Vice Chairman Schweikert and Members of the Committee,

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

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

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

Last month, the Congressional Budget Office released its latest ten-year Budget and Economic Outlook, reinforcing the concerns of the Treasury report. Each of the next ten years, budget deficits are forecast to exceed $1.5 trillion, more than five percent of annual national output. As CBO says, "Since the Great Depression, deficits have exceeded that level only during and shortly after World War II, the 2007–2009 financial crisis, and the coronavirus pandemic." It is one thing to temporarily run a large deficit during a time of national crisis; it is unsustainable for deficits of this scale to be the norm.

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

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

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

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

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

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

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

What is striking about both examples is the amount of spending (including elements that Congress rejected) being conducted by the administration without congressional approval. As the ten-year CBO forecast notes, this Congress worked to reduce long-term deficits, the biggest reduction coming from the Fiscal Responsibility Act. Your efforts brought deficit projections down by $2.6 trillion over the next ten years. However, actions that CBO calls "technical changes" increased deficits by $1.1 trillion, largely stemming from unilateral actions taken by the administration. The largest was $428 billion arising from how the administration implemented energy related tax provisions. Congress must address unappropriated spending by requiring rules that have significant budgetary implications to be approved by Congress, by adopting a regulatory budget that the administration must comply with, and by furthering its congressional oversight to expose these unauthorized account transfers. Current practices by the Executive Branch are usurping the Congress' constitutional powers of the purse. Elements within the proposed REINS Act is one means by which Congress might reassert its fiscal authority.

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

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

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

The impact on the American people of higher debt is not limited to merely the potential for an economic depression or higher future taxes to cover these growing expenditures. Growing interest costs will likely crowd out funding for other government services. Additionally, mortgage rates paid by American home buyers directly result from long-term borrowing rates for the U.S. government. Since January 2021, 30-year fixed mortgage rates have risen from an average of 2.77% to 6.88%. This translates to a monthly principal and interest payment on a $250,000 mortgage rising from $1023 per month to $1643. The best way for us to improve access to home ownership for young people is to get interest rates back down, not to provide subsidies that cause housing unaffordability to worsen. Rather than government engaging in more spending, it must deploy fiscal and regulatory policies in ways that result in lower inflation and therefore lower interest rates. Congress and the President also bear responsibility, not just the Federal Reserve, in taking accountability for the inflation that has crushed household budgets over the last three years.

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