WHY CONGRESS NEEDS TO ABOLISH THE DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, D.C., FEBRUARY 16, 2022

Serial No. 117–6

Printed for the use of the Committee on the Budget

Available on the Internet:
www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
47–122 WASHINGTON : 2022

COMMITTEE ON THE BUDGET

JOHN A. YARMUTH, Kentucky, *Chairman*

HAKEEM S. JEFFRIES, New York
BRIAN HIGGINS, New York
BRENDAN F. BOYLE, Pennsylvania, *Vice Chairman*
LLOYD DOGGETT, Texas
DAVID E. PRICE, North Carolina
JANICE D. SCHAKOWSKY, Illinois
DANIEL T. KILDEE, Michigan
JOSEPH D. MORELLE, New York
STEVEN HORSFORD, Nevada
BARBARA LEE, California
JUDY CHU, California
STACEY E. PLASKETT, Virgin Islands
JENNIFER WEXTON, Virginia
ROBERT C. "BOBBY" SCOTT, Virginia
SHEILA JACKSON LEE, Texas
JIM COOPER, Tennessee
ALBIO SIRES, New Jersey
SCOTT H. PETERS, California
SETH MOULTON, Massachusetts
PRAMILA JAYAPAL, Washington

JASON SMITH, Missouri, *Ranking Member*
TRENT KELLY, Mississippi
TOM MCCLINTOCK, California
GLENN GROTHMAN, Wisconsin
LLOYD SMUCKER, Pennsylvania
CHRIS JACOBS, New York
MICHAEL BURGESS, Texas
BUDDY CARTER, Georgia
BEN CLINE, Virginia
LAUREN BOEBERT, Colorado
BYRON DONALDS, Florida
RANDY FEENSTRA, Iowa
BOB GOOD, Virginia
ASHLEY HINSON, Iowa
JAY OBERNOLTE, California
MIKE CAREY, Ohio

PROFESSIONAL STAFF

DIANA MEREDITH, *Staff Director*
MARK ROMAN, *Minority Staff Director*

CONTENTS

WHY CONGRESS NEEDS TO ABOLISH THE DEBT LIMIT

WEDNESDAY, FEBRUARY 16, 2022

HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET
Washington, DC.

The Committee met, pursuant to notice, at 11 a.m., via Zoom, Hon. John A. Yarmuth [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Jeffries, Boyle, Price, Schakowsky, Morelle, Chu, Plaskett, Wexton, Scott, Jackson Lee, Peters, Jayapal; Smith, McClintock, Grothman, Smucker, Carter, Cline, Boebert, Donalds, Feenstra, Hinson, Obernolte, and Carey.

Also present: Representative Hoyer.

Chairman YARMUTH. This hearing will come to order.

Good morning and welcome to the Budget Committee's hearing on "Why Congress Needs to Abolish the Debt Limit".

Without objection, the Chair is authorized to declare recesses of the Committee at any time.

Before I begin, I want to welcome the newest Member of the Budget Committee, representing Ohio's 15th District, Mike Carey. Mike served in the Army National Guard and the energy industry before coming to Congress. Welcome, Mike Carey, to the Committee. We are happy to have you here.

In addition, we are honored to have Majority Leader Steny Hoyer here with us this morning.

Without objection, the gentleman from Maryland, the distinguished Majority Leader, is permitted to join the Committee for the purposes of participating in this hearing.

Without objection, so ordered.

Now, before I welcome our witnesses, I will go over few housekeeping matters. Today the Committee is meeting virtually. Before we begin, I would like to remind Members participating in this proceeding to keep your camera on at all times, even if you are not under recognition by the Chair. Members may not participate in more than one committee proceeding simultaneously. If you choose to participate in a different proceeding, please turn your camera off.

Members are responsible for their own microphones. Please mute your microphones when you are not speaking. This will help prevent feedback and other technical issues. Please remember to unmute yourself when you seek recognition. Note that the Chair or staff designated by the Chair may mute participants' microphones when they are not under recognition for the purposes of eliminating inadvertent background noise. We are not permitted to unmute Members unless they specifically request assistance. If I notice that you have not unmuted yourself I will ask if you would like staff to unmute you. If you indicate approval by nodding, staff will unmute your microphone. They will unmute your microphone under any other conditions.

I would like to remind Members that we have established an email inbox for submitting documents before and during committee proceedings. We have distributed that email addressed to your staff.

Now, I will introduce our witnesses.

This morning we will be hearing from Dr. Laura Blessing, Senior Fellow at the Government Affairs Institute at Georgetown University, Dr. Louise Sheiner, the Robert S. Kerry Senior Fellow in Economic Studies and Policy Director for the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution, Ms. LaJuanna Russell, Founder and President of Business Management Associates, Inc. and Chair of the Small Business Majority, and one of our former colleagues and a friend, the Honorable Mick Mulvaney, former Director of the Office of Management of Budget, Chief of Staff to the President of the United States, and also former representative from the state of South Carolina.

We welcome all of our witnesses.

I will now yield myself five minutes for an opening statement.

We have made remarkable strides to heal our economy in 2021, with the fastest GDP growth in nearly four decades, the most jobs created a single year ever, and unemployment down to 4 percent, more than three years ahead of projections. And we recently received a CBO report that showed record wage growth and increased consumer purchasing power. I would like to thank Ranking Member Smith for requesting this enlightening report, which also found that wage growth is in fact outpacing inflation, and I would like to submit it into the record at this point.

Without objection, so ordered.

[Report submitted for the record follows:]

CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

January 31, 2022

Honorable Jason Smith
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: Price and Wage Growth in Rural Areas

Dear Congressman:

You asked the Congressional Budget Office to assess how increases in the prices of goods and services have differed recently between rural and urban areas and how those increases compared with changes in wages. CBO's findings are as follows:

- Annualized price growth in rural areas averaged 4.8 percent from the fourth quarter of 2019, before the onset of the coronavirus pandemic, to the fourth quarter of 2021. By comparison, annualized wage growth averaged 6.3 percent in rural areas during that period, CBO estimates.

- In urban areas, annualized price growth averaged 3.7 percent over those two years, and annualized wage growth averaged 5.7 percent.

Thus, CBO estimates that the average purchasing power of wages increased in both rural and urban areas. That growth in purchasing power—the difference between wage growth and price growth—was slower in rural areas.

Those findings about purchasing power hold when investigated in several different ways. In contrast, CBO's estimates of the specific rates of price and wage growth are more uncertain, especially for rural areas, and are sensitive to the method used to estimate them.

How CBO Estimated Price Growth in Rural Areas

To estimate growth in the prices of goods and services for people in rural areas, CBO used data from the consumer price index for all urban consumers (CPI-U), which is produced by the Bureau of Labor Statistics (BLS). In producing the CPI-U, BLS collects data on prices for about two-thirds of people living in areas defined as rural by the Census Bureau. The CPI-U is intended to reflect the prices faced by consumers in areas that cover 93 percent of the U.S. population.[1] Although those areas are located near urban centers, 15 percent of households in the covered areas live in places defined as rural. BLS neither reports data separately for those households nor collects data on prices for people in other rural areas.

CBO estimated price growth in rural areas in two steps. In the first step, the agency estimated the amount by which inflation in each of the country's nine Census Bureau divisions differed from inflation nationally. In the second step, applying statistical analysis to quarterly data for all of the divisions, CBO then estimated the implied percentage by which rural inflation differed from urban inflation in each quarter.[2] For this step, the agency also used data on the fraction of people in each division who live in places defined as rural within areas covered by the CPI-U.

How CBO Estimated Wage Growth in Rural Areas

CBO estimated nominal hourly wage growth in rural areas and urban areas using monthly data on wages from the Current Population Survey.[3] To

---

[1] Those core statistical areas consist of one or more counties or equivalent entities associated with at least one core of at least 10,000 people, plus counties adjacent to that core that have a high degree of social and economic integration. See Bureau of Labor Statistics, "Consumer Price Index: Design" (accessed January 21, 2022), www.bls.gov/opub/hom/cpi/design.htm.

[2] Denote π_t^i as inflation in Census Bureau division *i* in quarter *t* and π_t as national inflation. In the first step, which was undertaken separately for each division, CBO estimated the persistent differences between divisional and national inflation from the fourth quarter of 2017 to the fourth quarter of 2021 and projected that relationship would apply equally in rural and urban areas. CBO used the equation $\pi_t^i = \beta_0^i + \beta_1^i \pi_t + \varepsilon_t^i$. In the second step, which was undertaken separately for each quarter, CBO accounted for persistent divisional differences and modeled how inflation varied with the fraction (r^i) of people living in rural parts of core-based statistical areas in the division. CBO used the equation $(\pi_t^i - \hat{\beta}_0^i)/\hat{\beta}_1^i = \alpha_{0t} + \alpha_{1t} r^i + \epsilon_t^i$. Nationally, CBO estimated urban inflation as $\hat{\alpha}_{0t}$ and rural inflation as $\hat{\alpha}_{0t} + \hat{\alpha}_{1t}$ for each quarter.

[3] Many Current Population Survey respondents reported their hourly wage directly; in such cases, CBO used that information. In other cases, CBO calculated hourly wages as usual earnings per week divided by usual hours worked per week. Those earnings cover wages and salaries from employment and exclude business income, capital income, and income from other sources. Because the Census Bureau does not report values for earnings above $2,885 per week to protect the privacy of survey respondents, CBO estimated those values using a log-normal distribution with separate parameters for men and women and for each year.

make its estimates as representative as possible of the same national area that is covered by the CPI-U, CBO multiplied the survey's sample weights by weights based on census data about the share of people within a survey respondent's county who live in areas defined as rural.[4]

Two counties in Missouri with substantial rural populations illustrate the types of places that are close enough to urban centers to be included in the analysis described here. In Cape Girardeau County, south of St. Louis, 30 percent of the population is classified as living in a rural area by the Census Bureau. A worker's wage in that county would receive a weight of 0.3 in the rural wage series and 0.7 in the urban wage series. In Bollinger County, west of Cape Girardeau, 100 percent of the population is classified as living in a rural area. A worker's wage in that county would receive a weight of 1.0 in the rural wage series and zero in the urban wage series.

I hope this information is helpful. Please contact me directly if you have any questions.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable John Yarmuth
Chairman

[4] CBO's analysis of wage growth underrepresents people in less populated areas. To protect the privacy of survey respondents, the Census Bureau does not report the respondents' county of residence if those counties have a population of less than 100,000. Respondents for whom county data is provided live in areas that are more densely populated; 9 percent of such households reside in places defined as rural. By comparison, the CPI-U covers people living in areas in which 15 percent of households reside in rural places. For almost all respondents, the Census Bureau does report whether they live in metropolitan areas. CBO found that wage growth was slightly faster for people living in nonmetropolitan areas than in metropolitan areas during the past two years, consistent with the results derived from data on county of residence that indicate wage growth was slightly faster in rural areas than in urban areas.

Make no mistake, these gains were not inevitable. Thanks to the American Rescue Plan and President Biden's and congressional Democrats' economic agenda, our recovery is beating projections and setting records. We have made tremendous progress in a short period of time, but there is still more work to be done. Elevated prices, which we believe are mostly temporary, are a serious issue. That is why we have passed legislation to fix supply chain bottlenecks, lower costs for families, revitalize American innovation and manufacturing, and create good-paying jobs here in America. The investments in the Bipartisan Infrastructure Bill are quickly being rolled out to every state across the country, and soon we will enact the America COMPETES Act to get our economy fully firing on all cylinders.

However, there is a problem. The debt ceiling now plays an outsized role in our politics and congressional deliberations—something that was never intended. This century-old law was created to make borrowing easier, not harder. Its misuse has already jeopardized our ongoing recovery once, and now threatens the future of our economy and the American people. We will get into the details of why we think it needs to be abolished during this hearing, but because I cannot think of another provision of budget law that has been as misused, misunderstood, and misrepresented as much as the debt limit, I want to lay down the facts right away.

The debt ceiling is not the amount we can spend. It is not like the limit on credit card, an analogy we hear a lot. The debt limit is the amount we already owe. It is the bill for previous spending and tax decisions made by Congress. You cannot reduce the national debt by failing to raise the debt ceiling, and we have 100 years of evidence of that.

Now, you will default on the full faith and credit of the United States by failing to raise the debt ceiling, and that would be cataclysmic for our economy and American households.

The debt ceiling has been raised to pay for the actions of both Democratic and Republican Congresses. Here is an example: Republicans enacted massive tax cuts for big corporations and the rich in 2017. Congress has needed to raise the debt limit every year since and will need to for several more years just to cover the growing debt from this tax giveaway.

So even if Congress did not spend a single additional dime after President Biden was elected, no COVID aid, no infrastructure bill, nothing, we would still need to raise the debt ceiling to cover Republicans' deficit ballooning and regressive tax policy.

Clearly, the only real role the debt ceiling now plays is a chip to be exploited for political gain. But there is a real human cost to this political gamesmanship. Every threat of default comes with the risk of actually defaulting. And in a closely divided Congress, with Members who have openly called for destroying the full faith and credit of the United States, that is a risk we can no longer afford.

As I said before, a full breach of the debt limit would be catastrophic. The immediate fallout would have severe, widespread, and painful consequences for the American people and our economic and national security. Treasury would be unable to fund Social Security, Medicaid, nutrition benefits, military salaries, law enforcement, unemployment insurance, and more. Americans would be forced to go without these vital supports until Congress managed to lift this imaginary ceiling.

A breach would also cause immediate financial market chaos, which would likely spread around the world. This would lead to higher interest rates and make consumer products, like car loans and mortgages, more expensive, hurting American families.

It would also likely threaten our status as the global reserve currency and create an opening for a global competitor, like China, to step in and take our place at the top of the global economy. Again, Americans would be forced to pay the price of Congress failure with a weakened U.S. Dollar and higher costs.

In Congress, in this environment, and as long as the debt limit remains in place, there is a direct threat to our entire economy, and Congress is becoming less and less capable of defusing it.

It is time to abolish the debt ceiling.

I look forward to hearing from our panel of witnesses who will share their expert analysis and first-hand experience with the costs and risks of this outdated law.

With that, I would like to yield to the Ranking Member, Mr. Smith. Unmute your microphone please and you have five minutes for your opening statement.

[The prepared statement of Chairman Yarmuth follows:]

Chairman John A. Yarmuth
Hearing on Why Congress Needs
to Abolish the Debt Limit
Opening Statement
February 16, 2022

We've made remarkable strides to heal our economy in 2021, with the fastest GDP growth in nearly four decades, the most jobs created in a single year ever, and unemployment down to 4 percent – more than three years ahead of projections. And we recently received a CBO report that showed record wage growth and increased consumer purchasing power. I'd like to thank Ranking Member Smith for requesting this enlightening report which also found that wage growth is in fact **outpacing** inflation and would like to submit it into the record now.

Make no mistake – these gains were not inevitable. Thanks to the American Rescue Plan and President Biden's and Congressional Democrats' economic agenda, our recovery is beating projections and setting records. We have made tremendous progress in a short period of time, but there's still more work to be done.

Elevated prices – while temporary – are a serious issue. That's why we have passed legislation to fix supply chain bottlenecks, lower costs for families, revitalize American innovation and manufacturing, and create good-paying jobs here in America. The investments in the Bipartisan Infrastructure Bill are quickly being rolled out to every state across the country, and soon we will enact the America COMPETES Act to get our economy fully firing on all cylinders.

However, there is a problem. The debt ceiling now plays an outsized role in our politics and Congressional deliberations – something that was never intended. This century-old law was created to make borrowing easier, not harder. Its misuse has already jeopardized our ongoing recovery once, and now threatens the future of our economy and the American people. We will get into the details of why it needs to be abolished during this hearing, but because I cannot think of another provision of budget law that has been as misused, misunderstood, and lied about as much as the debt limit, I want to lay down the facts right away.

The debt ceiling is **not** the amount we can spend. It is not like the limit on credit card, an analogy we hear a lot.

The debt limit is the amount we already **owe**. It is the bill for previous spending and tax decisions made by Congress.

You **cannot** reduce the national debt by failing to raise the debt ceiling.

You **will** default on the full faith and credit of the United States by failing to raise the debt ceiling, which would be cataclysmic for our economy and American households.

The debt ceiling has been raised to pay for the actions of both Democratic and Republican Congresses. I'll show you an example...

The Trump Tax Cuts Will Continue to Require Massive Debt Ceiling Increases

FY 2018	$164 BILLION
FY 2019	$228 BILLION
FY 2020	$272 BILLION
FY 2021	$292 BILLION
FY 2022	$271 BILLION
FY 2023	$243 BILLION
FY 2024	$214 BILLION
FY 2025	$191 BILLION
FY 2026	$59 BILLION
Total (FY 18-26)	$1.934 TRILLION

Republicans enacted massive tax cuts for big corporations and the rich in 2017. Congress has needed to raise the debt limit every year since, and will need to for several more years, just to cover the growing debt from this tax giveaway. So even if Congress did not spend a single additional dime after President Biden was elected – no COVID aid, no infrastructure bill, nothing – we would still need to raise the debt ceiling to cover Republicans' deficit-ballooning and regressive tax policy.

Clearly, the only real role the debt ceiling now plays is a chip to be exploited for political gain. But there is a real human cost to this political gamesmanship. Every threat of default comes with the risk of actually defaulting. And in a closely divided Congress, with Members who have openly called for destroying the full faith and credit of the United States, that is a real risk we can no longer afford.
A full breach of the debt limit would be catastrophic. The immediate fallout would have severe, widespread, and painful consequences for the American people and our economic and national security.

Treasury would be unable to fund Social Security, Medicaid, nutrition benefits, military salaries, law enforcement, unemployment insurance, and more. Americans would be forced to go without these vital supports until Congress managed to lift this imaginary ceiling.
A breach would also cause immediate financial market chaos, which would likely spread around the world. This would lead to higher interest rates and make consumer products, like car loans and mortgages, more expensive – hurting American families.

It would also likely threaten our status as the global reserve currency and create an opening for a global competitor, like China, to step in and take our place at the top of the global economy. Again, Americans would be forced to pay the price of Congress's failure with a weakened US Dollar and higher costs.
In Congress, in this environment, and as long as the debt limit remains in place, there is a direct threat to our entire economy – and Congress is becoming less and less capable of defusing it.

It's time to abolish the debt ceiling. I look forward to hearing from our panel of witnesses who will share their expert analysis and first-hand experience with the costs and risks of this outdated law.

Mr. SMITH. Thank you, Mr. Chairman.

I would like to welcome our newest Member of the Committee as well, Mr. Carey from Ohio. It is great that our Committee is at full representation. Hopefully, the Democrat Party will not remove any more from our Committee and we get to keep this same membership moving forward.

But I would also like to welcome our witnesses today, which includes one of our former colleagues and former Member of this Committee, Director Mulvaney, who coincidentally was sworn in as head of the White House Office of Management and Budget almost exactly five years ago today. At the time, that was the latest ever that an OMB Director assumed the job in a new administration, a little less than one month after a new president was sworn in. But under the Biden Administration, we are now a year longer than that without an OMB Director.

There is a lot to unpack today, but before I start I have to address the CBO score, the CBO letter that you submitted into the record. I am glad that you did because in fact that record shows and proves, according to the Congressional Budget Office, that inflation is outpacing wage growth. And when you talk to any American—any American—they won't buy what you are selling. They know that they can't purchase as many goods today as what they could a year ago and it is because of inflation. And whenever you try to say that increases in prices are only temporary, they are not buying it either. And you know what, the economists aren't either—7 1/2 percent, year-to-year, the highest inflation in 40 years—give me a break. But I am glad you put that in the record because in fact that CBO score showed that inflation in rural areas is 130 percent more than in urban areas. So thanks for putting that into the record, Mr. Chairman.

There is a lot to unpack today, but I will start by saying that it seems Budget Democrats are working at cross-purposes. Last year we had a hearing about Congress' power of the purse and how to reassert our constitutional role in budgeting and spending so that it wasn't being unserved by executive branch decisionmaking. What we learned was that if Congress did its job, budgeting, appropriating, and authorizing programs on a timely basis, it would go a long way to removing the ability of unelected bureaucrats to make decisions about government spending while also restoring some fiscal sanity to Washington. And yet today we are talking about passing off Congress' responsibility for the debt to unelected career government employees. This would severely undermine, if not destroy, the power of the purse my colleagues claimed they believed in less than a year ago. It would allow Congress to take credit for spending without being accountable for the debt it creates.

Which brings us back to today's hearing. The real reason we are here is because Democrats want to get rid of any obstacles standing in the way of their radical agenda, an agenda that has unleashed a multitude of crises, the highest spike in prices in 40 years, and national debt above $30 trillion—and that is with a "t"-businesses facing chronic worker shortages, and a supply chain crisis.

For the last 12 months, Mr. Chairman, Democrats have been focused on their partisan agenda while the check engine of the Biden economy has been on and flashing bright. Inflation rose faster in Joe Biden's first year in office than President Trump's entire first term. Democrats first denied inflation existed. You denied today and said that it is only temporary in some cases and then dismissed it as transitory. Even Members of this Committee, like you, Mr. Chairman, said panicking over inflation was uninformed and misguided. Economists warned for months of the impact that reckless government spending would have on inflation. What did Democrats do? They spent $2 trillion in the President's bailout bill, a bill they claim was meant for COVID, but less than 9 percent went to combatting the virus.

The crisis has been especially painful for Americans living in rural communities. Recently, the CBO found inflation—what you just submitted to the record—in rural areas was 130 percent that of urban areas and they experience 25 percent slower real wage growth than urban areas.

Now Democrats are claiming a $5 trillion spending bill will fix inflation, even though it was written while Democrats were either denying inflation or calling it transitory. And even though the CBO has confirmed it would add $3 trillion to the debt, if we combined the $68 trillion in spending Democrats called for in their Fiscal Year 1922 budget, with what they have passed since Nancy Pelosi became Speaker in 2019, it would be more than all taxes paid by every American in U.S. history. For the last 40 years the debt limit has typically been one of the only times that Congress has had a serious conversation about the national debt. Debt limit negotiations has given us real checks on government spending, including statutory limits on discretionary spending like those in the Budget Control Act of 2011.

If the debt limit didn't exist or was raised to a gazillion dollars, as the Chairman has suggested in the past, Washington Democrats would spend without end. Democrats claim the government can print as much money as it wants to spend——

Chairman YARMUTH. If the gentlemen—if the gentleman could——

Mr. SMITH [continuing]. and budget——

Chairman YARMUTH. If you could wrap up please. Your time has expired. I have given you much more time, but if you can wrap up please.

Mr. SMITH. All right.

Well, Mr. Chairman, we have seen what happens when Congress tries to exempt itself from the basic laws of economics. We should not allow Congress to exempt itself from our budget laws and hand over more responsibility to unelected bureaucrats.

I yield back.

[The prepared statement of Jason Smith follows:]

HOUSE BUDGET REPUBLICANS

Rep. Jason Smith
Republican Leader

Smith Opening Statement at Democrat Hearing on Abolishing the Debt Limit

February 16, 2022
As prepared for delivery

Thank you, Mr. Chairman.

I would like to welcome the newest Member of our Committee, Mr. Carey from Ohio.

I'd also like to welcome our witnesses today – which includes one of our former colleagues and a former Member of this Committee, Director Mulvaney – who coincidentally was sworn in as head of the White House Office of Management and Budget almost exactly 5 years ago today. At the time, that was the latest ever that an OMB director assumed the job in a new administration – a little less than one month after a new President was sworn in.

Under the Biden Administration, we are now a year longer than that without an OMB Director. There's a lot to unpack today, but I will start by saying that it seems Budget Democrats are working at cross-purposes.

Last year, we had a hearing about Congress's "power of the purse" and how to reassert our Constitutional role in budgeting and spending, so that it wasn't being usurped by Executive Branch decision making. What we learned was that if Congress did its job – budgeting, appropriating and authorizing programs on a timely basis – it would go a long way to removing the ability of unelected bureaucrats to make decisions about government spending while also restoring some fiscal sanity to Washington. And yet, today, we're talking about passing off Congress's responsibility for the debt to unelected career government employees. This would severely undermine if not destroy the power of the purse my colleagues claimed they believed in less than a year ago. It would allow Congress to take credit for spending without being accountable for the debt it creates.

Which brings us back to today's hearing. The real reason we're here is because Democrats want to get rid of any obstacles standing in the way of their radical agenda – an agenda that has unleashed a multitude of crises: the highest spike in prices in 40 years, a national debt above $30 trillion, businesses facing chronic worker shortages and a supply chain crisis.

For the last 12 months, Democrats have been focused on their partisan agenda, while the 'Check Engine' light of the Biden economy has been on and flashing.

Inflation rose faster in Joe Biden's first year in office than President Trump's entire first term. Democrats first denied inflation existed, and then dismissed it as transitory. Even members of this committee said panicking over inflation was "uniformed and misguided.

Economists warned for months of the impact that reckless government spending would have on inflation. What did Democrats do? They spent $2 trillion in the President's Bailout Bill – a bill they claimed was meant for COVID, but less than 9% went to combating the virus.
This crisis has been especially painful for Americans living in rural communities. Recently, the CBO found inflation in rural areas was 130

percent that of urban areas and they experienced 25 percent slower real wage growth than urban areas.

Now, Democrats are claiming a $5 trillion spending bill will fix inflation, even though it was written while Democrats were either denying inflation or calling it transitory. And even though the CBO has confirmed it would add $3 trillion to the debt.

If we combined the $68 trillion in spending Democrats called for in their FY22 budget with what they have passed since Nancy Pelosi became Speaker in 2019, it would be more than all taxes paid by every American in U.S. history.

For the last forty years, the debt limit has typically been one of the only times that Congress has had a serious conversation about the national debt. Debt limit negotiations have given us real checks on government spending – including statutory limits on discretionary spending like those in the Budget Control Act of 2011. If the debt limit didn't exist or was raised to a "gazillion" dollars, as the Chairman has suggested, Washington Democrats would spend without end.

Democrats claim that government can print as much new money as it wants to spend, and budgets and debt don't matter. But look around the country. What's the result of flooding the economy with new money? Inflation.

We've seen what happens when Congress tries to exempt itself from the basic laws of economics. We should not allow Congress to exempt itself from our budget laws and hand over more responsibility to unelected bureaucrats.

###

Chairman YARMUTH. I thank the Ranking Member for his opening remarks.

I would now like to welcome the Majority Leader of the House of Representatives, Steny Hoyer, to our hearing today. And he is recognized for his opening remarks.

Majority Leader Hoyer, welcome to the Committee.

Mr. HOYER. Mr. Chairman and Mr. Smith, thank you very much for this opportunity to testify on this very important issue.

Frankly, I won't take the time to rebut Mr. Smith's remarks, but I will do so in the future. But there are not relevant. Either when Republicans were in charge and had the presidency, the Senate and the House, nor are they relevant today. As a matter of fact, America is one of the few countries in the world that has a debt limit and none of them go through the crises that we do. There are three others at least in the industrialized world, go through the gyrations that we go through when we meet the debt limit in position, which would shut down the government and destroy the economic system in the world if we breached that debt.

I appreciate the opportunity to speak today to the need to abolish the debt limit as it exists today. The United States is one of only two major industrialized nations to have an arbitrary limit on the amount of debt its government can issue. But we are the only one for which the limit is even remotely within reach.

Denmark had the good sense to set theirs so high as to be effectively repealed. I will expect we will hear from our panelists today about the many ways that hitting the debt limit and allowing for default on our nation's obligations would cripple our economy and likely the global financial system, which is why every major Republican leader and president and every Democratic leader has said the debt limit has to be raised any time we need to raise it. Those consequences are what makes the debt limit so dangerous and such a tempting hostage, such a tempting hostage.

The weaponization of the debt limit puts our country at risk. The serious threat of potential default in 2011 caused Standard & Poor's to downgrade America's credit rating for the first time based on its assessment that our political dysfunction could inadvertently trigger a financial catastrophe, rather than our economic or fiscal health. Sadly, Mr. Chairman, I share that assessment. I take some comfort though in knowing that I am not alone in believing that we must act aggressively to protect the full faith and credit of the United States.

Last September Doug McMillon, Walmart's CEO and Chair of the Business Roundtable, wrote a letter with then BRT president Josh Bolten to Congress. It said, and I quote, "Congress has the authority to lift the debt ceiling to safeguard the full faith and credit of the United States and the responsibility to do so." They were right, of course.

Safeguarding the full faith and credit of the United States is our responsibility. And to the extent that we are not meeting our responsibility, fine on us, whether we are Republicans or Democrats.

We now are operating on a CR. That is a failure of us doing our job on time. Very frankly, in this instance, it is because the Senate has not passed a single appropriation bill. Why? Because the Senate Republicans would not cooperate.

Given recent history, it is clear to me that the best way to do so is to eliminate the debt limit entirely, not eliminate the concern about the debt, not eliminate fiscal responsibility, but eliminate the arbitrary and capricious debt limit which is demagogued repeatedly every time we address it.

Short of that, significantly deweaponize the near constant threat of default posed by the debt limit in its current form, which is what Senator McConnell has proposed. Chairman Yarmuth and Representative Brendan Boyle just yesterday introduced a proposal to that end. Building off a process, as I said, first proposed by Senate Minority Leader McConnell back in 2011. They are not the only ones with a proposal. Representative Bill Foster has a bill of his own to repeal the debt limit, the Bipartisan Policy Center has worked with members like Representative Scott Peters and Jodey Arrington on a more complex option to replace it.

Over the years, Democrats, Republicans, labor unions, business leaders, and economists have endorsed the notion that at the end of the day default should not be an option. That is why this hearing is so important and why I am joining you today to make clear that eliminating the threat of default would be an act of fiscal responsibility. It would not eliminate our responsibility and nor would it eliminate our concern about a debt that is large and growing larger.

I thank the Committee for holding a hearing on this issue and I look forward, Mr. Chairman and Mr. Smith, to continuing to work with all of you—with all of you—to ensure the United States always pays its bills on time. The option is not available to us nor should it be.

Thank you very much.

[The prepared statement of Majority Leader Hoyer follows:]

<u>Budget Committee Testimony – Majority Leader Steny H. Hoyer</u>
February 16, 2022

"Thank you, Chairman Yarmuth and Ranking Member Smith for holding this hearing. I appreciate the opportunity to speak today on the need to abolish the debt limit as it exists today.

"The United States is one of only two major industrialized nations to have an arbitrary limit on the amount of debt its government can issue, but we are the only one for which the limit is even remotely within reach. Denmark had the good sense to set theirs so high as to be effectively repealed.

"I expect we'll hear from our panelists today about the many ways that hitting the debt limit and allowing for a default on our nation's obligations would cripple our economy and, likely, the global financial system. Those consequences are what make the debt limit so dangerous – and such a tempting hostage.

"The weaponization of the debt limit puts our country at risk. The serious threat of a potential default in 2011 caused S&P to downgrade America's credit rating for the first time, based on its assessment that our political dysfunction could inadvertently trigger a financial catastrophe – rather than our economic or fiscal health.

"Sadly, Mr. Chairman, I share that assessment. I take some comfort, though, in knowing that I'm not alone in believing that we must act aggressively to protect the 'full faith and credit of the United States.'

"Last September, Doug Mcmillon, Walmart C.E.O. and Chair of the Business Roundtable, wrote a letter with then-B.R.T. President Josh Bolton to Congress. It said: '*Congress has the authority to lift the debt ceiling to safeguard the full faith and credit of the United States — and the responsibility to do so.*'

"They were right, of course. Safeguarding the full faith and credit of the United States is our responsibility. Given recent history, it is clear to me that the best way to do so is to eliminate the debt limit entirely or, short of that, significantly de-weaponize the near-constant threat of default posed by the debt limit in its current form.

"Chairman Yarmuth and Rep. Brendan Boyle just yesterday introduced a proposal to that end, building off a process first proposed by Senate Minority Leader McConnell back in 2011. They're not the only ones with a proposal. Rep. Bill Foster has a bill of his own to repeal the debt limit, the Bipartisan Policy Center has worked with Members like Rep. Scott Peters and Jodey Arrington on a more complex option to replace it.

"Over the years, Democrats, Republicans, labor unions, business leaders, and economists have endorsed the notion that, at the end of the day, default should not be an option. That is why this hearing is so important and why I'm joining you today – to make clear that eliminating the threat of default would be an act of fiscal responsibility.

"I thank the Committee for holding a hearing on this issue, and I look forward to continuing to work with all of you to ensure that the United States always pays its bills on time. Thank you."

Chairman YARMUTH. Thank you, Majority Leader Hoyer, for your remarks.

In the interest of time I ask that any other Members who wish to make a statement submit their written statements for the record to the email in box established for receiving documents before and during committee proceedings. We have distributed that email address to your staffs and you have that available to you.

Once again, I want to thank our witnesses for being here this morning. The Committee has received your written statements and they will be made part of the formal hearing record. You each will have five minutes to give your oral remarks.

Dr. Blessing, you are up first. You may unmute your microphone and begin when you are ready.

STATEMENT OF DR. LAURA BLESSING, SENIOR FELLOW, THE GOVERNMENT AFFAIRS INSTITUTE AT GEORGETOWN UNIVERSITY

Dr. BLESSING. Chair Yarmuth, Ranking Member Smith, Members of the Committee, my name is Laura Blessing and I am a Senior Fellow at the Government Affairs Institute at Georgetown University.

Thank you for inviting me to testify on the topic of why Congress needs to abolish the debt ceiling. My goal is to provide additional context for how the debt ceiling has functioned over time and congressional negotiations and its consequences.

I would like to make three main points today.

One, Congress had evolved regarding the debt ceiling with a trend toward greater brinkmanship. Two, the current situation is particularly worrisome, prompting legislative brinkmanship. and risking the catastrophe of default.

One, the evolution of the debt ceiling. The debt ceiling was created in 1917 and further modified in 1939. Notably raising the debt limit does not incur additional spending. Rather, it allows the Treasury to borrow money to cover spending Congress has already voted for. Congress has lifted the debt ceiling over 100 times under administrations and congresses of both parties. Both parties have politicized it, in rhetoric, by having the majority of their caucus or conference vote in opposition, by the refusal to bring up a vote, and more since 1953.

From these early years, substantial by not symmetrical partisan voting patterns are present that worsened over time. There have also been different reforms with lessons for today. The 1970's brought two relevant major reforms. The first is the 1974 Budget Act, which reformed a more ad hoc appropriations process, providing regular oversight in a comprehensive consideration of total spending and created a new expert body, the CBO.

Previously, the debt ceiling, while still problematic, had functioned as a regular vehicle for such consideration in a process that otherwise largely lacked this. Fiscal stewardship is an important congressional responsibility. The debt ceiling is ill suited for this function, but the larger goal is important.

The second major reform was the creation of the Gephardt Rule in 1979, whose procedural reform reduced but need not eliminate the number of House votes on the debt ceiling. And it was helpful, but vulnerable to reversal. Speaker Gingrich suspended it in 1995 and it was more definitely repealed in 2011 only to be brought back and modified in less effective form in 2019.

These reforms show us that fiscal oversight can happen without the debt ceiling, as well as the benefits and limitations of procedural reform. The 1980's through 2010 brought greater deficits, greater partisanship, and more contentious episodes of debt ceiling showdowns.

In this increasingly partisan but not perilous years, a pattern became clear, those in power tended to vote to raise the limit.

Point two, the current era. We are now in an error where Congress has risked default. In 2011 the debt ceiling started to have teeth. President Obama and Speaker Boehner seriously attempted a grand bargain, only to be stymied by failures of communications and fundamentally a GOP position to not raise taxes in any bargain. Negotiations came down to the wire. Finally, Vice President Biden and Senate Minority Leader McConnell forced a deal at the last minute.

Our credit was still downgraded from its perfect AAA rating for the first time in history. The agreement called for a super committee to find $1.2 trillion in cuts over a decade. Its failure led the Budget Control Act of 2011 to create a decade of sequestration, with those caps raised roughly every two years by Congress.

Treasury now regularly relies on extraordinary measures to avoid default. 2013 featured another high stakes debt ceiling showdown, also affecting markets. This past December a debt ceiling increase barely passed the Senate on a party line vote right before Treasury's deadline for default.

Point three, the debt ceiling's effects. The debt ceiling causes brinkmanship, but there is little evidence that the debt ceiling provides fiscal restraint. The debt keeps increasing and the debt ceiling has virtually never been lowered. Consider where it is in the process. Voting separately to service debt that has already been incurred by earlier voting decisions is a reactionary exercise.

Some claim that the debt ceiling has prompted negotiations that have resulted in fiscal restraint. The counter factual that even though the ceiling keeps rising, that it could have risen faster.

A fuller reading of congressional history would note that amending debt ceiling votes or otherwise using the debt ceiling to negotiate reforms have had truly minor effects, but also that such policies have both saved and cost money. In the early 1970's debt ceiling votes attracted additional Social Security benefits, in the 1980's non germane amendments included both raising and cutting taxes, increasing the federal gas tax, repealing the windfall profits tax, increasing the tariff on imported oil and more. Current discourse centers around the 2011 Budget Control Act sequestration regime put into place after the 2011 scare. But that has provided little in fiscal restraint as top line spending caps were regularly raised.

Of course, there have been other costs to the Treasury connected to the lack of timeliness of debt ceiling increases. The debt ceiling invites catastrophic risk, aggravates legislating, and does not deliver on fiscal restraint.

Thank you again for the opportunity to testify and I look forward to your questions.

[The prepared statement of Laura Blessing follows:]

The Debt Ceiling: Congressional History and Consequences
Laura Blessing[1]
Senior Fellow, The Government Affairs Institute at Georgetown University
Testimony before the House Budget Committee
Hearing on: "Why Congress Needs to Abolish the Debt Ceiling"
February 16, 2022

Chairman Yarmuth, Ranking Member Smith, and Members of the Committee: my name is Laura Blessing and I am a Senior Fellow at the Government Affairs Institute at Georgetown University. My research and teaching cover a range of topics relating to Congress, parties, and policy, particularly the politics and process of tax and budget policy. Thank you for inviting me here today to testify on the topic of "Why Congress Needs to Abolish the Debt Ceiling." It is an important and timely topic. It is my goal to provide some additional context for how the debt ceiling has functioned over time in congressional negotiations, and the consequences it has had.

To that end, I'd like to make three main points today. 1. Congress has evolved over time in how it has dealt with the debt ceiling, with a trend towards greater brinksmanship. 2. The current manifestations of the debt ceiling in Congress are a particularly worrisome combination. 3. The debt limit has not functioned as an effective tool in controlling debt, and carries with it a number of potential problems for lawmaking in addition to a default's catastrophic economic consequences.

1. The evolution of the debt ceiling:

The debt ceiling was created in 1917 with the Second Liberty Bond Act, and further modified and institutionalized in 1939, to allow the Treasury Department greater flexibility and to modernize federal financing.[2] It imposes an aggregate limit on almost all federal debt, including both debt held by the public and debt held by the government's own accounts. Notably, raising the debt limit does not incur additional spending—rather, it allows the Treasury to borrow money to cover spending Congress has already voted for.

While the US is not wholly unique in having a debt ceiling, it is highly unusual. A small number of other, far less risky, examples exist worldwide, including the Danish debt ceiling, which is safely set at multiple times the existing level of debt. The US Congress has lifted the debt ceiling over one hundred times, under administrations and Congresses of both parties.[3]

---

[1] All views expressed are my own and do not necessarily reflect those of the Government Affairs Institute or any of its staff or board members.

[2] Cooke, H.J. and M. Katzen. 1954. "The Public Debt Limit." *The Journal of Finance*, September 1954, Vol. 9, No. 3, pp. 298-303. See also: Hall, George J. and Thomas J. Sargent. 2018. "Brief History of US Debt Limits Before 1939" *Proceedings of the National Academy of Sciences of the United States of America*, Vol. 115, No. 12, p. 2942-2945. Some confusion on the role of World War One exists, for a nice corrective piece see: Binder, Sarah. 2013. "Debt Ceiling Was Meant to Aid Borrow, Not Limit It." *The New York Times*, 13 January.

[3] "The Debt Limit: CRS in Focus". 2021. Congressional Research Service, 17 March. <https://fas.org/sgp/crs/misc/IF10292.pdf >

The midcentury period between the modern creation in 1939 and major reforms in the 1970s gets little attention in current commentary. The debt ceiling was less concerning than today and political conditions are in many ways not comparable: there was historically low polarization, a different budget process until 1974, fewer instances of divided government, and less frequent changes in majority party status in Congress. But this period still provided regular contestation over the debt ceiling. Both parties have politicized it (in rhetoric, by having a majority of their caucus or conference vote in opposition, by the refusal to bring up a vote, and more)—since 1953.[4]

There are many metrics and individual episodes one could cite. A study by Kowalsky and LeLoup[5] notes the voting patterns by party and chamber from 1945 to 1990. Substantial partisan divergence is present for most of these years, which is more pronounced in the House and worsens over time.[6]

Much of today's rhetoric and governance difficulties are present from very early on. In an early episode, the 1957 fight prompted the Air Force to drastically curtail spending, which economist Marshall Robinson identified as a major cause of the 1957-58 recession.[7] In his 1958 essay "Why a Federal Debt Limit?", economist Walter Heller noted that "far from promoting fiscal prudence and expenditure restraint, as claimed by its protagonists, the federal debt limit has in fact eroded the integrity of our federal budget, interfered with efficient expenditure scheduling and effective debt management, endangered our defense program, and aggravated the 1957-58 recession."[8] Right up until the identification of the year, one could be excused for thinking that this quote was contemporary. While the era of threatening actual default is barely over a decade old, these larger problems with the debt ceiling are neither new nor infrequent.

The 1970s brought two major reforms relevant to the debt ceiling. The first is the 1974 Budget Act, which reformed a more ad hoc appropriations process, providing regular oversight and a comprehensive consideration of total spending, and the creation of the Congressional Budget Office to aid Congress in these efforts. Previously, the debt ceiling, while still problematic, had functioned as a regular vehicle for consideration and oversight of federal spending in a process that otherwise largely lacked this. Fiscal stewardship and effective oversight are important congressional responsibilities; legislators have prioritized this as well as balanced budget ideals

---

[4] Cooke, H.J. and M. Katzen. 1954. "The Public Debt Limit." *The Journal of Finance*, September 1954, Vol. 9, No. 3, pp. 298-303.

[5] Kowalcky, Linda and Lance LeLoup. 1993. "Congress and the Politics of Statutory Debt Limitation." *Public Administration Review* (Jan-Feb 1993), Vol 53, No. 1, p. 14-27.

[6] Republicans in the House vote almost unanimously against debt ceiling increases under Democratic administrations, with periods of initial support for Republican administrations eroding sharply. On the Senate side, about 20% more of the Democratic caucus votes for raises under Kennedy, Johnson, and Carter, roughly equal shares of both parties' caucuses vote for raises under Nixon and Ford, with the most significant opposition coming from Senate Democrats in the Reagan administration. Democratic opposition would become more pronounced years later.

[7] Robinson, Marshall. 1959. *The National Debt Ceiling: An Experiment in Fiscal Policy*. Washington, DC: The Brookings Institution Press.

[8] Heller, Walter. 1958. "Why a Federal Debt Limit?" *Proceedings of the Annual Conference on Taxation under the Auspices of the National Tax Association*, Vol. 51 (1958), p. 246-257.

over time.[9] Having a regular process to facilitate these goals is important; the larger question is how best to design such a process.

The second major reform was the creation of the Gephardt Rule in 1979. This procedural reform reduced but did not eliminate the number of House votes on the debt ceiling. A House vote for the budget resolution would cause House approval (automatically inserted into a joint resolution) of raising the debt ceiling without a separate vote, sparing lawmakers an uncomfortable vote. Of course, in years where the House could not approve a budget resolution or the limit was reached before a budget resolution could be passed, the House would have to take separate votes. This provided a helpful reform that nonetheless did not eliminate fights, and itself was vulnerable to reversal: Speaker Gingrich suspended it in 1995, and it was more definitively repealed in 2011, only to be brought back in modified and less effective form in 2019.[10] Both reforms are useful for considering the sort of oversight of the debt that can take place in the absence of the debt ceiling, and the benefits and limitations of procedural reform.

The 1980s through 2010 brought greater deficits, greater partisanship, and more contentious episodes of debt ceiling showdowns.[11] Reagan inherited debt just shy of a trillion dollars; it would double before the end of his administration, and then keep doubling: by 2010 it was over $13 trillion. Reagan's 1981 tax cut ushered in the modern era of high deficits and the "fiscalization of the policy discourse".[12] In 1985 a fight over the debt ceiling provided the context for our first use of sequestration: Gramm-Rudman-Hollings was attached as an amendment to a debt ceiling increase, with the debt ceiling again hastening its revised reinstatement in 1987 after the Supreme Court struck down portions. Sequestration, in the 1980s and today, invites conflict without delivering on its promises of fiscal restraint.[13]

In 1995-96 Speaker Gingrich demanded spending concessions and that President Clinton approve a GOP balanced budget plan before a debt ceiling vote would occur. While the stated threat that a debt ceiling vote might not happen was a new development, the impasse was resolved weeks before the Treasury's X date; historic brinksmanship for the time but tame by today's standards.[14] During the George W. Bush administration Democrats' opposition

---

[9] Savage, James. 1988. *Balanced Budgets and American Politics.* London: Cornell University Press.
[10] Heniff, Bill. 2019. "Debt Limit Legislation: The House 'Gephardt Rule'." Congressional Research Service, 13 February. <https://sgp.fas.org/crs/misc/RL31913.pdf>
[11] White, Joseph, and Aaron Wildavsky. 1989. *The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s.* Berkeley, CA: The University of California Press.
[12] Patashnik, Eric. 2004. "Congress and the Budget Since 1974." In *The American Congress*, ed by Julian Zelizer. New York: Houghton Mifflin Company.
[13] Major difficulties both episodes include are that entitlements, the major drivers of deficits, are not considered for reform (neither are revenue raises), changes in the economy that could affect revenues and thus projected cuts are not considered, and that budgeting gimmicks prove irresistible. This is not to say that neither episode provided any spending restraint (one cannot precisely know a version of history absent these laws), but that lawmakers largely wrote themselves out of the fiscal handcuffs they created with a variety of accounting gimmicks, raising the caps, and repealing the law entirely.
[14] Wallach, Phillip. 2013. "Mr. Boehner, Tear Down This Ceiling!" Brookings Governance Studies, 13 January. <http://www. brookings.edu/research/papers/2013/01/10-debt-ceiling-wallach>

hardened.[15] In 2006 President Obama, then a Senator, voted against raising the debt ceiling, a vote he came to regret. In these increasingly partisan, but not perilous, years a pattern became clear: those in power voted to raise the limit.

2. The current era, from 2011 to the present, is particularly worrisome:

We are now in an era where Congress has risked default. 2011 is the year where the debt ceiling started to have teeth.[16] The Great Recession and spending measures intended to avert a Great Depression, on top of structural deficits deepened by the Bush tax cuts, put a number of major institutions in a position to call for major debt reduction, while the wave election of 2010 brought in an emboldened group of Tea Party fiscal conservatives, some noting a willingness to vote against the debt ceiling in their campaigns. President Obama and Speaker Boehner made serious attempts at a Grand Bargain, only to be stymied by both failures of communication—and fundamentally, a GOP position to not raise taxes in any bargain. Negotiations came down to the wire, with the Senate rejecting the House's short-term plan and the House following suit, just days before default. Finally, Vice President Biden and Senate Minority Leader Mitch McConnell forged a deal at the last minute, one that would not raise taxes. Credit rating agencies had threatened downgrades in earlier episodes (1995-96, for example), but 2011 marked the first time in US history that our credit was downgraded from its perfect AAA rating in history, by Standard and Poor's. The brokered agreement called for a Super Committee to find $1.2 trillion in cuts over a decade, with sequestration the result if the committee failed. That failure led to the Budget Control Act of 2011 and a decade of sequestration—with those caps raised roughly every two years by Congress.

In addition to our new system of defense and non-defense discretionary caps (and OCO), this new system has regularized both high-stakes, party leadership-driven brinksmanship, as well as the inclusion of the debt ceiling in appropriations negotiations. The debt limit is the threat that led us here, and which continues to bedevil lawmaking. The formal appropriations process in general has significantly broken down, with omnibus and harmful Continuing Resolution (CR) bills replacing stand-alone appropriations bills for the past decade; making the debt ceiling a regular part of the appropriations process adds to this larger dysfunction. Treasury regularly relies on extraordinary measures to avert default. 2013 featured another high stakes debt ceiling showdown, also affecting markets. These regular brushes with economic disaster have become numbing. This past December a debt ceiling increase squeaked through the Senate on a party-line vote right before Secretary Yellen warned Treasury's tools to keep the US from default would expire.[17]

---

[15] Austin, D. Andrew. 2015. "The Debt Limit: History and Recent Increases." Congressional Research Service: 2 November. <https://sgp.fas.org/crs/misc/RL31967.pdf>
[16] Blessing, Laura. 2022. "The Eroding Congressional Budget Process." In *Under the Iron Dome: Congress from the Inside*, eds Paul Herrnson, Colton Campbell, and David Dulio. New York: Routledge.
[17] Rappeport, Alan. 2021. "Yellen Warns Lawmakers that the US could Breach its Debt Limit by Dec. 15." *The New York Times*, 16 November.

3. The debt ceiling's effects: brinksmanship without effective spending control:

There is little evidence that the debt ceiling provides fiscal restraint.[18] The debt keeps increasing, and the debt ceiling has virtually never been lowered.[19] Consider where it is in the process. Voting separately to service debt that has already been incurred by earlier congressional decisions and the state of the economy is a reactionary exercise.

Some claim that the debt ceiling has prompted negotiations that have resulted in fiscal restraint—the counterfactual that even though the ceiling keeps rising, that it could have risen faster. A fuller reading of congressional history would note that amending debt ceiling votes or otherwise pairing debt ceiling negotiations with reforms that affect deficits have been minor, but also that such policies and reforms have cost money as well as curtailed spending. In the early 1970s the debt ceiling votes were seen as such safe "must pass" legislation (as opposed to being truly imperiled) that they attracted additional social security benefits. In the 1980s nongermane amendments included both raising and cutting taxes: increasing the federal gas tax, repealing the windfall profits tax, increasing the tariff on imported oil, and more. Current discourse tends to center around BCA 2011's sequestration regime put into place after the 2011 debt ceiling scare—but that has provided little in fiscal restraint, as topline spending caps were regularly raised, roughly every two years.[20] Of course, there have been other costs to the Treasury connected to the lack of timeliness of debt ceiling increases.[21]

As for the argument that the debt ceiling provides an opportunity for congressional oversight and a way to focus attention on larger fiscal matters, this is true but comes at a high cost. There are other avenues for Congress to perform these same functions without the risk the debt ceiling entails. The appropriations process provides a significant focus on congressional spending, with total topline numbers receiving high levels of attention and political bargaining. A variety of reports on deficits and debt, some mandated, are provided to assist Congress in identifying trends in federal revenue, outlays, and deficits, as well as contributing factors.

---

[18] American Political Science Association. 2019. "Report of the Task Force Project on Congressional Reform." <https://www.legbranch. uploads org/app/ /2019/11/APSA-Congressional-Reform-Task-Force-Report-11-2019-1.pdf > See also Kowalcky and LeLoup (1993)'s identification that "outside experts have consistently reported to Congress that the debt limit is ineffective at curbing borrowing".

[19] U.S. Office of Management and Budget, FY 2022 Budget of the United States Government, Historical Tables, Table 7.2 Exceptions to this rule are minor: in 1946 the Public Debt Act was amended to reduce the debt limit to $275 billion (from $300 billion) and on only five instances has the debt subject to the limit decreased, between 1946 and 1957.

[20] "Bipartisanship in Budgeting": Hearing Before the Joint Select Committee on Budget and Appropriations Process Reform, 115th Congress (2018, May 9) <https://www.govinfo.gov/content/pkg/CPRT-115HPRT33612/html/CPRT-115HPRT33612.htm> See especially the exchange between Rep. Womack and testifying witness Bill Hoagland.

[21] GAO, "Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches," GAO-15-476 (July 2015). <https://www.gao.gov/products/gao-15-476> See also Kowalsky and LeLoup (1993) for earlier episodes of cost to the Treasury: "In 1978, for example, it was estimated that a lapse in statutory authority cost the Treasury approximately $15 million. In 1984, Treasury Secretary Regan wrote Congress that postponement of two October auctions would cost $400 million in higher interest."

The debt ceiling is a vote that members of Congress have not enjoyed taking since the 1950s, with frequent episodes of political hardball escalating into brinksmanship, bringing the US to the precipice of default. Legislating is difficult enough with high levels of polarization and gridlock, in a world of significant and fast-moving policy challenges.

Chairman YARMUTH. I am sorry. I wasn't unmuted.

I now recognize Dr. Sheiner for five minutes. Please unmute your microphone and begin when you are ready.

STATEMENT OF DR. LOUISE SHEINER, ROBERT S. KERR SENIOR FELLOW IN ECONOMIC STUDIES, AND POLICY DIRECTOR FOR THE HUTCHINS CENTER ON FISCAL AND MONETARY POLICY, THE BROOKINGS INSTITUTION

Dr. SHEINER. Sorry. I had little technical problems.

Chairman Yarmuth, Ranking Member Smith, and Committee Members, thank you so much for inviting me to talk about the need to abolish the U.S. debt ceiling.

I just want to make three points today.

First, the debt ceiling does not serve any useful purpose. It has not imposed any significant fiscal discipline on Congress.

Second, we don't know exactly what would happen to interest rates and the standing of the United States if Congress someday failed to raise the debt ceiling. But we do know the effects would be negative and possibly calamitous. This is not a risk we should take.

Third, our country really does face a lot of long-term economic challenges. We have high levels of inequality and limited economic mobility, we have slow productivity growth, we face the perils of climate change, high healthcare cost, and an unsustainable trajectory for the federal debt. We should address these, but we should address these directly. Bickering over the debt ceiling is a waste of time and energy. It creates unnecessary uncertainty, it threatens the benefits that we enjoy of issuing the world's safest asset, and it undermines public confidence in our public institutions.

It is important to recognize that the debt limit does not govern the revenues and spending obligations of the federal government. Those are governed by legislation enacted by current and previous congresses. Instead the debt limit is a political roadblock that when reached prevents the federal government from fulfilling its already incurred obligations. It is like spending money and then refusing to pay the credit card bill.

The debt ceiling would only be a nuisance if Congress left it as a matter of course whenever the need arose. However, that has not been the history in recent years. Instead, the debt ceiling has become a political weapon used to try to extract concessions, or more recently, simply score political points. Using the debt ceiling as a political weapon or as a way to try to impose fiscal discipline is not a wise choice. At a minimum, the mere possibility that the federal government will not honor its debt obligations undermines confidence in the U.S. economy and in our political institution.

It also creates completely unnecessary economic stress for people, as federal employees, contractors, Social Security beneficiaries, the military, and the like have to worry about whether or not the U.S. federal government will pay them what they are owned in a timely manner. It also really distracts policymakers from the serious work of addressing our nation's problems.

And using the debt ceiling in this way is also a very risky game. Last fall we were perhaps just weeks away from having the debt ceiling actually bind, meaning that Treasury would soon have to start delaying payments to people to whom it owned money. While that situation was resolved in time, we may not be so fortunate the next time.

As I describe in my written testimony, the economic costs of a protracted debt ceiling impasse would most likely be substantial. The sharp cut on federal spending that would be required under a binding debt limit would likely lead to a recession. While Treasury would likely choose to prioritize making interest and principal payments on its securities, it is unclear how long that policy could last, both legally and politically.

So concerns about actual debt default on debt would likely mount over time, leading to higher interest rates and possibly a failed Treasury auction. In a worst case scenario, Treasury would actually miss a payment on one of its securities.

Any of those outcomes would undermine the reputation of the Treasury market as the safest and most liquid in the world. This would not only increase interest rates in the short-term, but possibly in the long-term as well because confidence once lost may not be quickly regained.

Now, some might argue that the debt ceiling is a necessary evil because it provides a measure of fiscal discipline to the budget process. I think that view is misguided.

First, there is little evidence that debt ceiling impasses have led to any long-term fiscal restraint. Indeed, the debt rose from 70 percent of GDP in fiscal 2011, the year the Budget Control Act was passed as part of the resolution of the 2011 debt ceiling crisis, to 79 percent of GDP in 2019, the year before COVID. And this increase in borrowing reflects, at least in part, the tax cuts enacted in 2017.

Second, I think much more importantly, the questions of how to address our long-term fiscal sustainability problem. We need to decide when changes should be made, what is the mix of spending and tax increases we need, and which specific policies are best. These are complicated questions and they require careful deliberation.

These types of fundamental policy decisions shouldn't be made in a hurry because the economy is being held hostage. Instead, Congress should confront tax and spending issues directly, not as a byproduct to lifting the debt ceiling.

In sum, the debt ceiling should be abolished.

Thank you. I look forward to your questions.

[The prepared statement of Louise Sheiner follows:]

Congressional Testimony to the House Budget Committee

Louise Sheiner, Senior Fellow and Policy Director, The Hutchins Center on Fiscal and Monetary Policy, The Brookings Institution

February 16, 2022.

Chairman Yarmuth, Ranking Member Smith, and Committee Members, thank you for inviting me to talk about the need to abolish the U.S. debt ceiling.

I would like to make three points today.

1. The debt ceiling does not serve any useful purpose. It has not imposed any fiscal discipline on Congress.
2. We don't know what would happen to interest rates and the standing of the U.S. if Congress someday failed to raise the debt ceiling, but we do know the effects would be negative. This is not a risk we should take.
3. Our country faces a lot of long-term economic challenges— high levels of inequality and limited economic mobility, slow productivity growth, climate change, high health care costs, and an unsustainable trajectory for the federal debt. We should address those directly. Bickering over the debt ceiling is a waste of time and energy, creates unnecessary uncertainty, threatens the benefits of issuing the world's safest asset and undermines public confidence in our political institutions.

The debt ceiling is a legal limit on the total amount of outstanding U.S. Federal debt. When the U.S. reaches that limit, the U.S. Treasury no longer has the authority to increase its net borrowing and can only make payments on its obligations out of incoming revenues. The debt limit does not govern the revenues and spending obligations of the federal government—those are governed by legislation enacted by current and previous Congresses. Instead, the debt limit is a political roadblock that, when reached, prevents the federal government from fulfilling its already-incurred obligations. It is like spending money and refusing to pay the credit card bill.

The debt ceiling would only be a nuisance if Congress lifted it as a matter of course whenever the need arose. However, that has not been the history in recent years. Instead, the debt ceiling has become a political weapon used to try to extract concessions or, more recently, to simply score political points. Indeed, just last fall we came within weeks of Treasury having to default on some of its obligations—before Congress acted at the last minute. That potentially included not making interest payments to debt holders on time.

Using the debt ceiling as a political weapon or as a way of trying to impose fiscal discipline is not a wise choice. At a minimum, the possibility that the federal government will not honor its debt obligations undermines confidence in the U.S. economy and in our political institutions. It also creates completely unnecessary economic stress for people, as federal employees, contractors, Social Security beneficiaries and the like have to worry about whether the government will pay them what they are owed on a timely basis. A protracted standoff in which the debt ceiling actually binds--which we have thankfully thus far avoided—risks wreaking havoc on global financial markets and permanently higher borrowing rates for the U.S. government.

Some might argue that the debt ceiling is a "necessary evil" because it provides a measure of fiscal discipline to the budget process. I think that view is misguided. First, there is little evidence that debt ceiling impasses have led to any long-term fiscal restraint. Indeed, the debt rose from 70 percent of GDP in fiscal 2011, the year the Budget Control Act was passed as part of the resolution of the 2011 debt ceiling crisis, to 79 percent of GDP in 2019, the year before COVID. This increase in borrowing reflects in part the tax cuts enacted in 2017. Second, and more importantly, the questions of how to address our long-term fiscal sustainability problem—when changes should be made, what is the mix of spending cuts and tax increases we need, which specific policies are best—are complicated and require careful deliberation. These types of fundamental policy decisions shouldn't be made in a hurry because the economy is being held hostage. Instead, Congress should confront tax and spending issues directly, not as a byproduct to lifting the debt ceiling.

What would it mean for the debt ceiling to be binding?

It is unclear what would unfold should Treasury not have enough cash to pay all of its obligations. Although the U.S. debt has technically hit the debt ceiling limit many times over the past 12 years, in each of these cases, Treasury undertook a set of "extraordinary measures" so that the debt limit did not actually bind, and Congress raised or suspended the limit before these measures ran out.

Treasury developed a contingency plan in place in 2011 when they faced the threat of a binding debt limit, and most observers believe that the plan would have been followed in 2021 had it been needed. Under the plan, Treasury would not default on its debt—that is, Treasury would continue to pay interest on Treasury securities in a timely manner. When a security matured, Treasury would pay that principal by auctioning new securities for the same amount (and thus not increasing the overall stock of debt held by the public.) To deal with the inability to borrow, Treasury would delay payments on all of its other obligations, only making payment on a day's worth of obligations when sufficient cash was available. In this way, Treasury would avoid picking and choosing which bills to pay and which to delay.

There is a lot of uncertainty about this plan—after all, it has never been put to the test. Some question whether Treasury's financial systems would be able to handle these delays without technical glitches. In addition, there would likely be legal challenges to the plan, because it is questionable whether holders of Treasury securities have the right to be paid before others. It is not clear how such litigation would turn out, in part because the law itself imposes contradictory requirements on the government—requiring it to make payments, honor the debt, and not go above the debt limit, three things that cannot all happen at once.

And, importantly, the plan recognizes that all the payments will eventually be made. Contractors, Social Security beneficiaries, health care providers, employees—would all eventually be made whole. Treasury cannot unilaterally increase taxes or lower spending—these are legal obligations that only Congress can change. The only practical resolution to a debt ceiling impasse is to raise or suspend the debt ceiling. The question is just how long that takes and how costly it is.

The Costs of a Binding Debt Ceiling

In September of last fall, my colleague Wendy Edelberg and I evaluated the likely costs to the U.S. economy of a binding debt ceiling, which seemed like a real possibility at that time.[1] We argued that

[1] https://www.brookings.edu/blog/up-front/2021/09/28/how-worried-should-we-be-if-the-debt-ceiling-isnt-lifted/

these costs are enormously uncertain, as they depend on the perceptions of financial market participants, businesses and households.

If, for example, people believe that an impasse will be resolved quickly, it is possible that the initial cost to the economy would be muted. On the other hand, it's also possible that a binding debt ceiling would have swift repercussions—perhaps the stock market would tumble the first day that a Social Security payment is delayed, and perhaps Treasury markets would seize up because participants weren't convinced that payments would be made on time. In such a situation, even if the impasse were resolved quickly, there would be lasting damage arising from the hit to confidence in the U.S. political system.

A protracted impasse would undoubtedly have severe effects, with conditions worsening with each passing day. The sharp cut in federal spending that would be required under a binding debt limit would itself have significant macroeconomic consequences. In 2022, for example, under current law, about 20% of spending will be financed by borrowing, meaning that, on average, spending would have to be cut by at least this amount during a debt ceiling crisis. Of course, the patterns of spending and revenues vary over the year—for example, there is a large influx of revenues during tax filing months and modest revenues in other months—so the required cuts could be even larger. A 20% reduction in spending—amounting to almost 5 percent of GDP—should it persist for any significant length of time, would likely lead to a recession. Moreover, tax revenues, the only resource the Treasury would have to pay interest on the debt, would be dampened, and the federal government would have to cut back on non-interest outlays with increasing severity.

Concerns about a default would likely grow with mounting legal and political pressures as Treasury security holders were prioritized above others. Interest rates on newly-issued Treasuries would rise. If financial markets started to pull back from U.S. Treasuries all together, the Treasury could have a difficult time finding buyers when it sought to roll over maturing debt, perhaps putting pressure on the Federal Reserve to purchase additional Treasuries in the secondary market. Such financial market disruptions would very likely be coupled with declines in the price of equities, a loss of consumer and business confidence, and a contraction in access to private credit markets.

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

The federal government pays a lower interest rate on Treasury securities because of the unparalleled safety and liquidity of the Treasury market. Some estimates suggest that this advantage lowers the interest rate the government pays on Treasuries (relative to interest rates on the debt of other sovereign nations) by something on the order of a quarter of a percentage point. Given the current level of the debt, this translates into interest savings for the federal government of roughly $60 billion this year, and over $700 billion over the next decade. Even if only some of this advantage were lost by allowing the debt limit to bind, the cost to the taxpayer could be significant.

While subject to great uncertainty, those analyses demonstrate that the effects of allowing the debt limit to bind could be quite severe, even if, as is assumed, principal and interest payments continued to be made. If instead the Treasury failed to fully pay all principal and interest payments—because of political or legal constraints, unexpected cash shortfalls, or a failed auction of new Treasury securities— the consequences would be even more dire.

Our country faces a lot of long-term economic challenges— high levels of inequality and limited economic mobility, slow productivity growth, the challenges of climate change, high health care costs, and an unsustainable trajectory for the federal debt. We should address those. Political bickering over the debt ceiling — which so far has always been raised or suspended — is a waste of time and energy, creates unnecessary uncertainty, threatens the benefits of issuing the world's safest asset and undermines public confidence in our political institutions.

Chairman YARMUTH. Thank you, Dr. Sheiner.

I now recognize Ms. Russell for five minutes. Please unmute your microphone and begin when you are ready.

STATEMENT OF LAJUANNA RUSSELL, FOUNDER AND PRESIDENT OF BUSINESS MANAGEMENT ASSOCIATES, INC; AND CHAIR OF THE SMALL BUSINESS MAJORITY

Ms. RUSSELL. Thank you, Chairman Yarmuth, Ranking Member Smith, and other Members of the Committee.

My name is LaJuanna Russell. I am the Founder and President of Business Management Associates, a human capital firm with approximately 60 employees. I am also the Chair of the board of the Small Business Majority, a national small business organization that empowers America's entrepreneurs.

I am pleased to provide insights today as to why Congress should eliminate the U.S. debt ceiling to mitigate financial risk and uncertainty for the small business community. This is an important proposal that will better serve American entrepreneurs like me who are still trying to recover from the damaging effects of the COVID–19 pandemic.

The United States is home to 32.5 million small businesses that employ 61.2 million people—32.5 million businesses, 61.2 million Americans. This makes up about half of all American employees. Needless to say, our impact on the economy is critical to the success of this country. And as you can imagine, uncertainty and risk are not welcome, especially those that could be more easily mitigated or managed, like the debt ceiling.

As a small business owner with more than 20 years of experience, I understand firsthand the importance of reliability and having support of government agencies in times of crisis. For example, during the 2019 government shutdown, the longest government shutdown in American history, my business lost thousands of dollars over the course of 35 days. My employees had questions. Will their jobs still be there, will they still have the same level of benefits, will their pay decrease to cover the loss. Similarly, I had questions. How are we going to recoup, will these employees find other positions or will they stay with our company. In this case the risk was a little more definitive. We anticipated the shutdown and could somewhat mitigate internally before it happened, but the impacts were still there.

But what would happen if our government were to default on its debt? This is a risk that small businesses simply cannot afford. As you well know, it has been a difficult journey over the last two years. Uncertainty has taken on a whole new meaning and unfortunately small businesses have taken the brunt of this new definition. At first, thankfully, BMA didn't feel the significant impact, but as days turned into weeks and weeks into months, we slowly realized that COVID–19 wasn't just a temporary crisis. BMA, like so many other small businesses, began to experience accounting and processing delays, which meant that we either weren't going to get paid or our contracts were going to be put on hold indefinitely.

Obviously my story is one example. But let us get down to some additional facts. A recent Small Business Majority survey found that small businesses are still facing challenges in maintaining their operations since the onset of COVID. More than one in four of those surveyed say that they may not survive the next six months without additional funding or market changes. 37 percent said their business is on the decline compared to the previous month. 37 percent equates to real jobs for real people with real families.

I believe that we elect officials to manage resources and minimize uncertainty for small businesses and all Americans alike. Over the years, lawmakers from both sides of the aisle have used the argument of raising the debt ceiling to justify political in fighting. But what is really good for the people? Every time our government gets closer to defaulting on our debt uncertainty ensues and our very livelihoods are threatened. Small and large businesses alike are affected.

We consider ourselves the global force, yet we allow this ongoing dilemma to undermine our stance in the global markets. Imagine if the United States, a global leader, were unable to pay its own debt and make right on fiscal promises.

Let us not forget the ongoing discussion and challenge for small businesses on access to capital. Defaulting on the debt limit will have severe consequences for us, higher interest rates for small business loans, even those from the Small Business Administration, personal and small business credit cards would carry higher interest rates, harder for us to pay our debts, stock market would be in jeopardy, large businesses, everyone across the overall economy. Payments to contractors like me would be even more delayed, which undermines our ability to pay our employees and our vendors promptly. It could even create a precedent where banks deny us lines of credit due to the risk level.

I am 100 percent not saying that we cannot or should not be fiscally responsible. I see it as Congress' job to teach us all the importance of doing so by setting a great example. Think about the fiscal responsibility that we teach our children. Congressional leaders must take a closer look at our budget, analyze how we are prioritizing certain expenditures, and how we can get back to supporting small business.

We have an opportunity here. Let us work together to stabilize the economy. A bill to eliminate the debt limit is one that can largely address and reduce financial uncertainty for businesses of all sizes. I urge you to refrain from using the debt limit as a political tactic to undermine each other's political priorities. We deserve more from you than that. Small businesses have been pushed to their breaking point in the past two years. We can no longer bear the financial uncertainty of constant debt limit negotiations.

Thank you.

[The prepared statement of LaJuanna Russell follows:]

SMALL BUSINESS MAJORITY

STATEMENT FOR THE RECORD

BEFORE THE U.S. HOUSE COMMITTEE ON THE BUDGET ON

"WHY CONGRESS NEEDS TO ABOLISH THE DEBT LIMIT"

FEBRUARY 16, 2022

LAJUANNA RUSSELL

FOUNDER & PRESIDENT, BMA ASSOCIATES

Thank you, Chairman Yarmuth, Ranking Member Smith and other Members of the Committee.

My name is LaJuanna Russell; I'm the founder and president of Business Management Associates, Inc. (BMA), a business process and human capital management firm with approximately 60 employees. I'm also the Chair of the Board of Directors and a member of the Small Business Council for Small Business Majority, a national small business organization that empowers America's entrepreneurs to build a thriving and equitable economy.

I am pleased to offer testimony today about why Congress should eliminate the U.S. debt limit to mitigate financial risks and uncertainty for the small business community. This is an important proposal that will better serve American entrepreneurs like me who are still trying to recover from the damaging effects of the COVID-19 pandemic. Removing the federal debt limit on U.S. spending to prevent an economic fallout is not only a crucial move to reduce uncertainty and risk in our financial markets, but also vital to supporting small businesses.

The United States is home to 32.5 million small businesses and they employ 61.2 million people, accounting for nearly half of all American employees.[1] Our impact on the economy is vital to the success of our country, so it's important to consider how small businesses are impacted by the uncertainty and risk that surrounds the debt limit.

As a small business owner with more than 20 years of experience, I understand firsthand the importance of reliability and having the support of government agencies in times of crises. For example, during the 2019 government shutdown, the longest government shutdown in American history, my business lost thousands of dollars over the course of 35 days. My employees had questions; I had questions. And while the shutdown was definitive and we anticipated it before it happened, it is still minor compared to what could happen if our government were to default on its debt. This is a risk that small businesses simply can't afford right now.

As you well know, the last two years have brought a level of unimaginable uncertainty to our economy, with small businesses taking the brunt of the economic recession. BMA initially didn't feel a significant impact in 2020, but as days turned into weeks and weeks into months, we slowly realized that COVID-19 wasn't just a temporary crisis. Over time, it became clear that our government wasn't fiscally prepared to withstand the irreparable effects of the pandemic, and my small business began to experience accounting and processing delays, which meant that we either weren't going to get paid or our contracts were on hold indefinitely. My experience is just one example of why we must mitigate risk and prevent uncertainty to better support small businesses.

Indeed, a recent Small Business Majority survey found that small businesses are still facing challenges in maintaining their operations.[2] More than 1 in 4 of the surveyed stated that they may not survive the

---

[1] https://advocacy.sba.gov/2021/08/30/2021-small-business-profiles-for-the-states-the-district-of-columbia-and-the-u-s/

[2] https://smallbusinessmajority.org/our-research/small-businesses-views-on-vaccine-mandates-supply-chain-disruptions-and-build-back-better

next six months without additional funding or market changes, while 37% said their business is on the decline compared to the previous month. We're at a crucial time in our economic recovery, and small businesses can't afford to face additional financial uncertainty.

Elected officials must minimize financial uncertainty for small businesses, and all Americans alike– and eliminating the debt limit can help to accomplish just that. Over the years, lawmakers from both sides of the aisle have used the argument of raising the debt ceiling to justify political infighting and block vital measures for the good of the people. Every time our government gets closer to defaulting on our debt, a uncertainty ensues and our very livelihoods are threatened. And I'm not just talking about small businesses; large corporations are also affected by this ongoing dilemma that undermines our stance in the global markets. Imagine if the United States, a global leader, were unable to pay its own debt and make right on fiscal promises that are crucial to keeping our country running.

What's more, defaulting on our debt limit will have severe consequences on small businesses' access to capital, which is challenging for entrepreneurs even under normal circumstances. It would mean higher interest rates for all small business loans, including loans from the U.S. Small Business Administration, which carry low interest rates. Personal and small business credit cards would carry higher interest rates, thus making it harder for anyone to pay their debts, accruing interest rapidly over time. And the stock market would be in jeopardy as well, impacting larger businesses and the economy overall. Payments to contractors, like me, would also be delayed, which undermines our ability to pay our employees promptly. It could also create a precedent where banks deny us lines of credit because our primary source of revenue comes from the government, a potentially riskier entity if the government were to ever default on its debt.

Eliminating the debt limit doesn't mean that we, as a nation, can't be fiscally responsible. Congress's job is to take a closer look at our budget, analyze how we are prioritizing certain expenditures, and how we can get back to supporting small businesses, which are the backbone of the American economy. Continuing to enforce the debt limit only serves to put our economy and our small businesses at risk of failing.

We have an opportunity today to help stabilize the economy. Chairman Yarmuth and Congressman Boyle's proposal to eliminate the debt limit is one that can largely address and reduce financial uncertainty for businesses of all sizes. I urge you to refrain from using the debt limit as a political tactic to undermine each other's political priorities. Small businesses have been pushed to their breaking point in the last few years due to the COVID-19 pandemic, and we can no longer bear the financial uncertainty of constant debt limit negotiations.

Thank you for the opportunity to comment on this important issue for the small business community.

Chairman YARMUTH. Thank you, Ms. Russell.

I now yield five minutes to our former colleague and former director of the Office of Management and Budget, Mr. Mulvaney. You have five minutes.

STATEMENT OF THE HON. MICK MULVANEY, FORMER DIRECTOR OFFICE OF MANAGEMENT AND BUDGET

Mr. MULVANEY. Thank you, Mr. Chairman. Thank you for having me. Thank you to Ranking Member Smith for the invite. It is good to see everybody. It is good to see the Majority Leader—I haven't seen him in a while—as well as a lot of the old colleagues. It is hard to imagine that I think five years ago today I was still one of your colleagues. I didn't realize it was the anniversary.

Listen, I am not going to read my opening statement. I am going to say just a couple of things and we can start the hearing. I was talking yesterday with Jeb Hensarling, who all of you know—or most of you know. Wrote a great op-ed in the Wall Street Journal back in September on this very topic. And he and I were trying to figure out the right analogy. You know, was the debt ceiling—was it a smoke alarm in your house, was it the check engine light in your car. Something that reminds you from time to time to go look at something. And then Dr. Sheiner said something that I actually agree with, which is that wouldn't it be great if we could actually, you know, deal with our debt and our deficit situation directly. Yes, it would be. And that is what made me think of a different analogy, which is the debt ceiling is really that buzzer that goes off when your battery is busted in your smoke alarm. It always goes off at an inconvenient time, it is always a pain to change it, but you always do it. It is not easy, you have got to get on a ladder at two o'clock in the morning, but you do it because you know it is the right thing to do and you do it so that you know that six months later, god forbid, you have a fire in your house, you know that the tool works.

That is what the debt ceiling is. I sit and I was listening to folks, I read all the materials from the other witnesses. Very, very smart people, some really good points made. I hope we get a chance to talk about a lot of them. But it seems like one of the overriding themes here is that you want to get rid of it because it is hard, it is messy, it is a distraction. OK, yes, it probably is. So is passing a budget. That is not easy. By the way, I have been involved with several budgets. I was involved—heavily involved in the 2017 debt ceiling increase for—President Trump. You all know I know how hard they are and how messy they are and how partisan they are. Budgets are the same way, approps are the same way. Congress hasn't passed all 12 appropriations bills since 1996. Just because it is hard, does that mean we want stop doing it?

I think no one ran on a campaign slogan that said send me to Washington so I don't have to do anything hard, so I don't have to take any messy votes, so that I don't actually have to make any hard decisions. Ask yourself this, how often would you as Members of Congress be talking about the debt and the deficit if not for the debt ceiling? I can't remember ever coming up on the floor of the House when we were there outside of that—yes, we talked about it during some of the appropriations mark ups and so forth, but generally speaking it never came to the forefront. That is what this debt ceiling does and I happen to think it does it well.

Ask yourself this question, would Congress be more or less likely to be prudent about how they manage their taxpayer dollars with or without the rule? Ask yourself this, would our debt situation be better or worse if we didn't have the bill? Yes, we have not fixed it and yes the long-term trends are very bad, but would it be better or worse if we had not had the debt ceiling rules available to us?

The bottom line I think is this, the rule is not broken, the rule is not broken. The rule does exactly what it is supposed to do. It forces us to have a discussion that we otherwise would not have and from time to time allows us to pass legislation that we otherwise would not pass. The debt ceiling gave us Gram-Rudman-Hollings, the debt ceiling gave us the Omnibus Act of 1991, which led to a balanced budget by the end of that decade, the debt ceiling gave us the Budget Control Act of 2011. Were these fixes permanent fixes to our deficits and our debts? No, they absolutely weren't. In fact we voted as a body to undo a lot of those things as we moved forward. But we never would have had those without the debt ceiling.

The rules are not broken, Congress is broken. And the reason it is so hard to do this, it doesn't have to be hyperbolic. There is nothing in the rule that says this has to be divisive and hyperbolic and brinkmanship. That is not in the rule. That is how you as—that is how we addressed that as a body when I was there. The rule is not broken, Congress is not broke—excuse me, Congress is what is broken. And I think what we should be spending our time on is fixing that. I think if you fix that, you get a chance to fix the debt ceiling, you get a chance to fix the appropriations process, you get a chance to fix the budget process. And by doing that, you get better fiscal outcomes.

So I hope we get a chance to talk all about that again today and I really appreciate the chance to be here. It is great to see so many friends and colleagues.

And thank you for your time.

[The prepared statement of Mick Mulvaney follows:]

The Hon. Mick Mulvaney
Former Director
U.S. Office of Management and Budget
Written Testimony
House Committee on the Budget

Hearing on
Why Congress Needs to Abolish the Debt Limit

February 16, 2022

Chairman Yarmuth, Ranking Member Smith, Members of the Committee, thank you for the opportunity to testify before this Committee on this important topic. It's a pleasure to testify before a committee I served on during my first term in Congress and testified before as White House Director of the Office of Management and Budget. As I can imagine it is for the majority of members on this committee, being good stewards of the tax dollars Americans entrust us with is something I took very seriously during my time in public office.

No matter how you slice it, the federal government's spending is on an unsustainable path. This month, the federal debt surpassed $30 trillion. The Congressional Budget Office is projecting annual deficits of larger than $1 trillion into the next decade. The interest we pay on the debt is expected to grow substantially and eat away at the revenues coming in. Truly, the nation faces a collection of financial challenges in the coming years.

When I first got to Congress in 2011, I joined with colleagues in introducing the Cut, Cap, and Balance Act, which would cut federal spending, cap future spending levels as a share of GDP, and add a balanced budget amendment to the Constitution, in exchange for raising the debt limit. While it did not become law, it showed one simple and sensible pathway to restore fiscal sanity. Ultimately, Congress passed the Budget Control Act of 2011. At the time, just eleven years ago, the national debt was $14.3 trillion, half of what it is today. In my view, while that law was imperfect, Congress made an important commitment to the American people to impose some measure of restraint on spending, to not treat tax dollars like an unlimited resource.

The 2011 debt limit debate was not the only time Congress used raising the debt limit as an opportunity to address the growing federal debt. Starting with the Balanced Budget Act of 1985, both parties, when in control of Congress, have raised the debt limit in exchange for spending caps, sequestration, limits on discretionary spending, and pay-as-you-go requirements for new federal spending. A common theme has been a sense of obligation to the American people to have the federal government behave more like a family balancing its own budget – what you spend should not exceed what you bring in.

The fact that the Budget Committee, the committee responsible for setting spending levels for the federal government, is holding a hearing about why the debt limit should be abolished speaks volumes about the current fiscal insanity that pervades Washington. This is the Budget Committee – and with the title of this hearing alone you are implicitly saying that budgets no longer matter.

The truth we all know is that Congress often does not act without the threat of a looming deadline. A debt limit creates a natural point in time for Congress to account for how out-of-control spending has become and to, potentially, do something about that. It is seemingly the only real inflection point when Congress decides to take budgeting seriously. That's the very least the federal government owes American taxpayers.

Anyone who looks at the government's books will see that the root cause of the federal debt is spending, not revenue. In fiscal year (FY) 2021, tax revenue to the federal government increased by 18 percent, the highest rate of increase in five decades. Tax collections are on pace to set another record this year, up more than 28 percent through the first four months of the year. And yet, the House of Representatives passed an astonishing $7.5 trillion in new spending last year alone. There is absolutely no way taxpayers can sustain such levels of spending, nor should Congress pass that burden onto future taxpayers.

Proponents of uncontrolled federal spending often justify their actions under the guise of compassion – providing something to those in need and not letting the debt get in the way. But Congress should not just consider the recipient of government services, but also the taxpayer whose hard work has provided the resources to pay for such services. It is not compassionate or respectful to taxpayers to pass down a legacy of debt to their children and grandchildren. The debt limit forces Congress to think of today's taxpayers as well as the next generation of Americans and ask whether we want to risk jeopardizing their future success and prosperity by making poor decisions today.

Thank you for allowing me to testify before this committee and I look forward to your questions.

Chairman YARMUTH. I thank the gentleman for his remarks.

We will now begin the question and answer portion of the hearing.

I defer my questioning until the end, so I now recognize the gentleman from New York, Mr. Jeffries, for five minutes.

Mr. JEFFRIES. Thank you, Mr. Chairman, for convening this very important hearing. I thank all the witnesses. And, Mr. Mulvaney, it is good to see you. Welcome back to the people's house, even if it is virtual.

Mr. Mulvaney, you ran the Office of Management and Budget for President Trump before becoming his chief of staff, is that right?

Mr. MULVANEY. That is correct. I think I ran OMB for two years. I ran it from February 17 through about December 18.

Mr. JEFFRIES. Is it fair to say that many Republicans only care about the debt and deficits when there is a Democrat in the White House?

Mr. MULVANEY. I think it is fair to say that not as many Republicans care about the debt and deficit as I want them to. I will never forget, I was walking down the hallway early in my days in Congress, what we all referred to as the " old bulls" . I honestly can't remember his name, so I am not shielding him, and I just got there in the Tea Party wave and he looked at me and he says, oh, you are Mulvaney, you are one of those fiscal hawks. And I said yes and he laughed. He said yes, you know, you all came around a little bit with Newt and then you left and I was here. You were around a little bit with Reagan, you left and I was here. And now you are here and I am here, you are going to leave and I am still going to be here. There are Republicans who love spending money just as much as Democrats do.

Mr. JEFFRIES. Well, thank you, Mr. Mulvaney.

And I think this is consistent with what you once said, which is my party is very interested in deficits when there is a Democrat in the White House. The worst thing in the whole world is deficits when Barack Obama was the president. Then Donald Trump became president and we are a lot less interested as a party. You said that on February 19, 2020.

Now, in 2017 Republicans passed the "GOP tax scam" where 83 percent of the benefits went to the wealthiest 1 percent, is that correct?

Mr. MULVANEY. Was that the official name of the bill? I don't remember that.

Mr. JEFFRIES. That is the informal name.

Mr. MULVANEY. OK.

Mr. JEFFRIES. It is the affectionate name for a very interesting piece of legislation to subsidize the lifestyles of the rich and shameless.

But in terms of that particular bill, it is estimated that it increased deficits by $1.9 trillion over a 10 or 11 year period of time. Is that correct?

Mr. MULVANEY. I have not seen that estimate. What are you looking at, Hakeem?

Mr. JEFFRIES. It actually came from the Congressional Budget Office.

Now, during President Trump's time in office the national debt rose by approximately $7.8 trillion. Is that correct?

Mr. MULVANEY. Again, I don't have the numbers in front of me, but it sounds about—we increased the deficit considerably during the Trump Administration, yes.

Mr. JEFFRIES. All right. $7.8 trillion, that is a record amount over a 4-year period of time. Yet, despite opposing the "GOP tax scam" and all the other reckless spending that is country was forced to absorb, Democrats in Congress voted to increase the debt ceiling three times because that is the responsible thing to do as Leader Steny Hoyer indicated.

But it also has become a political weapon often used with great hypocrisy, as you yourself eloquently articulated in England several years ago. And that is why I believe the responsible thing to do is to move beyond it.

Let me ask Dr. Sheiner, am I correct that the United States is the only major, high-income, industrialized nation to have a debt limit?

Dr. SHEINER. I actually don't know the history of the debt limit across countries. I think, as Representative Hoyer said, that Denmark has one, but that it is not binding. But it is very unusual across countries to have this kind of weird rule that says you pass money and then you have some other law that—inconsistent with what—the other law that you have passed.

Mr. JEFFRIES. And what was its intention when it was created?

Dr. SHEINER. So, again, not aneconomic historian, but from what I understand it was, again as Representative Hoyer said, to allow Treasury more flexibility than they had in order to borrow money to keep the country rolling, so.

Mr. JEFFRIES. And am I correct that debt limit is simply designed to allow the Department of Treasury basically to pay the bills that Congress has already acquired? Like if you were not to do that you would be blocking a checking account from paying off a credit card bill that you have already accumulated? True?

Dr. SHEINER. Exactly. Congress passes something that says Treasury pay this person $100 and then the debt limit says but you can't.

Mr. JEFFRIES. Is there any evidence to suggest that the debt limit has ever incentivized a Democratic or a Republican controlled Congress to reduce spending? This is particularly apropos given what we saw explode during the Trump years, particularly in 2017 and 2018.

Dr. SHEINER. I think if you look at the history of the debt ceiling you will find that it has not had any material effect on deficits.

Mr. JEFFRIES. Thank you very much.

I yield back the balance of my time.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the Ranking Member, Mr. Smith, for 10 minutes.

Mr. SMITH. Thank you, Mr. Chairman.

Before proceeding further, my fellow Republicans on this Committee and I, we sent you a letter over two months ago calling for an oversight hearing on the $2 trillion of so called COVID–19 relief, the legislation that was signed into law in March 2021. In our letter, Mr. Chairman, we highlighted numerous examples of waste and mismanagement of that funding, including millions of dollars spent to build parking lots in South Carolina, millions to plant trees in New York, build golf courses in Florida, and it even sent Japanese citizens living in Japan and convicted prisoners $1,400 stimulus checks, not to mention the billions diverted from the COVID–19 purposes, like testing supplies and the strategic national stockpile to house illegal immigrants at the Southern Border.

All of it, frankly, Mr. Chairman, cries out for more oversight by this Committee on the Administration's COVID spending. Given that the White House is reportedly now asking for more funding to supposedly combat COVID–19, now more than ever we ought to be holding a hearing on how the Administration has spent or how they have misspent the trillions already handed to it. Particularly, Mr. Chairman, if we are going to take the time today to talk about how to loosen congressional oversight over spending, I would like to ask unanimous consent to include this letter we sent to you in the record for today's hearing, Mr. Chairman.

Chairman YARMUTH. Without objection.

Mr. SMITH. Thank you, Mr. Chairman.

[Letter submitted for the record follows:]

JOHN A. YARMUTH, KENTUCKY
CHAIR

DIANA MEREDITH, STAFF DIRECTOR
(202) 226-2700

JASON SMITH, MISSOURI
RANKING MEMBER

MARK ROMAN, MINORITY STAFF DIRECTOR
(202) 226-7270

U.S. House of Representatives
COMMITTEE ON THE BUDGET
204-E CANNON HOUSE OFFICE BUILDING
Washington, DC 20515

December 9, 2021

The Honorable John Yarmuth
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Yarmuth:

Consistent with clauses 3(c) and 4(b) of Rule X of the Rules of the U.S. House of Representatives, and in accordance with the 117th Congress Oversight Plan of the Committee on the Budget, we call on you to convene the Committee on the Budget in order to hold an oversight hearing on the American Rescue Plan Act (Public Law 117-2).

In the nine months since enactment of the nearly $2 trillion law, we have seen countless examples of misuse, waste, and fraud in its implementation. This legislation was cited by Congressional Democrats and President Biden as "emergency" spending to urgently address COVID-19, but bipartisan warnings showed this was not true or necessary. Record-high inflation in the following months has made it all the clearer that this massive spending bill was not an antidote.

Clauses 3(c) and 4(b) of House Rule X empower the Budget Committee with special oversight responsibilities as follows:

> 3(c) "The Committee on the Budget shall study on a continuing basis the effect on budget outlays of relevant existing and proposed legislation and report the results of such studies to the House on a recurring basis."
>
> 4(b) "The Committee on the Budget shall… (2) hold hearings and receive testimony from Members, Senators, Delegates, the Resident Commissioner, and such appropriate representatives of Federal departments and agencies, the general public, and national organizations as it considers desirable in developing concurrent resolutions on the budget for each fiscal year… (5) study on a continuing basis proposals designed to improve and facilitate the congressional budget process, and report to the House from time to time the results of such studies, together with its recommendations; and (6) request and evaluate continuing studies of tax expenditures, devise methods of coordinating tax expenditures,

policies, and programs with direct budget outlays, and report the results of such studies to the House on a recurring basis."[1]

In addition, the Oversight Plan of the Budget Committee for the 117th Congress states:

"In the 117th Congress, the Committee will be active in its oversight duties… The Committee will continue its efforts to strengthen Congress' power of the purse, through recommending specific reforms to ensure spending and revenue decisions are transparent and effectively carried out by the Executive Branch."[2]

Surprisingly, this Committee has not held a single oversight hearing during the first session of the 117th Congress. What makes this fact even more remarkable is that the House of Representatives has pushed through over $7 trillion in new federal spending this year alone, yet the Budget Committee remains silent on actively reviewing the implementation of the sizeable portion of this spending that has already been enacted into law. The Democrat Majority is quick to usher through bills with enormous price tags, but this eagerness is lacking when it comes to shrewd management and oversight of taxpayer dollars.

Unfortunately, the bipartisan warnings of waste and abuse of all this spending have come true. As if fueling the inflationary fires through more government spending wasn't painful enough, the public record shows what this massive expansion of government has been all about. In a bill where less than 9% of the total funding actually went to public health spending to combat COVID-19, we have found numerous troubling examples of how "COVID-19 relief" taxpayer dollars are being spent, including:

- Upwards of $2 billion sent to nonexistent county governments in states such as Connecticut and Rhode Island.[3] The city of Providence, Rhode Island is using some of its funds to revamp a park by building a new visitors' center and bike share.[4]
- Fort Bend County, Texas spending $157 million from the American Rescue Plan on a multimillion-dollar courtroom expansion, new government buildings and vehicles, and government audio-visual tools, despite the County Judge's objection that this spending included "many items that have little or nothing to do with helping the county recover from the pandemic."[5]
- The city of Syracuse, New York's plan to spend $2 million of federal taxpayer dollars to plant 3,600 trees.[6]

[1] Rules of the House of Representatives, 117th Congress, February 2, 2021 https://rules.house.gov/sites/democrats.rules.house.gov/files/117-House-Rules-Clerk.pdf.
[2] Committee on the Budget, U.S. House of Representatives, "Oversight Plan of the Committee on the Budget for the 117th Congress, House of Representatives," 2021.
[3] "ARPA Allocates $2 Billion to Nonexistent County Governments," The Tax Foundation, March 31, 2021 https://taxfoundation.org/american-rescue-plan-local-government-funding/.
[4] "Here's how Providence plans to spend $42 million of Biden relief money," WPRI 12 News, June 25, 2021 https://www.wpri.com/news/local-news/providence/heres-how-providenceplans-to-spend-42-million-of-biden-relief-money/
[5] "Fort Bend Commissioners Approve $157 Million in COVID-19 Relief, Over County Judge's Objections," Houston Public Media, May 5, 2021 https://www.houstonpublicmedia.org/articles/news/politics/2021/05/05/397566/fort-bend-county-commissioners-overrule-judge-to-approve-covid-19-relief-package/.
[6] Syracuse's $123 million stimulus spending plan includes $2 million for trees, CNY Central, July 29, 2021 https://cnycentral.com/news/local/syracuses-123-million-stimulus-spending-planincludes-2-million-for-trees.

- The city of Chicago spending $31 million to create a guaranteed income program.[7]
- Japanese citizens living in Japan receiving $1,400 stimulus checks from the U.S. government. Up to 70,000 foreign nationals who at one time lived in the U.S. may have qualified for these checks.[8]
- Michigan Governor Gretchen Whitmer's proposal to spend $250 million of the state's "COVID relief" money upgrading state parks and trails.[9] Additionally, the state of Michigan sent $3,200 stimulus checks to thousands of convicted inmates.[10]
- The city of Norwich, Connecticut using its federal "COVID relief" dollars to develop luxury apartments.[11]
- Horry County, South Carolina's plan to use $4 million to build new parking lots and bathrooms at the beach.[12]
- Countless school districts spending "COVID relief" dollars on new weight rooms, turf fields, and resurfaced outdoor tracks.[13]
- Palm Beach Gardens, Florida's plan for a taxpayer-funded $16.8 million golf course, driving range, and clubhouse.[14]
- Maine's plan to spend $16 million in "COVID relief" to improve its fishing industry and millions more to update its state parks and provide electric vehicle charging stations.[15]
- The city of Philadelphia's plan to spend $18 million of its federal relief dollars to test a "universal basic income" pilot program.[16]

---

[7] Chicago poised to create one of the nation's largest 'guaranteed basic income' programs, Washington Post, October 25, 2021 https://www.washingtonpost.com/nation/2021/10/25/chicago-poised-create-one-nations-largest-guaranteed-basic-income-programs/.
[8] "Confused Japanese Citizens Receive Stimulus Checks from Biden's COVID-19 Relief Package" Ryan General, AOL, May 20, 2021 https://www.aol.com/news/confused-japanese-citizens-receive-stimulus-164129030.html.
[9] "Whitmer Seeks $250M for Parks; Senate Has $1.5B Bridge Plan," Associated Press, June 10, 2021 https://www.usnews.com/news/best-states/michigan/articles/2021-06-10/whitmer-seeks250m-for-parks-senate-has-15b-bridge-plan.
[10] "Michigan AG seeks reimbursement after inmates serving life sentences received stimulus payments," ABC7, May 26, 2021 https://www.wxyz.com/news/michigan-ag-seeksreimbursement-after-inmates-serving-life-sentences-received-stimulus-payments.
[11] Norwich aldermen revive American Rescue Plan funding for luxury apartments, Norwich Bulletin, September 21, 2021 https://www.dailyadvent.com/news/31fe868d1b857fa4640855c3756f8d63-Norwich-aldermen-revive-American-Rescue-Plan-funding-for-luxury-apartments.
[12] How Horry County hopes to spend $68M in COVID relief on roads, pay and affordable housing, The Sun News, August 26, 2021 https://www.myrtlebeachonline.com/news/politics-government/article253738403.html.
[13] Flush with COVID-19 aid, schools steer funding to sports, Associated Press, October 6, 2021 https://apnews.com/article/coronavirus-pandemic-school-funding-sports-5b468b260ebd2593e53f03f9104d9bca.
[14] Palm Beach Gardens taps COVID-19 American Rescue Plan cash to help fund golf course The Palm Beach Post, September 28, 2021 https://www.palmbeachpost.com/story/news/columns/2021/09/28/palm-beach-gardens-spends-covid-rescue-money-new-golf-course/5882182001/.
[15] "States and Cities Scramble to Spend $350 Billion Windfall," New York Times, July 6, 2021 https://www.nytimes.com/2021/07/06/us/politics/stimulus-bill-usa.html.
[16] Ibid.

Additionally, Members of this Committee have sent several letters of inquiry to the Biden Administration, including Mr. Eugene "Gene" Sperling, the official tasked with coordinating implementation of Public Law 117-2. Mr. Sperling was appointed by the President as "rescue czar" to oversee the distribution of trillions of American taxpayers' hard-earned dollars. However, this appointment was not submitted to the U.S. Senate for confirmation.

Issues we have called to the attention of Mr. Sperling and Biden Administration senior officials with zero response to date include:

1. The state of New York's use of "COVID relief" dollars to create a $2.1 billion fund for illegal immigrant direct checks worth up to $15,400 per person. The amount of this fund was oddly the same amount of additional federal dollars New York received in Public Law 117-2, because of the disproportionate funding distribution formula change in this law. *(April 8, 2021)*
2. A list of questions directed to Mr. Sperling regarding transparency of implementation 60 days after the law was enacted. *(May 11, 2021).* This letter included requests for:
    a. A quarterly report to Congress regarding the status of all COVID relief funds;
    b. List of which countries were the recipients of $12 billion in foreign aid;
    c. Detailed plans for how the White House planned to spend the $12.8 million it received in this law;
    d. A plan to address the wasteful spending in the Federal-State Unemployment Insurance Program, which consistently has one of the highest rates of improper payments in the federal government;
    e. Information regarding eligible recipients for individual direct payments in this law— including incarcerated individuals and mixed status households with at least one unauthorized immigrant present;
    f. Prevention plans to safeguard small business funds from falling victim to fraud by individuals using digital investment platforms with stolen identities;
    g. Details regarding how the Biden Administration will financially support school districts that return to in-person learning and encourage remote districts to transition;
    h. The status of unspent funds in the Provider Relief Fund and for testing;
    i. A plan, in terms of frequency and content, for how the Administration will report to Congress regarding execution and oversight of spending, and a commitment to testify in front of Congress if requested.
3. Additional federal unemployment benefits discouraging millions of Americans from returning to work— combined with public school closures, the April and May jobs reports were underwhelming. Documents were requested regarding communication between the White House, Department of Labor, and state governors who opted their states out of enhanced benefits; communications between the White House and the

American Federation of Teachers; the Administration's strategy to ensure all schools remain open for in-person instruction. *(June 9, 2021)*

4. The U.S. Department of Education's (ED) preferential treatment of taxpayer dollars to non-citizens, international students, and undocumented students— including what oversight measures were put in place for institutions of higher education and school districts for spending federal funds; how ED will ensure American students are the primary beneficiary of funds; the amount of unobligated balances in the Elementary and Secondary Emergency Relief (ESSER) Funds; specific uses of federal relief in school districts. *(June 22, 2021)*

Mr. Sperling has yet to send a formal response to any of these inquiries submitted by Budget Committee Republicans. You can understand our concern that the individual in charge of overseeing the implementation of the largest spending law in American history remains unresponsive to Members of Congress. It is puzzling that as more stories of waste are uncovered, the Majority fails to share in this desire for transparency and has never called on him to testify in front of this Committee as part of any oversight efforts.

Not only are we concerned about the mismanagement of Public Law 117-2, but we are also wary of the same likely to occur with H.R. 5376, the Build Back Better Act, should that bill become law. Despite bipartisan opposition, House Democrats recently passed their nearly $5 trillion spending bill, filled with taxpayer funded subsidies for the wealthy and over 150 new government programs.

This Committee should act on its responsibility to ensure judicious oversight of federal spending. As stated above, this Committee has specific oversight authorities in House Rules. Moreover, this Committee's Oversight Plan for the 117th Congress specifically states that it will continue efforts to administer reforms that ensure transparency in spending and revenue decisions and that the Executive Branch effectively implements such decisions. In view of historic levels of federal spending enacted by Democrats this year and a lack of transparency by the Biden Administration, it is imperative that this Committee exercise its oversight responsibilities to prevent misuse, fraud, and waste of taxpayer dollars. Therefore, we request that you convene the Committee on the Budget for a hearing to examine implementation of the American Rescue Plan. It is critical for Members of Congress and the American people to know how these funds have been spent and implemented by the Administration. We look forward to meeting together soon to discuss this critical topic.

Sincerely,

House Budget Committee Republicans

Jason Smith (MO-08), Republican Leader
Member of Congress

Ben Cline (VA-06)
Member of Congress

Trent Kelly (MS-01)
Member of Congress

Lauren Boebert (CO-03)
Member of Congress

Tom McClintock (CA-04)
Member of Congress

Byron Donalds (FL-19)
Member of Congress

Glenn Grothman (WI-06)
Member of Congress

Randy Feenstra (IA-04)
Member of Congress

Lloyd Smucker (PA-11)
Member of Congress

Bob Good (VA-05)
Member of Congress

Chris Jacobs (NY-27)
Member of Congress

Ashley Hinson (IA-01)
Member of Congress

Michael C. Burgess, M.D. (TX-26)
Member of Congress

Jay Obernolte (CA-08)
Member of Congress

Earl L. "Buddy" Carter (GA-01)
Member of Congress

Mike Carey (OH-15)
Member of Congress

Mr. Mulvaney, great to have you. As I am sure you heard during your time as a Member of Congress, whenever there is a discussion around raising the debt limit, our Democrat colleagues predict there will be catastrophic impacts accompanying a U.S. credit downgrade that they say will occur if the limit is not raised quickly and without debate. They are eager to cite the S&P downgrade of U.S. credit that occurred at the time of the 2011 debt limit debate, claiming that downgrade was a consequence of the debate and discussions that occurred, the premise being that negotiating about how to handle America's debt crisis, rather than just thoughtlessly lifting the debt limit.

Is it itself a threat to our credit rating?

Mr. Mulvaney, can you speak to the circumstances surrounding that decision by S&P at that time and what they said some of the reasoning was behind that decision?

Mr. MULVANEY. Sure, Jason, because I was there in 1911 during the showdown over the debt ceiling. I remember the S&P crisis, the S&P downgrade. I don't know how many Members of this Committee were here at that time.

But, yes, it has always surprised me how that history has been revised, the history has been portrayed that it was because of the fight, because of the debt ceiling fight that we got the downgrade. That is actually not true. If you go and look at the S&P report, which I have got in front of me—you know, I will read sections to you. It says we lowered our long-term rating on the U.S. because we believe that prolonged controversy over raising statutory debt ceiling and the related fiscal policy debate indicate that further near-term progress containing the growth and public spending

[inaudible] or in reaching an agreement on raising revenues is less likely than we previously assumed. We also believe that the fiscal consolidation plan that Congress and the Administration

[inaudible]. So they downgraded us after the deal.

The one they agreed to this week falls short of the amount we believe is necessary to stabilize the government debt burden by the middle of the decade. And they go on to say that our opinion is that elected officials remain wary of tackling the structural issues that effectively address the rising U.S. public debt burden in a manner consistent with a AAA

[inaudible]. Republicans and Democrats have only been able to agree to relatively modest savings on discretionary spending while delegating the Select Committee decisions on more comprehensive measures.

It had nothing to do with the fight and everything to do with the compromise that came out—we got downgraded. The S&P knew that we didn't solve our problem. Did we kick the can down the road? Yes. And they were finally holding us to account over it.

So I know that that is not the history that gets told to the press. I know it is not the history that gets told in politics. That the reason we got downgraded and could get downgraded again is not because we bicker over the debt ceiling. We always raise the debt ceiling. Everybody knows we are going to raise the debt ceiling. It is what we do. The question becomes, what do we do as part of raising the debt ceiling? Do we spend less or do we spend more? Keep in mind, and Mr. Hoyer will remember this, the Democrats only agreed to help us raise the debt ceiling in the Trump Administration if we spent more money. So the leverage works both ways, depending upon who is in charge.

So the debt ceiling, again, not the problem. Congress is the problem and changing the debt ceiling isn't going to make a difference. It probably will just make it worse.

Mr. SMITH. You know, Mr. Mulvaney, Congress is now facing another debt limit discussion within the next year or so. And perhaps sooner if more of the $7.5 trillion in new spending House Democrats have passed becomes law.

As you know, the debt limit has often been paired with spending restraints or other long-term policy to reign in deficit spending, like you pointed out. But given that the 2011 S&P downgrade was a result of the markets having no confidence that Washington would curb its appetite to spend, and since we are facing a new debt limit crisis end of this year, when that next conversation over the debt limit occurs, what specific reforms do you think, Mick, that Congress should consider as part of any potential debt limit increase apart from just abolishing the debt limit, like Democrats are proposing? Should Congress consider bringing back caps on annual spending or other such policies that—put into law real spending restraints?

Mr. MULVANEY. Jason—excuse me, Mr. Chairman, you know, my gut tells me caps would be great. But keep in mind we did that in 2011 and then all Congress did every two years was raise the caps again. So even when we took those hard decisions in 2011 to do the Budget Control Act, we let ourselves out of that every two years as we went forward. And as a result—again, I think it was Dr. Sheiner who mentioned that, you know, the Budget Control Act didn't really have that much impact on long-term debt and she is right. But it really wasn't the fault of the Budget Control Act as much as it was of Congress relieving itself of those burdens.

Look, we can go through a budget if you want to. I can't do it in three minutes, but if you want to start with places that I actually think there is a basis for compromise, was that we had really good discussions when I was in Congress about fixing some of the entitlements. Put Medicare aside for a second, it is really, really hard to do because it is a defined contribution, undefined benefit program. But Social Security is the type of thing that needs to be fixed and can be fixed. And it might not be politically easy, but it is mathematically easy. All of those programs are moving toward insolvency by the time that

[inaudible] needs to retire, so it probably doesn't affect him, but when you and I retire, Jason, I think we are looking at automatic across the board 20 or 25 percent Social Security payments unless Congress does something now.

So, yes, is there stuff that we could do to get our fiscal house in order? Yes. But generally speaking, what you have to do is just—going to spend money more wisely, you are going to spend less money when you can. And take fiscal matters seriously. The debt ceiling gives you an excuse to be rid of it. I am not sure when you are ever going to discuss deficits and debts anymore.

Mr. SMITH. You know, Mick, you have put together budgets, both as a House Member and at OMB, and the gentleman from New

York who spoke right before me, tried to criticize the Tax Cut & Jobs Act. And whenever you are looking at budgets, you have to pay attention to the revenues coming into the country. And I would like to point out for the record that the tax revenues that came in last year was at 18 percent. That is the highest in 52 years. That follows President Trump's Tax Cut & Jobs Act. This year alone we are right at 28 percent for this year. And that is under the Tax Cut & Jobs Act that was passed under this Administration. So these higher revenues is how you put together a budget.

But also something you do when putting together a budget is you calculate inflation. Given, Mick, that the inflation has proven not to be transitory, regardless of what Chairman Yarmuth says and what the Biden Administration says, if you were at the OMB today what sort of inflationary projection might you apply when drafting the President's Fiscal Year 1923 budget?

Mr. MULVANEY. Yes, when he mentions that inflation is transitory, I keep asking what thar means, because last time I checked life is transitory, so it could be around forever for my lifetime and it would still technically be transitory. Everything is transitory.

[inaudible]

You know, the inflation numbers are tough. I haven't gone back to look at the Administration's picture yet as to what their projections were for this year. For those of you who aren't familiar with this process, when you write a—well, of course you are——

Mr. SMITH. They projected 2.1 percent for this year. That is what the Administration projected.

Mr. MULVANEY. You have to project out for 10 years what you think the inflation numbers are going to do. And what they really need to do is—I would be curious to see. They always—this week? Is the budget due out from the Administration this week?

Mr. SMITH. No, it was due last week. They are late again. But last year, of course, was the latest budget in the history of America for any president.

Mr. MULVANEY. Yes. And I would be curious to see what their inflation projections are. Will it be 7 percent this year and then 6 and then 5, or will it go back to 2.1? Because, you know, inflation at a real level of 5 or 6 percent, it drives deficits in a huge manner.

Mr. Jeffries I think was correct. I think that Donald Trump did set a record for the amount of deficit in any four year term by any president, but my—I would be willing to bet anybody in this Committee that that number is going to be blown away from the 4-years of the Biden Administration.

Mr. SMITH. I will just say, Mick, with the budget that was proposed last year of $68 trillion and all of the spending that Nancy Pelosi has done as Speaker of the House in the last three years, if you used all the taxes that have been collected since our country was founded, you couldn't even pay for all that spending. That is how unconscionable this spending is right now.

Thank you, Mick, for being before our Committee.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Pennsylvania, Mr. Boyle, for five minutes.

Mr. BOYLE. Well, thank you, Mr. Chairman, for holding this hearing. And I want to thank the Committee as well.

As you know, my enthusiasm for this issue, I have worked on it for the last seven years now. So I appreciate you and the Committee holding this hearing.

And as Steny Hoyer, Leader Hoyer, already previewed, I thank you, as well as Senate Majority Whip Durbin, for joining me to co-author and introduce the Debt Ceiling Reform Act, which we introduced yesterday.

And let me talk about that a little bit, because something—and it is great to see my good friend Mick back with us. I was always sad when he got demoted to the executive branch. So it is great to see Mick back homewith the first article of the Constitution: Congress. Mick expressed a real confidence or a certitude. I think he said something to the effect of well, we know we are going to raise the debt ceiling, we always raise the debt ceiling. I wish I shared that 100 percent certainty. One of the reasons why I started working on this seven years ago was because of my increasing fear that god forbid because of our increasing political dysfunction, at one point in the future we will fail either by intention or more likely by accident not to raise the debt ceiling. That would be calamitous. And, no, Ranking Member Smith, it is not just Democrats who will point out it is calamitous, it is economists across the ideological spectrum. In fact, one thing that has always stuck with me is I recall—this would have been about three, four years ago now, on the Ways and Means Committee, when I asked then Secretary Mnuchin—I asked him, because I supported his push to raise the debt ceiling at that point, and I said could you describe for us what would be the consequences if Congress failed to raise the debt ceiling. And he replied, Congressman—he stuttered a little, but he said, Congressman, the consequences would be so catastrophic I can't even begin to describe them. That was Donald Trump's secretary of the Treasury and, indeed, every treasury secretary of my lifetime of both parties has pushed for raising the debt ceiling.

So, Dr. Sheiner, I will ask you—and just let me—actually, before I turn to Dr. Sheiner, let me explain real quick about my legislation, the Debt Ceiling Reform Act. It actually would not eliminate the debt ceiling, but it would take it away from this increasing political dysfunction that we see in Congress. It would vest in the Treasury secretary the authority to raise the debt ceiling while still reserving to Congress the authority to overrule that decision if Congress ever wanted to exercise that authority. It would improve the mechanism and take away that catastrophic possibility of one day failing to raise the debt ceiling and plummeting us into a worldwide depression.

So, with that, let me invite in Dr. Sheiner. If you wanted to perhaps describe some of the consequences that Secretary Mnuchin couldn't even imagine if we were one day to fail to raise the debt ceiling.

Dr. SHEINER. So back in last fall I totally agree with you, I was not 100 percent sure that we weren't going—that we were going to raise the debt ceiling in time. It seemed like possible that actually we would step into the breach. And we though quite carefully—I wrote something with my colleague, Wendy Edelberg, about what would happen if that occurred. And there was a lot of uncertainty because we thought—I mean, clearly, if we have an impasse that lasts for any material amount of time, that is quite devastating to the economy. If it turns out that, you know, the federal government has to keep delaying payments, then that means the federal government is spending much less than what it was before and people's incomes are down. And that in itself has been projected to cause a recession. So the Federal Reserve has done projections. They did projections in 2011. They though a month impasse would cause a short recession.

What we really don't know is what the whole—what it would look like because Treasury had a plan in 2011 that if people thought they would follow again, which is that they would still pay principle and interest, but they would just delay payments to everybody else. They would just like wait until they had enough cash.

Mr. BOYLE. Yes. And let me——

Dr. SHEINER. Yes.

Mr. BOYLE. And, Dr. Sheiner—just because I only have nine seconds left.

Dr. SHEINER. Yes.

Mr. BOYLE. Perhaps you will get a chance to expand upon that with someone else.

So let me just conclude with this. And I say sincerely to my Republican colleagues on this committee, I think the idea that I have come up with, it is not inherently liberal or conservative or Democratic or Republican, it would give Treasury secretaries of both parties this authority. And I think it is a responsible mechanism far better than the one we have.

So I would encourage my Republican colleagues to take a look at it, to contact me if they would like to be supportive, if they would like to offer suggestions. I do think this is something that we need to fix before it is too late.

Thank you, Mr. Chairman.

Chairman YARMUTH. Thank you. The gentleman's time has expired.

I now recognize the gentleman from California, Mr. McClintock, for five minutes.

Mr. MCCLINTOCK. Thank you, Mr. Chairman.

It is interesting, the Democrats began this session with the budget hearing on restoring Congress' power of the purse. Now we are hearing how Democrats want to relinquish Congress' constitutional power of the purse to the executive branch to establish debt levels. This is the topsy turvy we have come to expect from the majority.

The debt limit is a speed bump. It is designed to prompt the Congress to ask what it is doing wrong when we find ourselves spending more than we are taking in in revenue. And it has worked repeatedly over the years. The Democrat witnesses who say it has had no effect on budget reforms is simply wrong. The Balanced Budget Emergency Deficit Control Act of 1985 and its extension and the PAYGO provisions of 1997 and the Pay As You Go Act in 2010 and the Budget Control Act of 2011, they were all enacted as part of the debt ceiling negotiations.

Now, it is true the debt limit is not a panacea, but it is a useful tool.

And the crux of the problem is that in the last 10 years while inflation and population have grown a combined 27 percent, revenue has grown 58 percent. That is with the Republican tax cuts. Revenues have grown twice as fast as inflation and population combined. The problem is the spending in the same period has grown 89 percent. And that spending would be even higher, and with it our debt, if it wasn't for the reforms over the years that were enacted because of the debt ceiling discussions.

But the Democrats don't even want to have those discussions anymore. They are proceeding on the assumption the federal government can spend unlimited amounts of money with no consequences. And the problem with that is there are consequences. It turns out all of that free money is very expensive. The fact is, government can't put a dollar into the economy that it first hasn't taken out of the same economy. And there are only three ways to do that. Either current taxes, which rob you of your current purchasing power, borrowing, which robs you of your future purchasing power, or printing money, which robs of every time you go shopping by reducing the value of your earnings while it silently hollows out your savings and retirement funds. That is the 7 1/2 percent inflation rate that is being caused by these trillions of dollars of free government money. What that means is, if you earn $50,000 a year, inflation just took $3,750 from your annual purchasing power. If you have managed to put aside $100,000 for retirement, the December inflation rate just took $7,500 of that. That is the consequence of excessive debt financed by monetary policy.

And the crux of the Democrats' argument appears to be that an impasse on the debt limit risks a catastrophic default on our debt payments. You may remember that during the Obama Administration they argued the same thing. I introduced the Full Faith and Credit Act and then the Default Protection Act to make it crystal clear the Administration did have the full authority to prioritize payments to protect the nation's credit. They both passed the House without a single Democrat supporting them. Democrats in the Senate refused to take them up. But, frankly, these measures were superfluous. The organic law that established the Treasury Department in 1789 specifically gives the Treasury secretary the authority and responsibility to "manage the revenue and support the public credit". And the GAO clearly spelled out what that means to the Senate Finance Committee way back in 1985. They said Treasury is free to liquidate obligations in any order it finds will best serve the interest of the United States. Meanwhile, the Constitution commands that the public debt is not to be questioned. Prioritization is the practical mechanism for doing that. Most state constitutions provide first call on any revenues is to maintain and protect their sovereign credit.

This is simply a canard. We discovered that even while the Obama Treasury Department was denying that they had the ability to prioritize to protect debt payments, they were actually making preparations to do so. And we also discovered documents revealed the Federal Reserve officers were appalled when they Administration denied their intention to give priority to debt payments because such statements they said contribute in panicking credit markets. That is exactly what we are hearing from the Democrats and their witnesses on this committee and from this Administration.

And, with that, Mick, do you have anything to add?

Mr. MULVANEY. You know, I was going to say that, Tom, you are absolutely right. If the concern here is that we will miss it by accident, then clarify prioritization. The Obama Administration thought we could do it, I thought we could do it when I ran OMB, but some folks say that we can't. So let us clarify it. Say, OK, so the sovereign debt gets paid first, you know, as Hensley pointed out in his

[inaudible] just except sovereign debt from the debt ceiling so you focus on discretionary and mandatory spending.

There are all sorts of ways to address these issues without getting rid of the debt ceiling.

Now, one of the best four minute summaries I think I have heard on this topic on a long time. I do miss being there.

Mr. MCCLINTOCK. I yield back.

Chairman YARMUTH. Thanks. The gentleman's time has expired.

I now recognize the gentleman from North Carolina, Mr. Price, for five minutes.

Mr. PRICE. Thank you, Mr. Chairman. And thanks to all of our witnesses. Particularly happy to welcome back our former colleague, Mr. Mulvaney, who for years shared the representation with me in our delegation of the Carolinas.

Mr. Mulvaney has offered a kind of a revisionist history here this morning. And I want to maybe set up a chance for our other panelists, perhaps starting with Dr. Blessing, our economic historian, but others are welcome to chime in. I want to set up a dialog regarding some of issues directly relevant I think to assessing how the debt limit works in practice.

The Budget Control Act of 2011 was the direct result of the debt ceiling debate of that year. I would agree, it was a gift that kept on giving. I don't share the positive assessment of the way it worked in practice.

But, first of all, Dr. Blessing, this notion that the S&P downgrade that came after that projected debate, that it really had very little to do with the debt ceiling, that the S&P downgrade was about—I guess Mr. Mulvaney is saying it probably would have been imposed even without the debt ceiling debate because it really had to do with our levels of indebtedness. Would that be your understanding of that downgrade and what precipitated it?

Dr. BLESSING. Sure. The credit agencies were threatening downgrade from earlier in the year. They had also threatened downgrade in previous episodes of debt ceiling brinkmanship., including 1995 to 1996. So this is something that they have threatened in connection specifically with debt ceiling problems in the past.

Mr. PRICE. It was directly linked to the debt ceiling prospect, that—the prospect that was posed of default?

Dr. BLESSING. Yes.

Mr. PRICE. Alright. Now, the give that kept on giving, the Budget Control Act. The Budget Control Act was a symbolic gesture. It put forth for 10 years budget ceilings that were kind of talking points. They were totally unrelated to budget reality, appropriations reality, but they did have an effect. They did have an effect because for 10 long years we had drama every other year. We required four two year budget agreements, but it didn't come easily. It came at the end of the budget cycle. A lot of drama, a lot of threatened shutdowns, and then finally an adjustment to more realistic budget numbers.

Would you regard that as a positive history? I mean there is a case to be made of course for budget parameters that last for two years, maybe even five years. But do you require a budget ceiling showdown to get that result or to adopt those kinds of parameters?

Dr. BLESSING. The general understanding of sequestration is that it is really troubled in an already troubles appropriations process, particularly over the past decade. It has also been difficult for the exact same reasons as the first time we tried. It is both difficult for appropriators as well as it doesn't substantially lend itself to, you know, controlling the debt.

Mr. PRICE. Right. So the Budget Control Act in a sense disrupted that process rather than facilitated a kind of orderly budget process.

Well, then let us think about the Trump tax cuts, the kind of adjustments that were required in the debt ceiling in the last decade. Is it true that the Trump tax cuts required major adjustments in the debt ceiling? And is it not true that—going back here to what Mr. Hoyer said—is it not true that the Democrats tried to break the fever on this? Tried to say we shouldn't be making this kind of a showdown, purely political showdown, every time we need to raise the debt ceiling. Raised in fact three times, cooperated in that. And so it was an unpleasant surprise in the current Administration when Republicans reverted to that kind of adamant refusal.

What would you say about that?

Dr. BLESSING. Vis a vis your first question, when Congress voted on the Tax Cuts & Jobs Act in 2017 the estimated cost was $1.5 trillion over 10 years. It is re-scored to be more than that. I believe CBO re-scored it to be about $2 trillion over 10. So that, in addition to all other spending, both tax expenditures as well as appropriations, is going to add to the debt ceiling.

Vis a vis partisanship and difficulty raising the debt ceiling, both parties over a very large historical span of time have both played political hardball with it. We are in the most dangerous period right now, from 2011 to the present time, which has been particularly exaggerated because default is actually at risk. And I think we have all seen what happened this past December with that.

Mr. PRICE. Well, just to revisit my question, did Democrats cooperate in raising the debt ceiling three times over the past decade?

Dr. BLESSING. Yes.

Chairman YARMUTH. OK.

Mr. PRICE. Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Pennsylvania, Mr. Smucker, for five minutes.

Mr. SMUCKER. Thank you, Mr. Chairman. Thanks for holding this hearing. I would like to thank the Ranking Member as well.

I had just a few points I would like to make. The first in response to the charges that the TCJA contributed to the deficit. Now, I completely agree that during the Trump Administration that the debt increased significantly, more than I would certainly have liked to have seen. But it wasn't the TCJA, because if you are arguing that that contributed you essentially would be saying that the tax cuts that came as a part of that resulted in less revenue, which was absolutely not the case. In fact revenues were higher every single year after 2017. And in 2021 they are 22 percent higher than in 2017. So it wasn't as a result of the TCJA, which, by the way, worked very, very well in bringing lots of jobs, lifting people out of poverty, and so on, but did not contribute to less revenue.

What contributed to the debt increase was more spending. And based on the record of the Biden Administration in its first year, we are going to see far higher debt increases during his administration if we continue on this same track.

Now, on whether we should have a debt limit, I think it is a good discussion and I think we are having a good discussion here today, but in some ways it feels sort of tone deaf to me. Americans are experiencing the highest inflation in 40 years. It is affecting their pocketbooks. I hear it throughout my district everywhere I go, and I am sure you all do as well. And Americans are going to see this hearing as the Democrats essentially asking for a blank check, to spend even more and contribute more to these inflationary policies.

So it is sort of tone deaf.

What we really should be talking about is the real problem that we have—$30 trillion in debt. It is unfathomable and in fact if you do a quick calculation, I think the debt went up just during the time of this hearing by another $120 million. Think about that. We know how it ends when countries overspend, over promise, and spend money we don't have. And we are starting to see the effects of that.

So back to the discussion on the debt limit, I get the concerns with it, but when else will we talk about? In fact the entire time we have been here in Congress I don't remember much discussion about the problem with the debt. I don't remember much discussion about spending much more money than we have. The debt limit at least forces to talk about it. And I would like to ask other members here. I would like to as the Democrat leadership, when will be the right time to talk about this excessive spending? When will be the right time to talk about the impact that the debt is going to have on future generations and on our economy in America? When will it be? At least when we are talking about the debt increase, it is one time, the only time, frankly, since I have been here, when we have at least some semblance of these discussions.

And so, you know, my fellow representative, Representative Boyle, from Pennsylvania, you know, love to work with him to find solutions to ensure we put our country on a different track. But it feels like talking about the debt limit is sidestepping the major issue that we——

Mr. BOYLE. Would my fellow——

Mr. SMUCKER. I am sorry?

Mr. BOYLE. So you invoked me, will my fellow Pennsylvanian yield just for a second? Because I will——

Mr. SMUCKER. I don't want to give up my five minutes, but it is up to the chairman.

Chairman YARMUTH. You can yield your time.

Mr. BOYLE. Yes, I will just say——

Mr. SMUCKER. Well—go ahead.

Mr. BOYLE. I will just say briefly, I am happy to work with you or anyone else on this issue in good faith. I will point out the argument though that the debt ceiling is somehow—the drama around the debt ceiling and the dysfunction——

Mr. SMUCKER. All right. Now, I am going to need to retake my time, because I didn't hear the chairman he would give me an——

Chairman YARMUTH. I will give you——

Mr. SMUCKER. OK. All right. Fine. Thank you.

Mr. BOYLE. Thank you. We have a deal, see?

I will say this, the idea that it is only the debt ceiling drama that is needed for us to talk about deficit and debt is not accurate. I would point out in 1992 Ross Perot built an entire independent Presidential campaign, the most successful since Teddy Roosevelt, got 19 percent. Literally his entire campaign was about deficit and debts and him hosing infomercials showing charts. And that wasn't at all brought about by the debt ceiling issue.

So, with that, I will yield back.

Mr. SMUCKER. Yes, and I would like to thank you for that comment because I think a real discussion around our debt and the future of our financial responsibility in America is what is needed. So I would love to have that substantive discussion.

But until we have other mechanisms that provide accountability, I have concerns about removing the debt limit.

So, you know, we should be talking about a balanced budget, how can we get to a balance budget in 10, 20 years from now. These are the kind of discussions that I think we should be having. And we should be talking about redoing the Budget Act of 1974 to insert more accountability in the process here in Congress.

So, again, love to have those conversations with you.

I am concerned about just the interest payments. And, Director Mulvaney, you know, we are going to see rising interest payments. It is already nine percent in the budget. This is going to crowd out other obligations, other priorities. Do you have any concern with that and what do you see that trajectory being over the next 10 years or so?

Chairman YARMUTH. Mick can answer the—you can answer the question and then your time——

Mr. MULVANEY. I mean it—I am not very good at math, but I mean—if interest rates are, you know, 6 percent, you are looking at $1.8 trillion in interest payments. I mean that is—it is a huge number. You are already looking at interest payments I think that are bigger than every appropriations bill except defense. It is just—it is a huge number and it is only going to continue to get bigger.

Mr. SMUCKER. Thank you, Mr. Chairman, for your generosity there.

Chairman YARMUTH. Thanks. Absolutely. The gentleman's time has expired.

I now recognize the gentlelady from Illinois, Ms. Schakowsky, for five minutes.

Ms. SCHAKOWSKY. Thank you so much, Mr. Chairman, for having this hearing.

Mr. Mulvaney, you said, you know, that is what we do, we pass the debt ceiling, we do it every time. And so what I am hearing is that this is really a message opportunity. And I see it as a very, very political opportunity to raise this question at a time when so many Americans and businesses are at risk and very nervous about what happens. And my understanding from—I think it was Dr. Blessing saying that we don't have any real evidence that that particular conversation or that threat has resulted in a reducing of the spending of the United States. And there are many, many opportunities.

We have committees that deal with this, not just the Appropriations Committee, but, you know, we have lots of committees that can hold hearings, et cetera. And I think it is really cynical to say that.

And I wanted to talk to Ms. LaJuanna Russell about small businesses.

You know, you talked about uncertainty, but I wondered if you could go into more detail about what that means. For example, let me say, if you are planning to expand or buy, you know, another outlet or raise the wages of your workers, or get access to capital, are these things affected when the question of the debt ceiling is looming?

Ms. RUSSELL. Yes, yes. Thank you so much for the question.

They are because people tend to stop. So if you are working with a bank and you are working with a financer, especially when you are looking at access to capital, which already for small businesses is a very difficult process, then organizations just stop because they have fear, they don't know, they have uncertainty, small businesses may seem more of a risk. So while you are in a process to expand your business, to create tools that help your customers move forward, you will end up with a stop. And then your business suffers because you cannot move forward. You have to kind of stay where you are and your growth is hindered.

Ms. SCHAKOWSKY. Thank you.

You know, I say it is cynical because, you know, I was on the Simpson-Bowles Commission. It was a commission over a decade ago talking about how we should deal with issues of debt. One of the major suggestions—fortunately it didn't pass—was to cut Social Security. Entitlements were on the table. And so when you talk about the—you know, the debt ceiling, that is a reasonable conversation. But when you say that the consequence could be by not raising it Social Security actually being cut, Medicare, Medicaid being cut, don't make any mistakes, people get nervous about that and they should. And that anxiety—even though you say, oh, well, that is what we do, we always pass it—is a real problem. Let us find other venues.

I am just wondering, if I could ask Dr. Sheiner to talk about real life consequences to businesses, et cetera and investors from the debt ceiling.

Oh, did I just run out of time? No, I have a minute. Go ahead.

Dr. SHEINER. Yes, so I think we have seen that investors clearly react to the prospect of a debt ceiling. And you see rates on treasuries that are going mature right around the time the debt ceiling might bind, rising. You know, we haven't—we have luckily so far not seen anything that has lasted a very long time. And so we have seen inklings of what would happen, but we haven't seen, you know, the—you know, the thing that we are most worried about is going over the cliff.

But clearly I think you are right, that everything is going to seize up because it just creates a whole bunch of uncertainty for businesses, but for people too. Am I getting my Social Security check in time. It may be that eventually I will get it, but it might two weeks late, three weeks late. That is a very big cost to impose on people when you are going to go fix it later anyhow.

It is just like this own goal, right. There is no reason to put the economy through this when we know you are going to—the only thing to do is going to be to raise the debt ceiling.

Ms. SCHAKOWSKY. You know, we have shut down the government before for a time and we have seen all the public services stop, we have seen such a halting in the ability of ordinary people—ordinary people to get things done.

So to have this conversation, let us find another way. This does not make sense and it is very hurtful.

And I yield back.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentleman from Georgia, Mr. Carter, for five minutes.

Mr. CARTER. Well, thank you, Mr. Chairman, and thank all of the witnesses for being here. Mick, it is always good to see you, my friend. I am glad you are here, I am glad you are doing what you are doing.

You know, the premise of this hearing is absurd. I can't believe we are actually having a hearing to talk about doing away with the debt limit. You have got to be kidding me. I mean it is obvious the negative consequences of out of control spending and what they are having. Inflation is at a 40 year high right now. Do we realize that? A 40 year high. And instead of debating whether we should have a debt limit, we ought to be debating the real consequences that tax—that spending cuts should have in—on our debt ceiling. This is ridiculous. Our debt is not going away.

Folks, I opened my small business on November 21, 1988. I borrowed money for inventory, I borrowed money to get me started. I did not get a salary for two years. Nothing whatsoever. I set out to retire my debt and I did that. The first thing I did is I retired my debt, then I retired my mortgage. I haven't owned anybody anything since 1994. This is ridiculous that we have this kind of debt in our country. And it is not sustainable. We have seen it happen over history, over time, what it has done to countries.

You know, some people talk about Japan and their enormous debt-to-GDP ratio. Well, folks, Japan's GDP growth rate is abysmal. And similar things are happening right now in Italy. And some of you argue that the interest rates are lower than the growth rate and we can continue to roll over debt, borrowing new money to pay interest on old money. That is simply ridiculous. This is unsustainable. And who is going to be paying this? My children, your children, my grandchildren, your grandchildren. This is intergenerational theft.

We have got to stop this. And to debate stopping one of the only things that makes us even think about it has been pointed out here by Mr. Mulvaney and by others. The only time we think about this is when we come up against a deadline. And Mr. Mulvaney is right, that is the only time we do anything about it. And it does result in good fiscal policy. It does.

Mr. Mulvaney, I want to ask you, CBO has noted that rising debt will result in less private investment and lower output and outcome and a lower standard of living for Americans. In fact, their projections show that the long-term impact of debt rising to 200 percent of GDP, which is where are headed with this budget, as it brings us to 117 percent, is a $9,000 annual income loss for Americans. A $9,000 annual income loss.

Mr. Mulvaney, are you concerned that the massive growth in debt will crowd out other spending and result in negative economic impacts?

Mr. MULVANEY. Yes. And thank, Mr. Carter. Thanks. It is good to see you.

I think we are all familiar with the term. Honestly I think you are seeing some of it now. You are already starting to see—I think one of the many reasons we are experiencing inflation is because the government has become so big. And, yes, I do worry about that in the near-term and in the long-term. This whole concept that, you know, the debt ceiling is the problem is just befuddling to me. I heard Dr. Sheiner mention that no good has come of it, but go down the list of all we have done in the past. You know, I mentioned Gram-Rudman, I mentioned the 1991 Act, the 2011 Act, Mr. McClintock did the whole list that goes back even further than that. Ask yourself this, what would you have done on fiscal policy if not for the debt ceiling? I mean show me a couple of pieces of legislation dealing with reducing spending and getting the fiscal house in order that wasn't tied to the debt ceiling.

And your point, Mr. Carter, is a good one and I wish my Democrat friends would see it from this same perspective, which is, yes, it crowds out private sector spending, but it also crowds out other government spending. If you want money to spend on other government programs it won't be there because it is going to go to pay down the debt.

So even if we disagree about how government should spend money, I wish we could agree that we would rather spend it on doing things than paying off debt in the past. And it worries me that people don't look at that side of it. The interest payments by themselves are getting ready to be the largest single line item in our budget outside of——

Mr. CARTER. Absolutely.

Mr. MULVANEY [continuing]. entitlements and that is a problem.

Mr. CARTER. Just real quick, Mick, I want to ask you one other thing. If we were to reverse our fiscal trajectory and put the federal budget on a sustainable course, what would be some of the positive economic effects?

Mr. MULVANEY. I think you would see less inflation, I think you would see more private investment. One of the good things that came from our Tax Cuts Act was we encouraged private investment, so you get growth without inflation. You got great growth right now, but you have got it with inflation, which is sort of running on a treadmill.

So there are all sorts of benefits that come from spending more money in the private sector and spending less in the government sector.

Mr. CARTER. Great. Thank you so much.

And I yield back.

Chairman YARMUTH. The gentleman time has expired.

I yield five minutes to the gentleman from New York, Mr. Morelle. Mr. Morelle, are you there? I don't hear from him, so I will yield five minutes to the gentlewoman from California, Ms. Chu.

Ms. CHU. Thank you, Mr. Chair.

Ms. Russell, I wanted to expand on Congressmember Jan Schakowsky's questions about small business. I am a Member of the House Small Business Committee, so I understand how the U.S. Government's small business lending programs underpin so much of our economy, supporting business growth and employment. But what many of my colleagues may not realize is that the SBA's loan guarantee programs frequently operate at zero subsidy. And that means that despite offering billions of dollars in government backed loans to small businesses that otherwise would not secure affordable financing on the private markets, these programs typically require no appropriations from Congress. They don't cost our taxpayers anything.

But a breach in the debt ceiling would be catastrophic for these programs, which do not even contribute to the federal debt. Even if SBA were to find a way to continue offering loans, they would require exorbitantly high interest rates because the government would have no other way to guarantee the loans.

So could you spend some time talking about how these programs contribute to the small business economy and discuss the potential impacts to the lending environment if SBA could no longer offer low interest loans?

Ms. RUSSELL. Thank you so much for that question.

It is really, really important to understand how that little ecosystem works, right. Because SBA works with many banks across the country to work with small businesses. And those are banks that are taking on the guarantees from SBA and understanding how to work with small businesses specifically. And that is not necessarily federal contracting small businesses, it is all small businesses across the board.

So when you remove that, then you are talking about the mom and pop organizations, you are talking about small businesses that are in high technology, you are talking about such a huge part of the American economy. You know, in my comments we talked about 32 million small businesses. That is a huge number of American workers where that understanding of having some level of support from the Small Business Administration is critical to that business getting up and developed.

Even for the gentleman speaking earlier about how he started his small business and now he is out of debt. Well, that is important to understand because so many small businesses are starting—I started my business without debt at all. I started my business at my kitchen table with $500, right. And so while some have that opportunity, others may not have that opportunity. And so it is our responsibility to give them that opportunity because we know and understand that small business is the undergird of this entire economy. SBAs and their ability to fund the small businesses, to get these ideas off the ground, it is incredibly.

Ms. CHU. Yes. Well, thank you for that.

Dr. Blessing, I wanted to discuss the impacts that debt ceiling hostage taking has had on government's most important and basic functions, including the ability to collect revenue and promptly disburse refunds during tax season.

Debt ceiling standoffs, including the one perpetrated by the Republicans in 2011, have not had any impact on reduced federal spending, but instead have allowed for Republicans to defund crucial government services while spending more on their own priorities, like tax cuts for the rich. Now, that is why the IRS's operating function is 20 percent lower today, even when adjusted for inflation. And this is despite federal spending increasing between 2010 and 2019. Defunding the IRS has led to a tax gap as high as $1 trillion annually, which means even more lost revenue to reduce the deficit.

So the result is delay tax refunds, overburdened staff, and more difficulty getting much needed assistance during the busy crunch before tax day. And any similar stories can be told for similar essential government functions.

So can you talk about the impact that debt ceiling fights have had on essential government services like revenue collection and have these service cuts led to deficit reduction?

Dr. BLESSING. You made a good point with drawing out all of these different elements that you put together connected to debt ceiling standoffs. And underfunding the IRS is an incredibly important problem that we should definitely focus on. You know, when we have these different debt ceiling standoffs, when we underfund these different services, you know, there are real costs to the government and to our ability to collect what is on the books. You know, it is not a tax raise, it is simply, you know, collecting what is on the books. And the tax gap should be a really low hanging fruit item for reformers who are looking to kind of build a coalition for, you know, ways to start recouping some revenue in a serious way.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentleman from Virginia, Mr. Cline, for five minutes.

Mr. CLINE. Thank you, Mr. Chairman.

I have been listening over the past hour and I have got to say, this disconnect that is going on right now is profoundly disturbing between one side that wants to pretend that there is nothing wrong, that we can continue to proceed as we have with spending, record spending levels, record deficits, record levels of debt, and that we don't need to worry about debt limits anymore, and the other side which actually wants to have a frank and honest conversation about the looming crisis that we are facing right now.

Director Mulvaney, thank you for being here. Do you believe we should be focused on stabilizing current important programs, like Social Security and Medicare, to make sure we can maintain them, or on expanding these programs and creating a bunch of new programs on top of them?

Mr. MULVANEY. Mr. Cline, thank you very much for the question. It is an easy answer. Yes, we have come to depend on Social Security and Medicare and Medicaid. Faced with that automatic—let us be clear—and I know you folks know this as well as anybody—for folks who might be watching this, those cuts are automatic. Social Security, for example, is not allowed to borrow money. It can only operate with the funds that it has. The day that it runs out the money that is in the trust fund, it is going to have to unilaterally borrow. Last time I looked at it, which was three or four years ago, it was 22 percent. That—you want to talk about something that will be a shock to the system, would upset everything from small business to just social cohesion. Take Social Security and cut it 25 percent overnight. Those are the types of things you should be looking at.

How do you shore up those programs before you look at doing new ones? You know, we will end up spending the money at some point in the future, but, you know, sooner or later people might stop lending you money or might not be happy with you printing more money. It is prudent to take care of the existing programs that help people before you start talking about expanding or creating new ones.

Mr. CLINE. Right. The Social Security trustees project that the trust fund should become depleted in 2033. although the two funds are legally separate, they are often considered in combination and the trustees that the combined trust funds will be depleted in 2034. They projected last year that the combined trust funds would become insolvent because incoming tax revenue would be sufficient to pay only about 78 percent of scheduled benefits. You have essentially conflicting laws. Under the Social Security Act, beneficiaries would still be legally entitled to their full scheduled benefits, however the Anti Deficiency Act prohibits government spending in excess of available funds, so the Social Security Administration would not have legal authority to pay full Social Security benefits on time.

Dr. Sheiner, you mentioned that there might potentially, if a debt ceiling weren't increased, be a delay of a week or two in a check. Wouldn't this be much, much worse than a delay of a week or two of a Social Security check?

Dr. SHEINER. Oh, definitely, this would be much worse. But the debt ceiling doesn't really have anything to do with it, right. And so the question is, what do we do to put Social Security on a sounder footing. And frankly this kind of rule that they couldn't pay out money is very similar to a debt ceiling. It is like the people are entitled to the money, but the Treasury is not allowed to pay them, the Social Security Administration is not allowed to pay them. So——

Mr. CLINE. But you would agree—to reclaim my time—that if we can do something to set Social Security on a firmer foundation and a solid fiscal footing, that the need to increase the debt ceiling would reduce on a similar scale?

Dr. SHEINER. It depends what we do. I mean you could imagine changing that rule and allowing general revenues to be used for Social Security and then thinking about a more gradual deliberative process.

So it depends on what you did.

Mr. CLINE. OK. Thank you.

Director Mulvaney, similar question. Modern monetary theory, or MMT, using the word theory loosely, proponents insist that debt doesn't matter because the government can never run out of money. We can always print more. Many of my colleagues on the other side are proponents of MMT and believe in increasing federal debt is essentially a free lunch.

Do you believe that policies based on MMT would be harmful to the economy? And what would you expect that to be—the impact on inflation, which is already a problem?

Mr. MULVANEY. Yes, you know, we heard the term earlier I think when the majority leader was talking about a de facto default. That, you know, when you don't pay money you have appropriated, it is a de facto default. If I borrow $100 from you, right, I expect $100 back. But if you pay me back in money that is only work $.50, is that a de facto default as well? And that is what modern monetary theory—so it looks that way, which is just we can print as much money as we possibly want.

My problem with MMT, Mr. Cline, is that it is right until it is not. Certainly I am sympathetic. I mean there have been folks like me saying that the end would be—was nay for 30 years. In fact, during Reagan we were worried about the debt and deficits, right. And it hasn't come up to bite us yet. I feel sometimes like I am a guy on the corner standing up holding the sign saying, you know, repent, the end is near. Sooner or later, though, I am going to be right. But MMT works until it doesn't. And I am not really sure how you get out of the box after you have printed all of that money or borrowed all of that money. How do you then get it back? You don't. So you either deal with dramatic economic slowdowns, inflation, loss of trust in the system. Nothing good comes from MMT.

Mr. CLINE. Yes, but devaluation of your currency and your economy is in shambles.

I yield back, Mr. Chairman. Thank you.

Chairman YARMUTH. The gentleman's time has expired.

Now, I yield five minutes to the gentlewoman from Texas, Ms. Jackson Lee.

Ms. JACKSON LEE. Thank you very much, Mr. Chairman, and thank you for this hearing.

Let me just place in the record that the debt ceiling is a fixture, a some would say figment of your imagination in terms of its validity for making us fiscally sound and responsible. It is obviously something that the Congress delegated the authority to the executive branch in terms of paying our bills, but then placed a ceiling or limit on the total amount of the debt that could be outstanding. It has no effect, as has been said often, on federal spending or the amount we need to borrow. It only restricts the Treasury Department's ability to honor financial commitments.

In fact, what I would argue is that it creates havoc. And the havoc can be enormously difficult to address.

So I want to pose these questions in particular.

And I want to start, Ms. Russell, with you. And thank you so very much for being here. I would like to say that my life has been spent on championing small businesses because I very much agree with your testimony. You are the economic engine of this nation. And I just want to recite 32.5 million small businesses and growing. And particularly women-owned businesses, though they have been impacted severely by the pandemic. And then 61.2 million people.

So give me your sense of havoc being created by a debt ceiling on average working Americans. And my time is short, so if you can be succinct so I can ask questions to others.

Thank you very much and thank you for your testimony.

Ms. RUSSELL. Thank you so much for the question.

Yes, I mean so we have to remember that a business is made up of people and people make up the communities are made up of other small businesses. And we are all that ecosystem that continue to thrive of each other. So when one element—and we keep talking about this as if it is one element and one little piece of something—this piece of something impacts the entire ecosystem of small businesses. If I am not going to work then that means my cleaners is not going to have payment, my coffee shop isn't going to have payment, the place I go to lunch isn't going to have payment, the place where I would take my child isn't going to have payment. It is an entire ecosystem that we have to consider that is disrupted every time we decide that we are going to use the debt ceiling as a poker chip in a political discussion.

Thank you.

Ms. JACKSON LEE. Thank you.

Dr. Blessing, all kinds of havoc have been proposed. Our children, our grandchildren, our grandchildren's children are then going to be loaded down with debt. Does the debt ceiling make a difference on being loaded down with debt?

And then can you speak to the debt ceiling being lifted, modified, on the impact of we won't be able to pay Social Security, we won't be able to provide for Medicare and Medicaid, which are obviously very strong anchors of survival for Americans. I have got constituents who get their $700 check and that is the only thing they get to survive on.

Dr. Blessing?

Dr. BLESSING. Excellent questions.

The debt ceiling does not function to effectively control debt, to answer your first question. You know, there is—and, you know, in terms of the importance of of continuing to pay for Social Security, absolutely. You know, this is not something that is—you know, there are so many different reforms that we could make at the debt ceiling that would be really productive, whether it is abolishing it or something very clean, like the newly introduced Boyle bill. And, you know, Social Security is not connected to the abolition of the debt ceiling.

Ms. JACKSON LEE. Dr. Sheiner, let me ask you the question of havoc and what happens if—wouldn't it give an opportunity for Congress to be more responsible because they could remove from their decisionmaking political shenanigans? But let me also say that I am glad to see my good friend, Mick Mulvaney. He might want to comment. He wants Congress to be better. Removing the debt ceiling might get us at the table of compromise and engagement.

Dr. Sheiner—we want to be fiscally responsible, not create a political explosion. Dr. Sheiner? And maybe Mick if we have the time.

Dr. SHEINER. So I think apart from the cost of the debt ceiling that there are the political costs, which is the it is a distraction that doesn't address the real problems that we have. And it just creates political, you know, disagreement and increases political polarization and frankly makes people not believe in our country and in our institutions when they are hearing this bickering about whether or not you are going to pay your bills.

And so when we think about what we need to do to move forward to address our long problems, it is not only just Congress, it is the whole American people that have to be part of this solution and this kind of bickering gets in the way and makes us think like they are just like having these internal fights that make no sense.

Ms. JACKSON LEE. Chairman—Mick? Wouldn't it make us better——

Chairman YARMUTH. Mick, do you want to take a shot at that?

Mr. MULVANEY. Yes, real quickly. Listen, I think you have got a much better argument if you are doing it anyway. If you are sitting down anyway outside of the boundaries of the debt ceiling to talk about fiscal responsibility and you have done that for a couple of years, then you come back and say, look, we don't need the debt ceiling because we are doing it anyway. I think right now you get rid of the debt ceiling, you haven't really satisfied—certainly haven't satisfied me and many of my colleagues here that you would have those discussions but for the debt ceiling.

So, yes, listen, I am open for that discussion, but think, you know, you have got to prove first that you can sit down and have those talks in a reasonable fashion.

Ms. JACKSON LEE. Well, I am glad you are open for that discussion because I think we need to move to eliminating the debt ceiling. And let us see how Congress can behave on the better half of the American people.

I think we can do that.

Mr. Chairman, thank you for yielding. Unfortunately, I have to yield back. Thank you, sir, very much.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentleman from Iowa, Mr. Feenstra, for five minutes.

Mr. FEENSTRA. Thank you, Chairman Yarmuth and Ranking Member Smith.

This hearing has been very interesting. You know what, let us just look at it this way, it is all about accountability. Accountability, people. The federal government being accountable to we the people. We are government. And yet I often think that you—all other people think, oh, government is in D.C. No, it is not, it is we the people. We are government. And this hearing to abolish the debt limit completely flies in the face of every family, of every business.

Think about this, every family has got a debt ceiling. There is only so much that we can spend. We have a credit card debt limit, our banks say, hey, this is all that you can—we can loan you out, right. Every day our businesses and our families deal with a debt limit. And yet we think we are above that. We think that we don't need this debt limit anymore because it doesn't make a difference. Well, it makes a difference to our families and it makes a difference to our businesses. I just think this is absolutely shameful. I really do.

You know, we have $30 trillion in debt, we spent $7.5 trillion with agencies that we can't spend fast enough, we have 7.5 percent inflation, the highest in 40 years, and yet today in the Budget Committee we are addressing this little thing, this one single law that forces Congress to acknowledge—to acknowledge the damage that we are doing to runaway spending. I don't understand it. This is so wrong.

Mr. Mulvaney, the Federal Reserve has shifted from inflation being transitory to an expectation that they will increase interest rates in the coming months. The rate increases might go as high as 4 percent before this is all done. If the Federal Reserve continues to increase interest rates, how does that affect the interest on our national debt? And could this put us in a death spiral?

Mr. MULVANEY. Yes. And in fact, thanks for the question, because we used to talk about this when I was on the committee, was that you end up in a circumstance—was the Federal Reserve during the Obama Administration actually sort of encouraging us to borrow more money. I heard President Obama make the argument when interest rates are so low we should be borrowing more money. That is when you should borrow it. Of course, that applies in a world where you actually have to pay back debt, which we never do.

But did the Federal Reserve sort of make it easier to borrow money because there was no consequences to our actions? Yes, they certainly did.

And if interest rates do go up, then you are going to start to see those consequences. Again, I come back to this idea that you would think that everybody could agree that there are better things to spend money on than interest, but at the—4 percent, by the way, Mr. Feenstra, that doesn't bother me. I am old enough—I am older than I look. I mean I remember when interest rates were, you know, on mortgages were 14, 16, 18 percent. You get that on $30 trillion worth of debt and you have got a real problem. In fact, you have to ask yourself, would the Federal Reserve actually have the nerve, the will, to raise interest rates much past 4 percent if they needed to, recognizing the impact that has on the Treasury.

Mr. FEENSTRA. That is exactly right. And I am glad you pointed that out, because when we had the debt ceiling, these are the things that come out. These are decisions that we have to make. You know, the Congressional Budget Office projects by 2031 that as much as 15 to 18 percent of our money will go to interest rates. By 2051, close to 50 percent of our money coming in, our revenue coming in, will go to strictly interest.

And then we talk about Social Security, Medicare, Medicaid, that is looking to go bankrupt. But, no, we don't want to talk about that because it is inconvenient, because, oh, it hurts. You know what? I think this is the most important topic that we should be talking about today. Of what does our future look like? And yet we want to bury it in the sand and we don't want to go down this path of holding each other accountable. You know what? Our families do, our businesses do, I think the government needs to also.

Thank you and I yield back.

Chairman YARMUTH. The gentleman yields back.

I now recognize the gentleman from California, Mr. Peters, for five minutes.

Mr. PETERS. Thank you, Mr. Chairman.

I have been listening for a while and, you know, it strikes me as the one thing we have learned from the debt ceiling discussion is that the debt ceiling is not the answer. Whatever the problem is, the existence of the debt ceiling is not keeping us from being $30 trillion in debt. And the reason is because it has been—the real analogy is not some warning light, it is the credit card bill. You have already spent that money, you, your family, your spouse, your kids, they already rang up that account and the only responsible thing to do is to pay the bill. And by the time you get to the bill it is too late to talk about the spending.

Let us face facts that the debt ceiling become a political cudgel rather than some sort of useful policy tool. So those of us who are worried about debt and deficit shouldn't just talk about whether this is good or bad. It is clearly not doing the job. Let us talk about something new.

And I think a lot of my good colleagues on the Democratic side support repealing the debt ceiling limit altogether and I think there is good reason for that. Because it is an artificial tool. It carries too much risk to be used for political games.

But I don't think—one of my Republican colleagues just thinks we can get rid of it.

So last year—I just want to let you know—I teamed up with Congressman Jodey Arrington in the Bipartisan Policy Center to craft and introduce the Responsible Budgeting Act. So this bill would eliminate the danger of debt limit brinkmanship and offers Congress two ways to actually deal with the national debt. First we would pass a budget resolution that satisfies specific debt reduction measures while simultaneously passing a joint resolution the president can sign to suspend the debt limit until the next fiscal year. And then if Congress fails to pass that concurrent budget resolution, the second option allows the president to suspend the debt ceiling him or herself, which Congress could vote to override. And with the suspension, the president is obligated to send a debt reduction to the Hill. Congress would have to consider that proposal or come up with something of its own. It is a little bit complex, but it is a heck of a lot better than pointing fingers at each other and dodging the bullet every year or two.

So, Dr. Blessing, you noted that while the debt ceiling debate may bring attention to fiscal issues, it carries too much risk to be considered a useful tool. Do you think a reform like the one I described could move the ball forward in having a more productive conversation about controlling federal debt?

Dr. BLESSING. A very important question.

I mean my testimony has emphasized both the benefits and limitations of procedural reform like this. Having the president be allowed to, you know, suspend the debt ceiling with Congress being able to then disapprove of it and you have paired it with additional things, that is sort of a mechanism would absolutely be safer than the status quo. The safest possible thing of course is to remove it from the field of political contestation altogether.

Mr. PETERS. Right.

Dr. Sheiner, you agreed that breaching the debt limit would affect the standing and competitiveness of the United States in the global economy, right?

Dr. SHEINER. Definitely.

Mr. PETERS. I don't know if you think something like our proposal, which would eliminate the hostage taking and reduce the risk of default—I mean I think probably there is an appetite of getting rid of it altogether, but failing that is that the kind of thing we should be looking for?

Dr. SHEINER. Yes, definitely. That is why I agree with Dr. Blessing. Getting rid of it would be great, but if—what you need to do is get rid of the uncertainty, right. You need to basically take it off the table as a possibility. And so whatever procedural reforms could get you there that could actually pass, you know, would be a step in the right direction.

Mr. PETERS. Well, I must say I think that both parties have been responsible for adding to the debt, I think for good reasons and other reasons. It would be great if this Committee—the Members of this Committee could come together if you are really concerned about reducing the deficit, forcing us to make those tough decisions through a bill like the one we proposed.

Mr. Chairman, I support eliminating the debt ceiling. In the event that that doesn't happen, I think we need to reform it. But I don't want to pretend that this is somehow the answer to any problem, to any question that we face. This is not the tough—this is not the tough decisionmaking we say we want to be called on to make.

And I thank you for having this hearing and I yield back.

Chairman YARMUTH. The gentleman yields back.

And I now recognize the gentleman from California, Mr. Obernolte, for five minutes

Mr. OBERNOLTE. Thank you, Mr. Chairman, and thanks to everyone for participating in this critically important hearing.

I want to touch on something that Congressman Smucker brought up, which is that the fact that we are having this discussion about the debt limit, you know, really is—means we are not talking about the larger picture here, which is the federal deficit and our rising national debt. The one thing that the debt limit does force us to do is periodically have a discussion about the debt and how we are going to pay back the money that we are borrowing.

So we have had a discussion here in this hearing about the recent letter from the Congressional Budget Office and a debate about whether or not real wages are keeping up with inflation, but I wish that we were talking more about another document from the CBO a few months ago, which was there budget forecast. I think Congressman Feenstra touched on this a little bit. That forecast is eye opening. I mean it paints—even under the most rosy scenario, which is that we don't have another major recession, we don't have another major war, Congress doesn't enact any new spending measure that promote deficit spending, and the 2017 tax cuts expire on time. You know, if all four of those things happen, then by the end of the forecast period, which is 2051, our national debt will only be 200 percent of our gross domestic product. Just paying interest on that national debt will consume 9 percent almost of our entire economy, which is over half of federal tax revenue. And, you know, the really distressing thing about that is that is assuming that interest rates are within the range that the CBO projects now. If we have to raise interest rates to control inflation, the CBO says that easily just paying interest on the debt could be 25 percent of GDP and over 100 of all of our federal tax revenue.

So that is what, you know, we need to focus on. And I think any discussion of eliminating the debt ceiling has to be paired with a discussion about what our solution is to getting that national debt and our federal spending under control.

So I really wish if we were talking about eliminating the debt ceiling, we would pair that with a measure, for example, maybe a congressional budget—a constitutional amendment requiring a balanced budget. I have introduced legislation that does that. I know other Members of the Committee have induced legislation that requires that. This is not a new idea. Almost all of the states require a balanced budget. My home state of California, I mean obviously a very blue state, but we have one of the strongest balanced budget requirements. And before my two years on House Budget I spent five years as what we would call Ranking Member of the Budget Committee in the California legislature. And, you know, we made it work. And sometimes the minority party even voted for it.

So this could be a template for what the federal government does.

And then last, before I get to a question or two here, I just want to talk about the specific proposal that has been raised here in the hearing today, which is to transfer responsibility for raising the debt ceiling from the legislative branch to the executive branch and giving the Department of the Treasury that authority. And this is something that I have spent some time thinking about and I would strongly say that that is a bad idea. A few years ago I wrote a doctoral dissertation on managing budgetary conflict between the Legislative and executive branches, and as part of that research we looked at the mechanisms that shift the balance of power between the Executive and legislative branches at the federal level. And here is the problem with giving the Department of the Treasury that authority, there time horizon is much shorter because administrations come and go every four years, or at most every eight years. Doing something like controlling federal spending is really politically difficult and it is not something that you can get done on that short a time horizon and politically it is going to be much more difficult for the executive branch to do that.

So I would urge caution there.

So let me ask, Mr. Mulvaney, I think you have got some fascinating experience having served in both the Legislative and the executive branches. Do you think that Congress should essentially abdicate its responsibility for this and give it to the executive branch? And if not, what do you think the long-term solution is to controlling federal spending? Do you think it is something like a balanced budget requirement?

Mr. MULVANEY. The longer answer is it just will. It is political will. The voters have to send people to office who care about balancing the budget and spending less. Not doing that yet. So, yes, it would take a cultural change to Washington. Washington is set up right now to spend more every single year because of the way that budget process works, because of the way the CBO project works. Listen, that is a longer discussion for another day.

As to Mr. Boyle's suggestion about giving the Treasury, I am sitting here, oh, I am torn. Because I think the chances of me going back into the legislative branch are probably pretty low. The chances of me going back in the executive branch, probably pretty good. So, yes, give us more authority please, give us more power. No, don't do that. I mean isn't that part of the problem we have right now? Is that we—you guys delegate so much authority to the executive branch and then you don't let the executive branch actually do it. They can't fire people, they can't hire people, they can't actually run the government. Then you try to micromanage them on how you spend money by putting line items in appropriations bills and the whole thing just starts to break down. No, don't give more authority to the executive branch.

By the way, you have got the same authority right now I think on regs. You delegate all the regs down to the executive branch and you can oversee them, but you never do. You can overrule them, but you never do. So, no, please don't give more authority to the executive branch. That is not a resolution to hardly anything.

Mr. OBERNOLTE. Well, thanks.

And I see my time is expired, but let me just highlight something that you said, which is that the rules aren't broken here, Congress is broken. And in the future as we have these discussions, Mr. Chairman, I hope that we can pivot away from pointing fingers at each other about which administration racked up the debt and whose fault it is and instead focus on what the long-term solutions are. Because, you know, that is really what—I think the elephant in the room.

I yield back.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentlewoman from Washington, Ms. Jayapal, for five minutes.

Ms. JAYAPAL. Thank you very much, Mr. Chairman, for holding this important hearing. I think we have heard multiple times how the national debt ceiling is a source of much dysfunction in Congress without serving a substantive purpose.

And it is important to note that limits on the Treasury were not originally instituted to constrain deficit spending at all, but rather evolved from a bill aimed at granting the Treasury more authority to issue bonds to pay for World War I, to loosen restrictions on borrowing by imposing a one-time arbitrary limit on bond issuance instead of authorizing war spending on an as needed basis.

So I thought it would be good to take a little trip down the historical lane just to show how far we have strayed and how today the debt ceiling simply does more harm than good.

So, Dr. Blessing, when prior to World War I Congress authorized the Treasury to issue debt in varying types of bonds for specific purposes and amounts, how did that change—how did Congress change the Treasury's authority during the war and what was the rational? Briefly.

Dr. BLESSING. Congress—thank you for the historical correction. I think it is really important for people to understand this. Congress saw that under war time conditions that Treasury was going to need more flexibility and be able to, you know, better address the war effort. And in order to, you know

[audio malfunction]

Ms. JAYAPAL. Dr. Blessing, you are coming in and out unfortunately.

Dr. BLESSING [continuing]. effort at constraining either overall debt—oh, gosh, how is this?

Ms. JAYAPAL. You are back again.

Chairman YARMUTH. Your—Dr. Blessing, your audio——

Dr. BLESSING. Is that better? I am sorry.

Chairman YARMUTH [continuing]. is cutting out. And you are frozen now on screen. Let us see if she—are you back? No, you are still frozen.

Ms. JAYAPAL. OK. I could go to some other——

Dr. BLESSING. I can see you.

Ms. JAYAPAL. Turn off your camera maybe.

Chairman YARMUTH. Oh, OK. Want to try that, Dr. Blessing? Turning off your camera for a second and see if we can just hear you?

Dr. BLESSING. Of course. How is that?

Ms. JAYAPAL. That is much better.

Chairman YARMUTH. We can—we can hear you.

Ms. JAYAPAL. And, Mr. Chairman, if you wouldn't mind restoring some of my time, that—I would appreciate it.

Chairman YARMUTH. No, I will.

Ms. JAYAPAL. Thank you.

Go ahead, Dr. Blessing.

Dr. BLESSING. The Congressman is absolutely right. With the change in the 1917 law with the Second Liberty Bond Act, the idea was not to, you know, enable the Treasury Department to have greater flexibility and to also modernize the federal——

Ms. JAYAPAL. Shoot, Dr. Blessing, unfortunately we are just not able to hear you. So I think I am just going to go a different——

Chairman YARMUTH. Yes, no, your sound is not working. No, we can't hear you either.

Ms. JAYAPAL. OK.

Chairman YARMUTH. Ms. Jayapal, go ahead and——

Ms. JAYAPAL. All right. We are going to try this again. And I am going to do—I am going to ask questions of a different witness. Sorry about that, Dr. Blessing. I was looking forward to that.

But let me go to Dr. Sheiner. Even after Congress raises the ceiling after a default, the damage will be done. And by some estimates six million jobs will evaporate and delays to crucial social safety payments would devastate families already living hand to mouth. How long would it take for the economy to recover after breaching the debt limit?

Dr. SHEINER. I mean I think we don't know the answer to that question. It really does depend on what happens to financial market perceptions, whether people understand that yes, we have reached the limit, but it is going to be very short and we can take it in stride, or whether it really says, oh my god, there is so much dysfunction here and that would just undermine confidence. And that could take a very long time to get back.

And so we have never done that before. And so I think the uncertainty is huge. And so the way I think about it is not that it would necessarily be, you know, many, many chorus of recession, but it has the possibility. And why risk that, right. And it has the possibility of just deeply undermining faith in the U.S. economy that might last many, many years.

Ms. JAYAPAL. Well, that is a really important point as well because it has been a major priority of Congress to help maintain America's competitiveness in a globalized economy. And so, you know, if we were to breach the debt limit, could you give us a sense of what that would do to the standing of the United States in the global economy?

Dr. SHEINER. I think that the U.S. federal government has this reputation as, you know, our Treasury having savings in there, they are the most liquid and we have a huge advantage and our borrowing costs are lower because of that. And so that puts that at risk. Even if it put it at, you know, we just lost some of the advantage, it would cost a lot given the size of our debt. And so why risk it.

And then I think there is a broader question that I can't really answer, but it is beyond just interest rates. It is this view of the U.S. as a global leader. And when your politics get so dysfunctional that you don't pay your bills and that you cause a recession because you couldn't get the political act together, that just has really unpredictable but obviously not good repercussions for the U.S. as a global leader.

Ms. JAYAPAL. And what about the potential global spillovers from a breach in the debt limit?

Dr. SHEINER. Right. I mean so we have a global capital market, people rely on U.S. treasuries everywhere as the safest asset. We have seen other episodes where there have been minor, you know, dysfunctions in the treasury market kind of affecting the whole world. And if this was something major, yes, it could throw, you know, global markets in turmoil, you know. And then much would depend on what the Federal Reserve did and did they come in and fix it, could they do that.

It is just this huge unknown about what would happen, but it does have serious repercussions and just really hard to assess exactly what those would be.

Ms. JAYAPAL. Well, given all of that—I was going to go down history lane with Dr. Blessing. I know you said you are not a historian, so I am not making you answer those questions. But here is my last question that I was going to ask her that I think you could answer, which is given the fact that the debt ceiling has evolved into a practice so far from its original intent and carries the enormous risk that you have laid out, why has this policy persisted for so long and what are the repercussions if we continue to allow it to persist?

Dr. SHEINER. I mean it is not just that it is persistent, but I think it has gotten more pernicious over time, right. We have come closer to breaching it in the past 10 years. As I siad, I wasn't sure what was going to happen this time. It seems like we are getting closer and closer to the point where we actually might step over that breach. So I think it is a very dangerous thing to have and I don't think it does anything good in terms of thinking about our long-term problems in a way that makes sense. And so I think it should go. I think it is a risky and not a helpful part of our process.

Ms. JAYAPAL. Thank you, Dr. Sheiner.

And thank you, Chairman Yarmuth. I appreciate the latitude there given our tech problems.

Chairman YARMUTH. Absolutely. No, no problem at all.

The gentlewoman's time has expired.

I now recognize the gentleman from Florida, Mr. Donalds, for five minutes.

Mr. DONALDS. Thank you, Mr. Chairman.

This has been a very interesting hearing, to say the least. I mean what the reality is, before I got to Congress I never liked hearing you all talk about the debt ceiling, and now that I am in Congress I don't really like hearing you all talk about the debt ceiling because the truth is is that this is not about "paying our bills" , this is about us not changing our spending habits and wanting more money from capital markets so we don't have to change.

This whole idea about brinkmanship. to me is what the legislative process is supposed to be about. If you cannot find a way to work on both sides of aisle to actually figure out a path forward for raising the nation's national credit card, then that means that you can't even get together to figure out how to reform your spending. And if you can't reform your spending, you are going to run amok. So that is why capital markets and the credit rating agencies look at us from a funny perspective of are they ever going to get their act together, because we never do the hard things in D.C. That is what I have seen before I got here and that is frankly what I am seeing now.

There is no way we should be abolishing the debt ceiling vote and getting rid of the debt ceiling vote. That makes no sense at all. Because if we are going to be the body, especially in the House, that authorizes all spending, then we should also be the body that authorizes the debt position of the United States. And you can't just put it in the executive branch's hands, especially when we do that with so many other things in Congress.

I really do want to thank the witnesses, because I have been listening intently. And as far as I am concerned, I think all of the questions have really been asked. But I think it is more important for me to just, you know, for whatever it is worth, make the clear statement that the Members of the Congress, both sides of the aisle, we actually need to let this Committee do its full job, which is actually creating a budget, actually figuring out what our spending parameters can be, figuring out what that is going to be looking like in the future. And we should not be turning over borrowing of debt to the executive branch without a save from Congress. And I understand one of the proposals that Congress would have to vote to not let the executive branch do something, that doesn't make any sense because you can hardly get Congress to agree on a lot of things.

We have to do the hard work. It starts with us in the people's body. We should not be moving those spending decisions and those borrowing decision off to the executive branch.

I yield back.

Chairman YARMUTH. The gentleman yields back.

I now recognize the gentleman from Wisconsin, Mr. Grothman, for five minutes.

Mr. GROTHMAN. Thank you.

First of all, I want to—one of my colleagues a little bit earlier talked about making Congress more responsible. And I am just going to point out, I have been here for seven years. I can imagine saying making Congress less irresponsible, but to say we are building off the responsibility of Congress is not something I have noticed so far.

Now, we still have—Mick Mulvaney is still there. Hey, Mick. Glad to see you again. I got a question for you. It seems to me that one of the results of excessive spending is inflation. And I am not even sure all members of the Federal Reserve get that right now. But is that true? And do you believe the current—I guess I would call it cruel tax, because Congress never votes on it, it is really a regressive tax. It hurts the little guy the most. But do you believe the current penalty on the average American, housing costs, fuel costs, food costs, is caused by excessive federal spending?

Mr. MULVANEY. Yes. You know, Glenn, you and I are old enough, as are a couple of people on this Committee, not nearly as many as I would like, because I don't want to feel like I am the elder statesman here, remember what inflation is. Inflation is too much money chasing too few goods. And right now, because a lot of the policies you have got in Washington, DC, you all are pumping money into the system. Now, granted, a lot of that was necessary because of COVID. I am not trying to criticize everything that happens, but you have had the—the end result of what you have done is to dump a whole bunch of money in the system. At the same time, because of COVID, but also because of some of the policies, re-regulating the economy, for example, you—it has been harder and harder to get goods to market.

So more money chasing fewer goods equals inflation. And it is the worst kind of tax. It absolutely is. Yes, you don't vote on it, but it does impact the folks that my Democratic friends say they care the most about, the folks at the bottom end of the economic scale. It affects them more than anybody else and negatively.

I own assets, OK. Many people on this call own assets. Our assets are going up in value because of inflation. If you are the bottom end of the scale, you don't own anything. You are living paycheck to paycheck and you are spending 100 percent if not more of that paycheck on things you need every single week. And your quality of life is going down.

So, no, inflation I think is one of those—it is the scourge—listen, it was bad, it was really bad in the late 1970's, early 1980's. People remember it nowadays—to know how debilitating inflation can be. And, yes, Washington is a driving factor behind that. Not the only one, COVID certainly plays a role. But Washington can and should be doing more to alleviate inflation instead of making it worse, which is what I think you all are doing.

Mr. GROTHMAN. I am going to give you a question. Maybe it is an unfair question because you didn't know it was coming. But obviously the day of reckoning is coming, right. And when the day of reckoning happens there is going to have to be some reduction in spending. I personally don't think we should ever cut Social Security. People have paid into that and that is the one thing we shouldn't cut, which means many other programs which are arguably—or maybe not even arguably—under our Constitution shouldn't be the role of the federal government are going to have to be looked at very carefully.

Do you know—if we try to balance the budget, say next year or the year after, and we leave Social Security and Medicare off the table, percentage wise, how much of everything else would we—do you—unfair question?

Mr. MULVANEY. Yes, I don't—I mean I used to know that off the top of my head, that used to be my job. But I haven't looked at that in a while. My guess is—I don't know, it is probably 20 percent. If you take Social Security and Medicare—keep in mind, Social Security, Medicare, and Medicaid are 75 percent of government expenditures. The budget—you guys know this better than anybody—you all only budget roughly 25 percent of what the government spends. So if you take 75 percent of the spending off the table and you try and balance it based upon the rest of it, it is going to be very, very difficult. I used to, you know, tell people we could—you know, we could cut the defense budget to zero and you still wouldn't balance the budget. In fact, last year you could have cut all discretionary spending to zero and you wouldn't have balanced the budget because you are more than a trillion—what is the budget this year, $1.4 trillion, $1.5 trillion? It is huge.

Listen, the better question is if you needed to, could you balance the budget next year. If you really needed to. The most severe circumstances, could Congress get together and balance the budget next year if they needed to. I am not sure you could.

Mr. GROTHMAN. OK. I am kind of jealous of Chairman Yarmuth and maybe jealous of you, Director Mulvaney. I can't remember when you got here. You were here when the sequester was put in place. I think maybe the best piece of public policy we have seen in the last 20 years. Do you believe the sequester would have happened without the requirement for a debt deal?

Mr. MULVANEY. Guaranteed, 100 percent, the Budget Control Act, which included the sequester, never would have happened but for a debt ceiling discussion.

Mr. GROTHMAN. When I look at the last seven years—go ahead.

Mr. MULVANEY. Does anybody on this Committee, anybody in Congress who would disagree with that statement?

Mr. GROTHMAN. Absolutely tremendous. I think maybe people on the Committee—or we can distribute next time we meet the increase every year in discretionary spending for the last 20 years and see the wonderful seven year period of sequester.

Now, I know eventually when the Republicans were in charge some people felt the need to break it, but I think it is something that we could perhaps revisit in the future since this is something that both sides agreed upon once.

Chairman YARMUTH. I think—can I ask—did his clock malfunction. Doesn't seem like he has been there for five minutes.

It shows expired, Mr. Grothman, but I am going to give you——

Mr. MULVANEY. That is just because Grothman is so engaging, he slows down time when he talks.

Chairman YARMUTH. If you have one more question, Glenn, go ahead and ask it.

Mr. GROTHMAN. OK. That is OK. We will leave it at that, but I appreciate you having the hearing. As you know, I am hopeful for many more hearings. I have always loved the Budget Committee.

So thank you for having this hearing, Chairman Yarmuth. I hope it is the first of several.

Chairman YARMUTH. All right. Thanks very much.

The gentleman's time has expired.

And now we welcome to the Committee once again for his first appearance before us, Mr. Carey of Ohio. You have five minutes.

Mr. CAREY. Well, I won't take that, Mr. Chairman, but I do thank you for the opportunity to speak. I do thank the witnesses for their testimoneys.

I guess, you know, most of the questions that have been addressed kind of—really were kind of line with what I was going to ask. I guess, Director, what I would like to ask you is I remember working as a young staffer in the 1990's. We had wanted to push a balanced budget amendment. And had we accomplished that in 1995, 1996, where would we be today in terms of the issue that we are discussing that is before us this afternoon.

I will wait for your answer.

Mr. MULVANEY. Yes, I think the debt ceiling was probably what, a couple of trillion dollars back in the mid-'90's? So, granted, you probably have to go into debt a little bit to handle COVID, probably some other things that—the financial crisis of 2008, probably incur some debt there, so maybe it is up, you know, a trillion or two. Listen I was not a big fan of the war in Iraq, which contributed to the deficit as well. So, yes, so ballpark maybe you are $6 trillion or $8 trillion in debt right now if you—if that passes and if we lived up to it.

Listen, I had a chance to vote on it in 2012 I think and it didn't pass in large part because some Republicans didn't vote for it. So it is a real shame. Someone mentioned earlier that California has a balanced budget amendment.

By the way—and I don't want to filibuster your question, but I would encourage this because this is one of the, you know, rare possibilities for bipartisanship. state government works. state government works better than the federal government does. One of the reasons the state government works, in addition to the fact that the minority has rules that protect it, is that they have to balance the budget and they have to sit down and work together with folks in the other party. You all don't have to do that because you own the printing press. If you had a balanced budget amendment, it might actually make your jobs more enjoyable, not less, because you would actually be forced to do things on a bipartisan basis.

I will get off my soap box.

Mr. CAREY. Now, Director, I appreciate the candidness and I appreciate you being the first person I have ever asked a question to.

So, Mr. Chairman, Ranking Member Smith, I appreciate the time and I do yield back.

Chairman YARMUTH. The gentleman yields back the balance of his time. Once again, we welcome him to the Committee.

I now yield myself 10 minutes and I probably won't take all 10, but I do want to comment on a few things.

First of all, let me say that I think this hearing has been done with a great deal of though and civility and I think with a very positive attitude about dealing with this question of the debt ceiling. So I know one person said we blamed—going back and forth with blame. We really didn't. There were a couple of times, but not like normal for sure.

So I appreciate all the Members' contributions and the witnesses' answers as well.

You know, one of the things it occurs to me, and I know people have said so many times during this hearing, that it is not the rules that are broken, it is the Congress that is broken. And back in 2017 I was part of a joint select committee, members House and Senate, bipartisan, former Chairman and Ranking Member Womack of Arkansas was one of the co-chairs of that group. And we met periodically for the entire year in 2017. It was a joint select committee on budget and appropriations reform and the whole idea was trying to figure out if there were things we could do better, there were rules that we could change that would make the budget process more effective and so forth.

And after months and months and months, I think we had seven different hearings, we had people from across the philosophical spectrum, economists, and others, the conclusion that we all reached was it wasn't the rules, it was the people and the willingness of the members of the House and Senate to responsibly deal with their responsibilities.

And it wasn't—you know, we talked about triggers on spending, we talked about balanced budget amendments, we talked about no budget, no pay, all of those things. And, again, the conclusion on a bipartisan basis was none of those things would really change unless the members change and unless the willingness of the member to be—again, to be responsible and responsive to the environment change.

So I say that having called this hearing about the debt ceiling and proposals to change a significant rule. And the one thing that I know—I think Mr. Mulvaney talked about—I loved the first names, but I am going to remain somewhat formal—talked about in terms of giving up power of the purse, I think you could argue that having the debt ceiling gives—has already taken the power of the purse away from us because it says we are going to execute our responsibilities, we are going to appropriate funds, and then we don't allow those—if we have the debt ceiling, we don't allow those decisions to be implemented freely.

And so, again, I think this discussion has been very, very important and useful. And I am not sure we will have another hearing on it, but I think it has prompted discussions.

And then, finally, the notion of the fact that we don't discuss the deficit and the debt without talking about the debt ceiling, I think that is not true. I think we talk about the debt and the deficit all the time. Now, do we do anything about it? Not really. But we talk about it all the time and there is a great deal of consciousness of it, which says to me that the one justification for keeping the debt ceiling, which I have heard today, is that it is an effective extortion measure to get policies enacted that otherwise wouldn't be very popular or couldn't generate enough support to be passed, like sequestration. That to me to me does not justify keeping it. It actually is a good reason, as far as I am concerned, to get rid of it. If all it is is a wedge to either get difficult policies passed or to—again, to force us to—to force one side or the other to make concessions.

So, anyway, what I would like to do in the remaining five minutes is just to give—because I know a lot of the—Dr. Blessing, her sound went out. I don't know if you are back on line. But just to give you all a minute or two—give each of you one minute and 15 seconds to—if you have comments about things that have been said today that you have been waiting to respond to one way or another. If there aren't, that is fine.

So, Dr. Blessing, do you want to take a shot? Is there anything you would like to say in summary? Things you have heard today that you would like to make a comment on?

Dr. BLESSING. Sure. Well, first of all, thank you for a wonderful hearing and thank you for everyone at the committee.

Some of the later responses were vis a vis giving up power to the executive branch. And here is the thing, while I think we should be concerned about Congress as an institution and making it more powerful, a congressional capacity, I don't believe that doing away with the debt ceiling or any of the reforms that have been mentioned would mean giving up power to the executive branch because they are only lifting the debt ceiling, they are not making policy. Congress has already made all of the spending policy, all of the taxing policy that would affect the debt ceiling in the overall levels of debt.

So I don't see this as an abrogation of Congress', you know, fiscal responsibility or any—giving of any policy relevant power to the executive branch.

So I just wanted to address that in particular in addition to all of my comments.

Chairman YARMUTH. Great. Thank you, Dr. Blessing. And, by the way, if you would like to provide it in writing, your response on the historical context of the debt ceiling that we couldn't get you in on the audio, we would love to have your comments in writing for the record.

Dr. BLESSING. Happy to.

Chairman YARMUTH. Great. Thanks.

Dr. Sheiner?

Dr. SHEINER. I don't have much to add. I will say I was—I am glad you said that you always talk about the debt, because I am like we—I always talk about the debt and the—is it really possible that you guys never do? I thought that was unlikely, so I am glad to hear that you do. It is a big issue.

The only one thing I want to say is when we talk about like anything that you do that lowers the debt is a good thing. Like that is not necessarily the case. The reason this is such a hard problem is that you really have to balance the benefits of what you are—what—the money that you are spending, the costs of any taxes, what is the best way forward what is the timing. Low interest rates have a lot to do with how much room that you may have.

And so I just think this notion that, well, the debt ceiling forces us to make action and therefore every action is definitely good, I think is something that is not exactly right, which is why this conversation needs to be done not about the debt ceiling where you are under—you know, under the gun, but really in a way where you can really address the nuances of policy.

Chairman YARMUTH. Thank you.

Ms. Russell, any final——

Ms. RUSSELL. Thank you. Thank you so much for the opportunity to speak today and to listen to this fantastic conversation.

Just want to reiterate the importance of, you know, stability from the small business perspective and looking at our ecosystem and looking how small business really impacts the American economy. It is really important. I think sometimes small businesses get lost in the mix because we are always talking big economics and big business. But when you look at the impact of small businesses across the country, we are really making the most difference in the most areas, and especially in our communities.

And so I thank you for this opportunity to represent small businesses and to keep them and keep us at top of mind.

Thank you so much.

Chairman YARMUTH. Thank you.

And, Mr. Mulvaney, would you like the final word?

Mr. MULVANEY. John, I will because I will say something that hopefully is interesting, which is I think that the best thing that I am going to take away from this is that Sheila and I may have hit on something. And I am willing to accept your premise that you guys talk about debt and deficits more than maybe I perceive now that I am no longer inside the building.

Sheila talked about, you know, sitting down at the table. Listen, if you all were to pass one or two or three really good fiscal reforms bills without having the debt ceiling held to your head, you might convince folks like me that we don't need it anymore. Again, I think we are all concerned about the same thing, which is how do we make sure the debt doesn't ruin us. I think we are just disagreeing on the best way to accomplish that. But if you all sit down and hack out something that reduces the deficit without having it be under the Sword of Damocles the debt ceiling makes, then maybe you can convince me we can get rid of it after that.

So, anyway, thanks for the chance to do this. It is good to see everybody. And it is one of the rare, rare days I miss being in my old job.

Chairman YARMUTH. Well, I will join you in a few months and we can miss it together and hopefully get out on the golf course.

Once again, thanks to all the witnesses. It has been a very enlightening hearing. I appreciate your time and responses.

And unless there is any further business before the Committee, this hearing is adjourned.

[Whereupon, at 1:37 p.m., the Committee was adjourned.]

SHEILA JACKSON LEE
18TH DISTRICT, TEXAS

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

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

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

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

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

Congress of the United States
House of Representatives
Washington, DC 20515

COMMITTEES:
JUDICIARY
SUBCOMMITTEES:
COURTS, INTELLECTUAL PROPERTY AND THE INTERNET
IMMIGRATION AND BORDER SECURITY

HOMELAND SECURITY
SUBCOMMITTEES:
RANKING MEMBER
BORDER AND MARITIME SECURITY
TRANSPORTATION SECURITY

SENIOR WHIP
DEMOCRATIC CAUCUS

CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

BEFORE THE COMMITTEE ON THE BUDGET

ZOOM VIRTUAL HEARING STATEMENT
"CONGRESS NEEDS TO ABOLISH THE DEBT LIMIT"

WEDNESDAY, FEBRUARY 16, 2022
11:00 A.M. (EST)

- Thank you, Chairman Yarmuth and Ranking Member Smith, for convening this hearing on *"Why Congress Needs to Abolish the Debt Limit."*

- Let me welcome our witnesses:

  Dr. Laura Blessing
  Senior Fellow
  Georgetown Government Affairs Institute

  Ms. LaJuanna Russell
  Founder and President
  Business Management Associates Inc and the Chair of the Small Business Majority

Dr. Louise Sheiner
Senior Fellow in Economic Studies & Policy Director
Hutchins Center on Fiscal and Monetary Policy
Brookings Institution

(Minority Witness)
Mick Mulvaney
Former Director of Office of Management and Budget

- Mr. Chairman, the purpose of today's hearing is to explore the necessity of eliminating the debt ceiling to avoid a wasteful, irresponsible, reckless threatening of the nation's singular indispensable asset: the full faith and credit of the United States.

- Mr. Chairman, preserving the full faith and credit of the United States by raising to the debt limit to ensure that America pays the bills for past expenditures when they come due is not a partisan exercise but an act of patriotism, a recognition and embrace of the solemn obligation to preserve the unrivaled advantages that flow from the ability provided in the Article I, Section 8, clause 2 of the Constitution to "borrow money on the credit of the United States."

- Long ago, in 1789, Alexander Hamilton, the nation's first and greatest Treasury Secretary, understood that the path to American prosperity and greatness lay in its creditworthiness which provided the affordable access to capital needed to fund internal improvements and economic growth.

- It is because of the existence and wise use of the Borrowing Power that the nation was able to expand its reaches, resources, and riches by financing the Louisiana Purchase, the purchase of Alaska from Russia, to fund the investments to end the Great Depression, to finance the mobilization of resources needed in World War II to defeat fascism and save freedom in the nation and the world, to revive the economy after the catastrophic Great Recession of 2008, and most recently, to protect the public health and safety and restore the economy during the COVID-19 pandemic.

- This is why the ability to borrow money on the credit of the United States to finance its growth and protect its people and interests is essential to the national security and led Hamilton to proclaim that "the proper funding of the present debt, will render it a national blessing."

- But to maintain this blessing, or to "render public credit immortal," Hamilton understood that it was necessary that: "the creation of debt should always be accompanied with the means of extinguishment."

- In other words, to retain and enjoy the prosperity that flows from good credit, it is necessary for a nation to pay its bills.

- The United States has never defaulted on the payment of any debt incurred, and because of the size and strength of its economic and unmatched creditworthiness, is able to borrow on the lowest and most favorable terms of any nation or entity in the history of the world.

- So secure and reliable is a bond issues by the Department of Treasury that the Unites States is the preferred haven for investments of foreign governments, corporations, and sovereign wealth funds.

- The interest rate charged the federal government of the United States is the base for which every rate, from the prime rate charged the richest corporation to rates charged small business on purchases to the mortgages rates and students loans taken out by consumers.

- If you raise the cost of borrowing for the government of the United States, you set off a chain reaction of increased interest rates for every other borrower in the United States and around the world.

- This is why leading public finance experts and agencies, like Moody's Chief Economist Mark Zandi, have said it would be "cataclysmic" for the United States to default on its loan obligations.

- Mr. Chairman, debates over extending the debt limit is not about restraining future spending, it is about paying the bills piled up already under both Republican and Democratic administrations.

- The question of raising the national debt limit does not depend on how one feels about the Build Back Better agenda, as wildly popular as it is among all Americans, Democrats, Independents, and Republicans included.

- It is instead about preserving the singular asset of the United States, its enviable and unrivaled creditworthiness; to finance future investments beneficial to the national interest, like the Louisiana Purchase; the space program; the transcontinental railroad; investments to create, preserve, and strengthen Medicare and Medicaid expansion programs; or extend broadband to underserved rural and urban areas, an action that will be as life-changing as the rural electrification program was in the 1930s.

- Mr. Chairman, let me briefly give a glimpse of the nightmare scenario that would be unleashed if the United States ever defaulted on its debts.

- First, it would mean that Treasury would be unable to make payments on promised debt obligations, including payments to Social Security, Medicare, Medicaid, nutrition benefits, military salaries and retirement, defense contractors, law enforcement, unemployment insurance, and others – in total approximately 80 million payments a month.

- Forcing Treasury to spend only what is covered by revenues would lead to an immediate 40 percent cut in government spending and depending on how long it would take Congress to raise the debt ceiling under this scenario, Americans and those who are entitled to these benefits could go days or weeks without getting them, which would have ripple effects throughout the economy, as it jeopardizes the ability for families, veterans, retirees, and others to pay rent, buy groceries and medication, or run their businesses.

- Second, financial markets would respond to this uncertainty by demanding higher interest rates on government security, thus increasing rates throughout financial markets.

- This means that consumer products like car loans and mortgages would also become more expensive – hurting the pocketbooks of working Americans.

- This market chaos would likely spillover into global markets as well and could create financial crises around the world.

- A financial crisis triggered by U.S. default would send even larger shock waves through global markets than did the Great Recession of 2008.

- Third, default would threaten the status of U.S. government debt as the safest asset in the world.

- The U.S. currently enjoys status as the global reserve currency, but the inability to pay our debts on time -- especially in the conditions of a long shutdown – could threaten this standing and provide an opportunity for a global competitor, such as China, to step in and take our place at the top of the global economy.

- Indeed, in 2011 when there was a debt limit crisis without actual default, S&P downgraded U.S. government debt from a AAA rating to AA+, and a full breach would certainly lead to another downgrade and thus increased borrowing costs.

- Additionally, the dollar would likely face a significant loss in value, causing potential price increases for consumers, meaning that taxpayers would ultimately be on the hook for more expensive borrowing, from a crisis created by Congress.

- Even a short default would create scars that would take years to recover from as families suffer from lost benefits and increased prices, and markets take years to restabilize, while Americans endure 2008 Great Recession-levels of job loss.

- Mr. Chairman, if our friends across the aisle really want to shrink the deficit, reduce the national debt, practice fiscal responsibility, and bring about sustained economic growth and prosperity, there is a much better, easier, and more certain way to achieve these goals than by tampering with the U.S. Constitution.

- The easier and better way is for the American people to keep a Democrat in the White House and place Democratic majorities in the House and Senate.

- In the 1990s under the leadership of President Clinton the budget was balanced for four consecutive years, the national debt was paid down, the national debt, 23 million new jobs were created, and projected surpluses exceeded $5 trillion.

- Under President Obama the financial crisis and economic meltdown inherited from his Republican predecessor was ended, the annual deficit was reduced by 67 percent, the auto industry was saved from collapse, and 15 million jobs were created.

- In contrast, under every Republican administration since President Reagan the size of the deficit bequeathed to his successor was substantially larger than the deficit he inherited, a major economic recession occurred, and economic growth was lower than it was at the beginning of his administration.

- To preserve the sanctity of the full faith and credit of the United States, protect American jobs and businesses of all sizes, and ensure the continued growth of the economy, I support eliminating the debt ceiling, which in the hands of our friends across the aisle is an irresistible but reckless tool for mischief making and flirting with economic disaster.

- Thank you, I yield back the remainder of my time.

"Why Congress Needs to Abolish the Debt Limit"

02/16/2022

Questions for the Record for Mick Mulvaney

Representative Ashley Hinson (IA-01)

Background: In nearly every meeting I take across my district, whether it be with child care centers, small business owners, or farmers, they almost always mention the rising costs of goods and services. It's harder to put food on the table for their kids, gas in their cars to get to work, and heat their homes during this frigid Iowa winter. Their paychecks simply aren't going as far.

But Democrats in Congress have yet to take action to address this crisis. The White House was completely blindsided by inflation, and it shows – this is a problem of their own making, and it continues to get worse for working families.

Question:

- As former OMB Director, what specifically, are the harms of rising costs on working families and what does our country's poor fiscal health mean for working families in the long term?

- What steps should Congress take now to curb these rising costs?

Background: I have the privilege of serving not only on this important committee, but also as an Appropriator. I believe it's essential for us to look at both sides of Washington's spending spree – the discretionary side, but also the out-of-control mandatory spending.

Question:

- We know that having a debt limit is a valuable tool to keep Congress in check when Washington is trying to overspend taxpayers' money. What other tools should we be prioritizing and considering to remain disciplined, particularly on the mandatory spending side of the ledger?

“Why Congress Needs to Abolish the Debt Limit”

02/16/2022

Questions for the Record for Mick Mulvaney

Representative Ashley Hinson (IA-01)

Background: In nearly every meeting I take across my district, whether it be with child care centers, small business owners, or farmers, they almost always mention the rising costs of goods and services. It’s harder to put food on the table for their kids, gas in their cars to get to work, and heat their homes during this frigid Iowa winter. Their paychecks simply aren’t going as far.

But Democrats in Congress have yet to take action to address this crisis. The White House was completely blindsided by inflation, and it shows – this is a problem of their own making, and it continues to get worse for working families.

Question:

- As former OMB Director, what specifically, are the harms of rising costs on working families and what does our country’s poor fiscal health mean for working families in the long term?

  Rising costs – or better, costs that rise faster than wages – are essentially a tax. The money doesn’t go to the government, but the net effect on you is the same: you can buy less of what you want. Aside from the immediate harm of a lower standard of living, one should also consider the impact of things like having less money to save, or less money to invest in, say, starting a new business.

  The connection between the country’s financial condition, and that of an ordinary family, is pretty simple: either the government is going to borrow more money, or it is going to print more money. If it borrows more, then it competes with private borrowers for money – effectively “crowding out” private borrowers from the market. If it prints more, the net effect is to make the $10 in your pocket worth only $9.

- What steps should Congress take now to curb these rising costs?

  Spend less.

Background: I have the privilege of serving not only on this important committee, but also as an Appropriator. I believe it's essential for us to look at both sides of Washington's spending spree – the discretionary side, but also the out-of-control mandatory spending.

Question:

- We know that having a debt limit is a valuable tool to keep Congress in check when Washington is trying to overspend taxpayers' money. What other tools should we be prioritizing and considering to remain disciplined, particularly on the mandatory spending side of the ledger?

  I continue to believe that the only thing that could really change Washington is a balanced budget amendment, one that requires a supermajority in order to add additional debt. Not only would it force some sort of fiscal discipline, but it would also encourage bipartisanship: right now whatever party is in power can pretty much do what they want because they (effectively) control the printing press. Take that away, and I think you'd be surprised at what happens when people are forced to work with each other.