TO CUTS TO MEDICARE AND OTHER ENTITLEMENT PROGRAMS

By Alan Rappeport and Maggie Haberman

The President signaled a willingness to scale back Medicare, a shift from his 2016 platform of protecting entitlement programs.

WASHINGTON—President Trump suggested on Wednesday that he would be willing to consider cuts to social safety-net programs like Medicare to reduce the federal deficit if he wins a second term, an apparent shift from his 2016 campaign promise to protect funding for such entitlements.

The President made the comments on the sidelines of the World Economic Forum in Davos, Switzerland. Despite promises to reduce the federal budget deficit, it has ballooned under Mr. Trump's watch as a result of sweeping tax cuts and additional government spending.

Asked in an interview with CNBC if cuts to entitlements would ever be on his plate, Mr. Trump answered yes.

"At some point they will be," Mr. Trump said, before pointing to United States economic growth. "At the right time, we will take a look at that."

Mr. Trump suggested that curbing spending on Medicare, the government health care program for the elderly, was a possibility.

"We're going to look," he said.

The interview left many questions unanswered, including whether Mr. Trump would consider touching Social Security or what part of Medicare he would be willing to shave. The President veered from answering the question about entitlements to talking about the robustness of the American economy and how his policies have helped alleviate poverty and boost jobs for minorities, perhaps suggesting that the need for entitlement programs at their current levels had waned.

The President has already proposed cuts for some safety-net programs. His last budget proposal called for a total of $1.9 trillion in cost savings from mandatory safety-net programs, like Medicaid and Medicare. It also called for spending $26 billion less on Social Security programs, the federal retirement program, including a $10 billion cut to the Social Security Disability Insurance program, which provides benefits to disabled workers.

Spending on Social Security, Medicare and Medicaid is expected to cost the federal government more than $30 trillion through 2029, according to the Congressional Budget Office.

Mr. Trump's willingness to consider such cuts marks a shift from four years ago, when he stood out in a field of deficit-minded Republicans in the 2016 primary race with a promise to shield entitlements from cuts.

In a tweet in May 2015, a month before he formally began his campaign, Mr. Trump discussed another Republican's promises to keep entitlements intact, former Gov. Mike Huckabee of Arkansas.

"Huckabee is a nice guy but will never be able to bring in the funds so as not to cut Social Security, Medicare and Medicaid," Mr. Trump tweeted. "I will."

In his formal campaign announcement that year, he said, "Save Medicare, Medicaid and Social Security without cuts. Have to do it. Get rid of the fraud. Get rid of the waste and abuse, but save it."

Democrats are also wrangling over entitlement programs, which are among the fastest growing federal expense. Senator Bernie Sanders from Vermont and former Vice President Joseph R. Biden Jr. have been arguing for days over Mr. Biden's past comments about cuts to Social Security, a reminder of how sensitive the issue is for voters.

Republicans have largely avoided talking about rolling back entitlement programs since Mr. Trump became President, assuming that doing so would be a non-starter. Following the $1.5 trillion tax cut that Republicans passed in 2017, some suggested that they would quickly turn to reduce the cost of Social Security, Medicare and Medicaid.

Those ideas gained little traction and federal spending has continued to grow.

The Treasury Department said last week that the federal budget deficit surpassed $1 trillion in 2019. It was the first calendar year since 2012 that the deficit topped that threshold. To help finance deficits, which require the government to sell debt, the Treasury Department plans to begin issuing 20-year bonds.

Other Trump administration officials have been more careful in discussing the need to cut spending on entitlement programs. Treasury Secretary Steven T. Mnuchin demurred earlier this month when pressed on CNBC about how to scale back spending on entitlements.

"All I'm going to say is that we talked about there needs to be bipartisan review of government spending and that's something at the appropriate time we'll look at," Mr. Mnuchin said.

President Trump proposed a $493.7-billion cut in Medicare spending (2019–2028) in the FY 2019 Budget *(https://www.hhs.gov/sites/default/files/fy-2019-budget-in-brief.pdf)*

President Trump proposed an $858.7-billion reduction in Medicare spending (2020–2029) in the FY 2020 budget *(https://www.hhs.gov/sites/default/files/fy-2020-budget-in-brief.pdf)*

President Trump proposed a $450-billion reduction in Medicare spending (2020–2029) in the FY 2020 budget *(https://www.hhs.gov/sites/default/files/fy-2021-budget-in-brief.pdf)*

President Trump's Budget document, on p. 119, shows some of the cuts to Social Security that Senator Wyden mentioned in his statement and said he wanted to include in the hearing record *(https://www.govinfo.gov/content/pkg/BUDGET-2021-MSV/pdf/BUDGET-2021-MSV.pdf)*

COMMUNICATION

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Statement of Michael G. Bindner

Chairman Cassidy and Ranking Member Hassan, thank you for the opportunity to submit our comments, which reflect those previously made to the Senate Budget Committee and the Ways and Means Social Security Subcommittee.

GAO and CBO estimates are the gold standard in budget forecasting. In the near term, they hit the mark the closest. This year, however, their work is complicated by business closures, social distancing, and a pandemic that is out of control.

The reason the pandemic is out of control is not mask wearing or young people at parties. People who rarely get sick do not spread the virus. To be an asymptomatic spreader, you must first be infected with stage one of the virus, which is a cold most people mistake for really bad hay fever. Because no one want to believe they have had Coronavirus due to the social stigma of having had it (people consider it to be a plague), few are willing to admit infection or the possibility of it.

Denial leads to infection of others, because there is an asymptomatic period between nasal symptoms and Sudden Acute Respiratory Syndrome #2. This is a misnomer—the symptoms occurred early (as stated) and, in the meantime—the virus has moved to the lower respiratory system, and from there, to the entire body. When symptoms come, an immune reaction has kicked in and spread is less likely.

Science is supposed to banish fear. With this pandemic, it multiplied the fear. The best preventative for SARS2 is to have colds prior to this pandemic and to be around children with colds. The second-best preventative is to get sick. Those under forty-five will hardly notice it as more than a cold, while those under 70 will rarely die. I had the disease. During the fatigue period coincident with SARS symptoms, I only wished for death or felt like I was already dead. I don't recommend getting this once a vaccine is available, but few will be able to make the decision to wait.

Worse, having had cold symptoms have been left off of the screening criteria for entering buildings, from the doctor's office to the supermarket. The worst place to have nasal symptoms or ignore them is a restaurant. Some of us sneeze when we eat hot food. If we have the virus or someone else does, everyone does unless previously exposed. Eating with another person at home is another sure spreader. Not knowing or admitting that sneezes are the primary symptom and the tendency to rationalize being contagious away is why the spread is out of control.

The desire to beat the virus with masks leads to optimistic models. Any model that does not assume 400,000 deaths or more is inadequate. A second shutdown, at least in some states, should also be included. The virus will go away sooner than later, likely before the vaccine is ready and the dead are buried.

This is half of the story. The rest of it has to do with the long-term fiscal outlook. The usual tale of woe concerns how bad the debt will be, specifically entitlements (as a caution against Medicare for All) and as code for doing something about Social Security. To this I respond, nonsense!

Visibility into how the national debt, held by both the public and the government at the household level, sheds light on why Social Security, rather than payments for interest on the public debt, are a concern of so many sponsored advocacy institutions across the political spectrum.

Direct household attribution exists through direct bond holdings, provided by Social Security payments and secondary financial instruments backed with debt assets. Using the Federal Reserve Consumer Finance Survey and federal worker and Social Security payment and tax information, we have calculated who owes and who owns the national debt by income quintile. Federal Reserve and Bank holdings are attributed based on household checking and savings account sizes.

Responsibility to repay the debt is attributed based on personal income tax collection. Payroll taxes create an asset for the payer, so they are not included in the calculation of who owes the debt. Calculations based on debt held when our study on the debt was published, distributed based on the latest data (2017) from the IRS Data Book show a ratio of $16.5 of debt for every dollar of income tax paid.

This table shows a summary level distribution of income, national debt and debt assets in three groupings based on share of Adjusted Gross Income received, rather than by number of households. This answers the perennial question of who is in the middle class.

Descending cumulative percentiles	Millions of Returns Filed	Millions of Returns Paying Tax	Amounts (Billions)							
			AGI	Income Tax Paid	Gross Debt (Factor) 16.55	Held by Federal Reserve and Banks	Held in Bonds	Held in Personal Accounts	Held in Government Debt	Assets Net of Debt Liability
All returns, total	**143.3**	**99.4**	**10,937**	**1,601**	**26,500**	**5,238**	**4,222**	**3,854**	**5,384**	**(7,802)**
Top 5% IRS, 8.5% CPS, $208,053	7.2	7.2	3,995	947	15,671	2,926	3,693	2,411	294	**(6,347)**
5%–25%IRS, 8.5%–37.2% CPS, $83,682	28.7	28.3	3,566	432	7,146	1,399	529	1,046	1,238	**(2,934)**
Bottom 75% IRS, 62.8% CPS, $0	107.5	63.9	3,375	223	3,683	913	–	397	3,852	**1,479**

The bottom 75% of taxpaying units hold few, if any, public debt assets in the form of Treasury Bonds or Securities or in accounts holding such assets. Their main national debt assets are held on their behalf by the Government. They are owed more debt than they owe through taxes. The next 20% (the middle class), hold few bonds, a third of bond-backed financial assets and a quarter of government held retirement assets.

The top 5% (roughly 8.5% of households) own the vast majority of non-government retirement holdings and collect (and roll-over) most net interest payments. This stratum owns very little of retirement assets held by the government, hence their interest in controlling these costs. Their excess liability over assets is mostly attributable to internationally held debt. Roughly $4 Trillion of this debt is held by institutions, with the rest held by individual bond holds, including debt held by members of this stratum in off-shore accounts.

Source: *Settling (and Squaring) Accounts: Who Really Owes the National Debt? Who Owns It?*

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

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