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June 5, 2026

The Honorable Jodey Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
204 Cannon House Office Building
Washington, DC 20515

Dear Representative Arrington:

Thank you for inviting the Joint Economic Committee (JEC) to provide views and estimates of the Budget of the U.S. Government for Fiscal Year 2027. Pursuant to Section 301(d) of the *Congressional Budget Act of 1974*, this letter transmits policy recommendations consistent with the goals of the *Employment Act of 1946*.

The JEC Republican staff provided me with their analysis. Their work can be summarized into the following points:

1. **The high and rising U.S. Federal debt is a levered bet on stability, which can unravel in two ways.** First, it is a bet on there being no crisis requiring substantial fiscal headroom in the upcoming decades, such as a significant military conflict or an economic calamity. Second, it is a bet on the future trajectory of interest rates relative to economic growth being favorable. If the winds blow favorably, the U.S. may be able to continue along its current fiscal path without major adjustments, with the debt-to-GDP ratio gradually rising to 130 percent in ten years by Treasury's estimates. But already at today's 100 percent debt-to-GDP ratio—and certainly at the forecasted 130 percent debt-to-GDP ratio—it is easy to imagine how the winds could blow unfavorably. If they do, the damage to the U.S. fiscal position and status as a world power could be catastrophic and irreversible.

2. **We should not discount the promise of greater economic growth, especially if pro-growth policies are enacted, of which there are many opportunities.** P.L. 119-21 (H.R. 1 in the 119th Congress, commonly known as the Working Families Tax Cuts) contains many effective pro-growth tax provisions, and the administration has been working tirelessly to dismantle burdensome regulations. However, recent legislative proposals are insufficiently pro-growth. Policymakers should redirect focus to transparently pro-growth reforms.

3. **We strongly encourage policymakers to act now by adopting pro-growth, fiscally sound policies to stabilize the debt-to-GDP ratio.** It is typically not feasible or ideal to cut spending abruptly, partly because doing so can depress the economy in the short run. By acting now, policymakers can bend the debt-to-GDP ratio trajectory so that in ten or twenty years it is stabilized, rather than continuing to escalate. We highlight reform proposals in Medicare, international taxation, and immigration. If adopted soon, these reforms would together yield about 40 percent of the needed fiscal adjustment to stabilize the debt-to-GDP ratio.

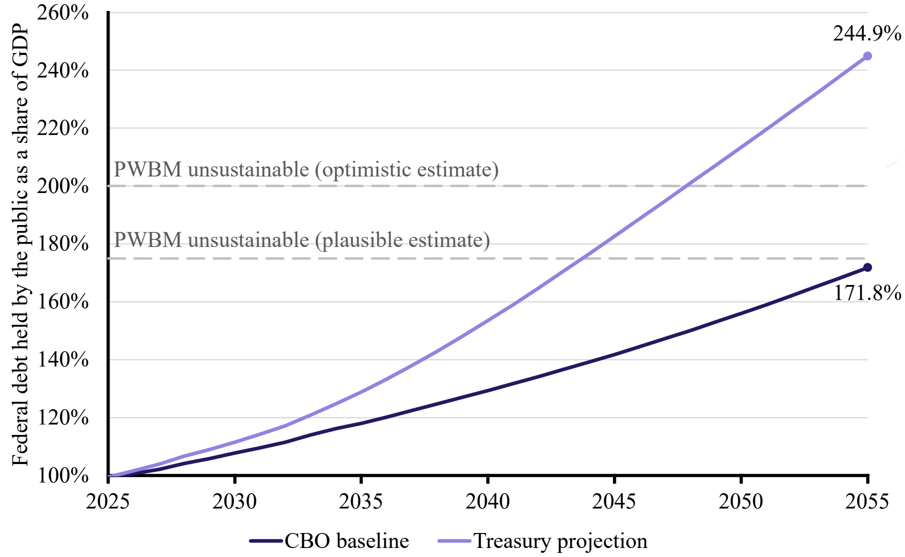
The high and rising Federal debt as a share of the economy

Figure 1 shows Treasury's and the Congressional Budget Office's (CBO's) projections of the Federal debt as a share of GDP. The Figure also highlights two estimates of the limits of the government's borrowing capacity as horizontal lines; these are discussed later in this letter. The Federal debt has recently reached 100 percent of gross domestic product (GDP)—i.e., the Federal debt is now the size of the economy's total annual output. CBO projects the debt held by the public will be 118 percent of GDP in by 2035, 142 percent by 2045, and will reach 172 percent by 2055. Treasury's projections are even more dire: 129 percent by 2035, 183 percent by 2045, and reaching 245 percent by 2055. CBO and Treasury make different assumptions in their forecasts; one difference is that Treasury uses a current policy baseline, whereas Congressional Budget Office uses a current law baseline. Treasury also gives more weight to certain negative factors in its projections. However, in both projections, the baseline "business as usual" fiscal path is that the Federal debt-to-GDP ratio grows exponentially, blowing past historical peaks.

We focus on the debt-to-GDP ratio because the absolute magnitude of the debt matters less than its size relative to the economy that must carry, finance, and adjust to it. For one, tax receipts—and thus the revenue capacity of the government to finance the debt—typically move proportionally to GDP, so a given debt level strains revenues in proportion to its share of the economy. Second, economists estimate that two negative effects of the debt—its drag on the economy via the crowding out of private investment, and the possibility of bond market unraveling—both depend on the size of the debt relative to the economy, rather than the absolute magnitude of the debt. Finally, we assume in this letter that the difficulty of fiscal adjustment also scales with the size of the economy: a $10 trillion adjustment is an easier proposition for a $60 trillion economy than for a $30 trillion one.

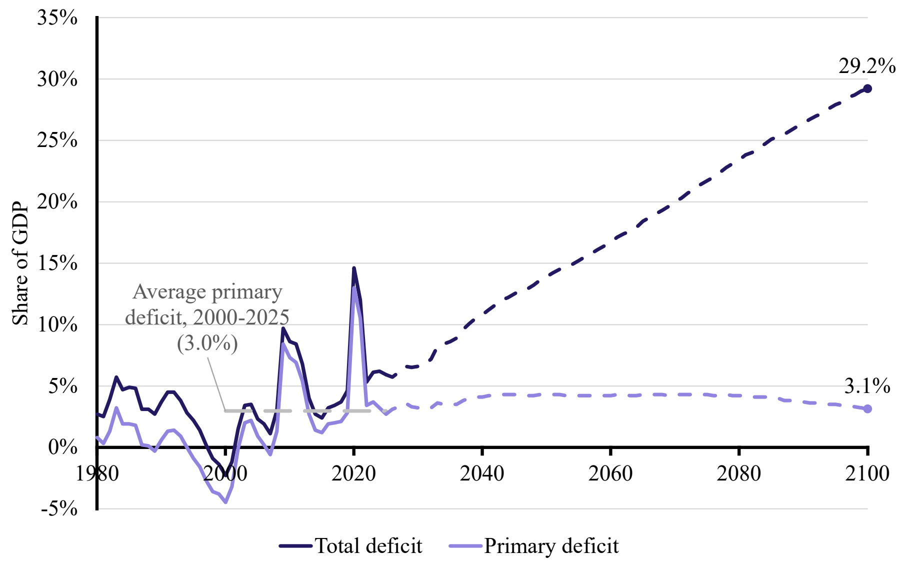
Figure 2 shows the Treasury's projections of the primary and total deficits as shares of GDP. The primary deficit is the total Federal deficit excluding net interest payments on the debt—i.e., the gap between non-interest spending and Federal revenues. An important takeaway from the figure is that while Treasury projects the total deficit (as a percent of GDP) to rise, the primary deficit is projected to stay bounded between 3 and 4 percent of GDP; as shown in the figure, this level is about the same as the average from 2000 to 2025.

Figure 1: The Unsustainable Fiscal Path



Source: Congressional Budget Office;[1] Penn Wharton Budget Model;[2] U.S. Treasury[3]

Figure 2: Treasury Projections of the Primary and Total Deficits



Source: U.S. Treasury[4]

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[1] Congressional Budget Office, *The Long-Term Budget Outlook Data: 2026 to 2056*, Table 2, https://www.cbo.gov/publication/62044.

[2] Jagadeesh Gokhale and Kent Smetters, "When Does Federal Debt Reach Unsustainable Levels?" Penn Wharton Budget Model, October 6, 2023, https://budgetmodel.wharton.upenn.edu/p/2023-10-06-when-does-federal-debt-reach-unsustainable-levels/.

[3] U.S. Department of the Treasury, Bureau of the Fiscal Service, Data for "Chart 9: Historical and Current Policy Projections for Debt Held by the Public 1980-2100," accessed June 3, 2026, https://fiscal.treasury.gov/accounting/us-financial-report/mda-unsustainable-fiscal-path.

[4] U.S. Department of the Treasury, Bureau of the Fiscal Service, Data for "Chart 8: Historical and Current Policy Projections for Receipts, Non-interest Spending, Net Interest, and Total Spending 1980-2100," accessed June 3, 2026, https://fiscal.treasury.gov/accounting/us-financial-report/mda-unsustainable-fiscal-path.

What would it take to stabilize the debt-to-GDP ratio?

It is critical to understand what it would take the stabilize the debt-to-GDP ratio, because being "locked into a debt spiral" could be the first step on the road to catastrophe. We are locked into a debt spiral when the size of the fiscal adjustment—decreases in spending plus increases in tax receipts—needed to stabilize the debt-to-GDP ratio is so large that there is no feasible path to stabilization using conventional policy reforms and policymaking processes. In such a case, correction will be forced through economically destructive policies or market reactions such as inflation, default, or financial repression. Naturally, then, we must keep a close eye on how large an adjustment would be needed to stabilize the debt-to-GDP ratio.

The Committee for a Responsible Federal Budget (CRFB) estimates that under current conditions a fiscal adjustment of about $9.5 trillion in the ten-year window would stabilize the debt-to-GDP ratio at its current level of about 100 percent.[5] In this letter, to focus analysis we start with the following ballpark estimate: to close the primary deficit, which is approximately 3 percent of GDP and expected to stay essentially stable (Figure 2), we need to make a ten-year adjustment of about $3\% \times 30.77\ (2025\ \text{GDP}) \times 10\ \text{years} \approx \$9.2$ trillion. The actual amount of fiscal adjustment needed to stabilize the debt-to-GDP ratio depends on several factors, including interest rates, economic growth rates, whether the ten-year window adjustment is front-loaded or back-loaded, and the exact path of the primary deficit. But as a matter of magnitudes, it is reasonable to start with this $9.2 trillion adjustment estimate for primary deficit closure and consider sensitivity to relevant factors.

In any case, these are magnitudes of adjustment virtually absent from current policy debates. Later in this letter, we present reform proposals in Medicare, international taxation, and immigration that would together yield about 40 percent of the needed adjustment, or about $3.6 trillion in a ten-year window. While these alone would be unlikely to stabilize the debt-to-GDP ratio, they would begin to bend the trajectory. Given the long phase-in periods that significant fiscal adjustments require, they must be enacted soon to take effect before the debt reaches more dangerous levels.

If we wait, how could the needed adjustment change? In general, the condition to stabilize the debt-to-GDP ratio requires the primary deficit, as a percent of GDP, to satisfy the following equation,

$$\begin{aligned}&\text{Required primary deficit to stabilize the debt-to-GDP ratio (\% of GDP)}\\&\qquad= (\text{real GDP growth rate} - \text{real interest rate}) \times (\text{debt-to-GDP ratio})\end{aligned}$$

When the interest rate equals the growth rate, the stabilization condition reduces to closing the primary deficit—which, as discussed, we have estimated to need about a $9.2 trillion adjustment in the ten-year window.

[5] Committee for a Responsible Federal Budget, "The Case for a 3% of GDP Deficit Target," May 4, 2026, https://www.crfb.org/papers/case-3-gdp-deficit-target. CRFB calls for a larger $10 trillion fiscal adjustment for their 3 percent deficit-to-GDP target—also in the same ballpark as the other estimates.

However, according to the equation, if the interest rate exceeds the growth rate, *more* adjustment than closing the primary deficit would be needed. Because stability requires satisfying this condition on average over a period of time, what matters are the typical levels of these values going forward. We can look to history for illustrative values. Table 1 illustrates the difference, growth minus real 10-year Treasury yield, for two selected periods.[6] In the 2010s, this difference was about 1.6 percentage points, on average, meaning over this period, the U.S. could run some primary deficits and still not increase the debt-to-GDP ratio. The U.S. ran sufficiently large primary deficits over this period that the debt-to-GDP ratio nevertheless increased. By contrast, in the 1980s, this gap was -1.9 percentage points, so a primary *surplus* would have been needed to stabilize the debt-to-GDP ratio.

Table 1: Real GDP Growth Rates, Real 10-Year Treasury Yields, and their Difference, for Selected Periods

	(A) Real GDP growth rate (compound annual)	(B) Real 10-year Treasury yield	(C) Real average Treasury yield	Difference A – B (A – C)
2010s (2010-2019)	2.24%	0.64%	0.77%	1.6 (1.5)
1980s (1980-1989)	3.19%	5.04%	4.37%	-1.9 (-1.2)

Source: Board of Governors of the Federal Reserve System;[7] Bureau of Economic Analysis;[8] Bureau of Labor Statistics;[9] U.S. Treasury[10]

Over the past two decades, the real GDP growth rate has generally exceeded the real Treasury yield, implying that some primary deficit could be borne without increasing the debt-to-GDP ratio. On the other hand, Treasury rates have risen substantially in the past few years. Because there is momentum in Treasury rates, as prior debt is rolled over at new rates, the current average rate is below the marginal rate. CBO projects that, going forward, the interest rate will exceed the growth rate. Under a somewhat rosy assumption that the real rate of growth would be about equal to the real interest rate going forward, neutralizing the primary deficit is sufficient to stabilize the debt-to-GDP ratio. The Treasury forecast in Figure 2 suggests that the primary deficit as a share of the economy will be stable. Thus, under these rosy but not inconceivable conditions, the *same* adjustment (relative to the size of the economy) to stabilize would be needed in ten years as would be needed today. This may lead some observers to believe that there is no problem with waiting.

But this reasoning is faulty. The crux of the matter is that at a higher debt-to-GDP ratio, downside risks are amplified. At a 100 percent debt-to-GDP ratio, downside risks are already

[6] The difference growth minus the real average Treasury yield is also displayed in parenthesis. We use the 10-year Treasury yield as a proxy for the effective rate on federal debt, which is in practice a broader weighted average over all maturities. These rates are closely related.

[7] U.S. Board of Governors of the Federal Reserve System, "Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis" [GS-10], Federal Reserve Bank of St. Louis, updated June 1, 2026, https://fred.stlouisfed.org/series/GS10.

[8] U.S. Bureau of Economic Analysis, "Real Gross Domestic Product" [GDPC1], Federal Reserve Bank of St. Louis, updated May 28, 2026, https://fred.stlouisfed.org/series/GDPC1.

[9] U.S. Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average" [CPIAUCSL], Federal Reserve Bank of St. Louis, updated May 12, 2026, https://fred.stlouisfed.org/series/CPIAUCSL.

[10] U.S. Department of the Treasury, "Public Debt Average Interest Rate: Interest-Bearing Debt (%)" [PDIR@GOVFIN], Haver Analytics, updated May 6, 2026.

large. And at a 130 percent debt-to-GDP ratio, where Treasury forecasts the ratio will be in ten years *assuming the stable, baseline path*, those risks will be dramatically amplified. We explain why in the next two sections.

The looming threat of bond market unraveling

Why would the Federal government eventually be forced to stabilize the debt-to-GDP ratio? Why couldn't the Federal government keep accumulating greater debt, sustaining a rising debt-to-GDP ratio forever?

Debt sustainability rests on the holders of Treasuries continuing to believe that the Federal government will make good on its debt repayment.[11] Because U.S. debt is denominated in dollars, "repayment" means two things together: handing back the contracted number of dollars, and those dollars holding their value rather than being eroded by inflation. *Unraveling* occurs when investors lose confidence in repayment. Such unraveling would lead to an immediate increase in interest rates, which would in turn further cement investors pessimism—a vicious cycle.

Economists at Penn Wharton Budget Model (PWBM) have carefully modeled financial markets and are able to provide plausible *upper bound* estimates of when unraveling would occur. In Figure 1, we plot the PWBM threshold estimates from 2023: they estimate most plausibly that the debt will become unsustainable at 175 percent of debt-to-GDP, and even under their most optimistic assumptions on financial markets, 200 percent debt-to-GDP is the maximum we should consider sustainable. Treasury's estimates suggest we will be reaching these thresholds in the 2040s simply from secular growth in the Federal debt.

It is important to keep in mind that no one knows exactly where these thresholds are, PWBM is merely providing plausible upper-bound estimates.[12] The precise number is unknowable and may be lower. Borrowing near this range is like walking toward a cliff in the dark: we know it is there, we cannot see the edge, and we will discover where it is only by reaching it.

The Federal debt is a levered bet

Having described debt projections, what it would take to stabilize the debt-to-GDP ratio, and the dire consequences if bond markets lose faith in repayment, we turn to our main argument—*the Federal debt is a levered bet*. This makes it unfortunately easy to underappreciate the problem. As we have described, along a stable path, the U.S. can very likely continue to borrow at current rates for a decade or more. But every year that the rising Federal debt trajectory is not addressed, the U.S. is accumulating even more leverage. As with any leverage, under stable—some might say rosy—conditions, there is likely to be no apparent problem. But the leverage acts to amplify

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[11] Jagadeesh Gokhale and Kent Smetters, "When does Federal Debt Reach Unsustainable Levels?" Penn Wharton Budget Model, October 6, 2023, https://budgetmodel.wharton.upenn.edu/issues/2023/10/6/when-does-federal-debt-reach-unsustainable-levels.

[12] Highlighting this uncertainty, in preliminary analyses (unpublished at the time of this writing), PWBM estimates a new upper bound of 210 percent debt-to-GDP, increased partly due to higher equity values. It is also important to note that their model includes the government's *implicit debt* (e.g., statutory promises for future payments that do not show up as Treasury borrowing today) which we do not discuss in this letter. Large implicit debt is part of the reason why the U.S. cannot plausibly sustain Japan-level explicit debt-to-GDP ratios.

negative shocks. Already at today's levels of debt, it is possible to imagine shocks that would be catastrophic. We describe two: a crisis requiring fiscal mobilization, or an adverse turn in interest rates relative to economic growth. And in ten years, along current projections, it becomes frighteningly easy to imagine these scenarios.

Downside risk #1: A crisis that requires fiscal mobilization

In the last two decades, there have been two crises that led to fiscal mobilization. Given recent presidential requests for additional military spending—which could amount to an additional $4 trillion in the ten-year window if sustained—ongoing international conflicts could amount to a third.[13] There is the possibility of an "AI bubble," or substantial labor displacement due to AI, both of which could motivate more Federal spending.[14] The fact that there is a level of debt at which bond markets unravel means that the amount of fiscal headroom available to the Federal government is finite. This presents a national security concern that may not be obvious today but will become acute within ten to fifteen years.

Consider Figure 3.[15] The debt-to-GDP ratio jumps during crises: most notably World War II (a 69 percentage point jump), but more recently during the 2008 great financial crisis (GFC) and Great Recession (a 41 percentage point jump) and the COVID-19 pandemic (a 20 percentage point jump). The enormous debts incurred during these crises remind us how much spending mounting a Federal response can necessitate.

Using 175 percent as a plausible threshold for bond market unraveling, based on PWBM estimates, Figure 4 forecasts U.S. "fiscal headroom" based on Treasury debt-to-GDP ratio projections, that is, the figure displays 175 percent minus the projected debt-to-GDP ratio. By 2028, World War II level spending would be unsustainable, as by taking on that much debt, the debt-to-GDP ratio would approach 175 percent.[16] By 2037, financial crisis spending would be unsustainable; and by 2041, pandemic-level deficit spending would also be unsustainable. In short, as the debt-to-GDP ratio increases, crucial spending options to respond to crises are evaporating.

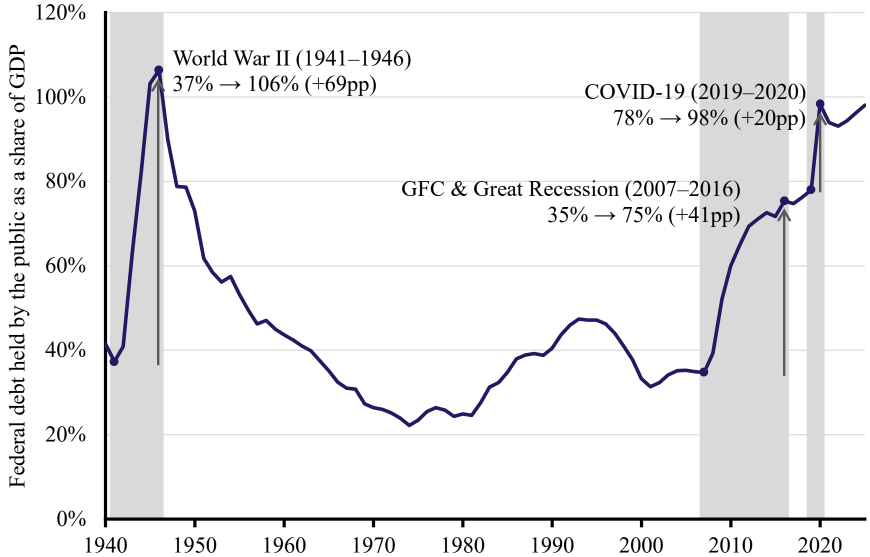
[13] U.S. Department of War, "Department of War Releases the President's Fiscal Year 2027 Budget," April 21, 2026, https://www.war.gov/News/Releases/Release/Article/4466038/department-of-war-releases-the-presidents-fiscal-year-2027-budget/.

[14] On the possibility of an AI bubble, see Jonathan Weil, "Is the Flurry of Circular AI deals a Win-Win or Sign of a Bubble?" *Wall Street Journal*, October 22, 2025, https://www.wsj.com/tech/ai/is-the-flurry-of-circular-ai-deals-a-win-winor-sign-of-a-bubble-8a2d70c5. On the labor market displacement possibilities and fiscal costs, see The Budget Lab, "what Might AI Adoption Mean for the Fiscal and Economic Outlook?" updated May 19, 2026, https://budgetlab.yale.edu/research/what-might-ai-adoption-mean-fiscal-and-economic-outlook. For a critical view of AI's potential net fiscal impact, see Mark J. Warshawsky, "Can AI Avert the Impending Federal Budget Crisis?" American Enterprise Institute, May 26, 2026, https://www.aei.org/op-eds/can-ai-avert-the-impending-federal-budget-crisis/. Even in the optimistic case, how much of a positive net fiscal impact AI would have is unclear.

[15] Note that the shading in Figure 3 highlights our definition of pre-vs-post crisis; shading does *not* represent recessions.

[16] In this discussion, we abstract away from the length of time over which the spending increase occurs and assume the crisis spending occurs in a single year.

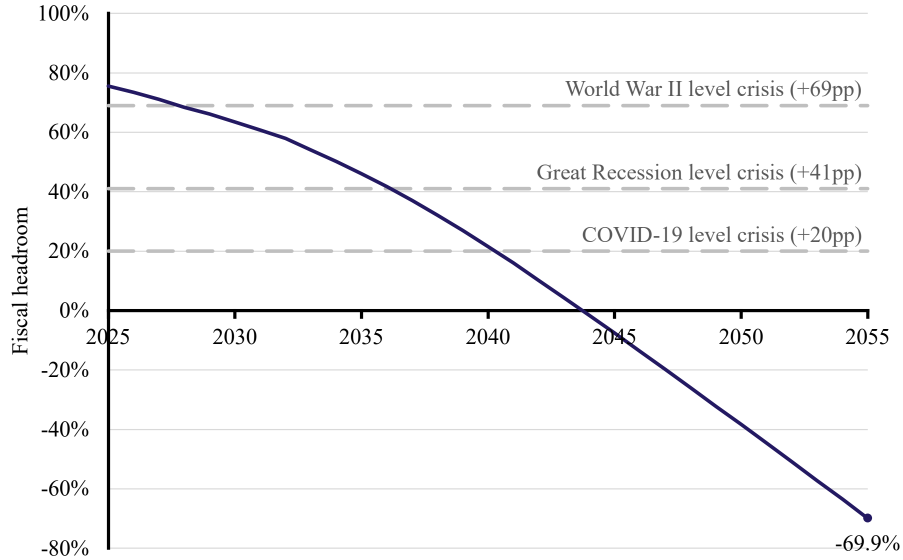
Figure 3: Spikes in Federal Debt Held by the Public



Source: Office of Management and Budget;[17] JEC calculations

[17] Office of Management and Budget, "Gross Federal Debt Held by the Public as a Percent of Gross Domestic Product" [FYPUGDA188S], Federal Reserve Bank of St. Louis, updated April 13, 2026, https://fred.stlouisfed.org/series/FYPUGDA188S.

Figure 4: Fiscal Headroom based on Treasury Projections and 175 Percent Sustainable Maximum



Source: JEC calculations[18]

Downside risk #2: Interest rate fragility—i.e., an adverse turn in interest rates relative to economic growth

Using simple math, earlier in this letter we estimated that about a $9.2 trillion ten-year fiscal adjustment would be needed to neutralize the primary deficit. This would stabilize the debt-to-GDP ratio so long as the real growth rate and the real interest rate stay near each other. This is a strong assumption, and CBO already forecasts that the gap between the growth rate and interest rates will move somewhat adversely to stabilizing the debt-to-GDP ratio.[19]

But it is important to recognize the *leverage* problem: the greater the country's debt-to-GDP ratio, the more sensitive is the adjustment needed to the *assumption* that the gap between growth and interest rates stays small. At higher debt-to-GDP ratios, interest rate fragility can turn a moderately more challenging fiscal adjustment into an impossible task. That is, the larger the debt-to-GDP ratio, the more an adverse turn in interest rates relative to growth rates can potentially lock the fiscal trajectory into a debt spiral.

To see this, consider Figure 5, which shows our estimated adjustment needed to stabilize the debt-to-GDP ratio, with different levels of debt-to-GDP ratio and different gaps between growth rates and interest rates. The adjustment curve rotates as the debt-to-GDP ratio increases. If growth rates and interest rates are about equal, then the effective adjustment needed would be near $9.2 trillion in the ten-year window, as we had estimated earlier—that is what is needed to close the primary deficit. But risk lies on the left side of the plot. An adverse turn occurs when interest rates rise and/or growth rates soften. For example, consider the highlighted case of a -1.9 percentage point gap opening up between growth rates and interest rates, e.g. a real interest rate

[18] "Fiscal headroom" is calculated as 175 percent minus the Treasury projected debt-to-GDP ratio from Figure 1.
[19] Congressional Budget Office, *The Long-Term Budget Outlook Data: 2026 to 2056*, "Long-Term Economic Projections," Table 12, https://www.cbo.gov/publication/62044.

of 3.8 percent and a real growth rate of 1.9 percent. This is comparable to the gaps that occurred in the 1980s (recall Table 1). *If* we currently had a low debt-to-GDP ratio, say 50 percent, this would have a muted effect on the adjustment needed—in terms of today's budget, it would rise from the $9.2 trillion (i.e., closing the primary deficit) to $12 trillion (i.e., some primary surplus would be needed).[20] But instead, we have a 100 percent debt-to-GDP ratio, so the adjustment needed would rise to $15 trillion. And now look at the curve at 130 percent debt-to-GDP, which Treasury forecasts will be reached in a decade. Under those conditions, the adjustment needed would rise to $17 trillion. If a $9.2 trillion adjustment is challenging, a $17 trillion adjustment could very well be impossible.

Locking in a debt spiral means running out of conventional policy options to stabilize the debt-to-GDP ratio. We run out of such options when the fiscal adjustment needed grows larger than the feasible policy options. Along the baseline projection, many modelers assume the relatively benign baseline scenario where the interest rate does not rise that much above the economic growth rate. This hides the tail risk of a substantial adverse turn in interest rates—*interest rate fragility*—which can lead to a debt spiral lock in, especially as the debt-to-GDP ratio rises. In other words, the baseline projections hide the fact that the *Federal debt is a levered bet*, and its growth implies that downside shocks switch from being manageable to being potentially catastrophic.

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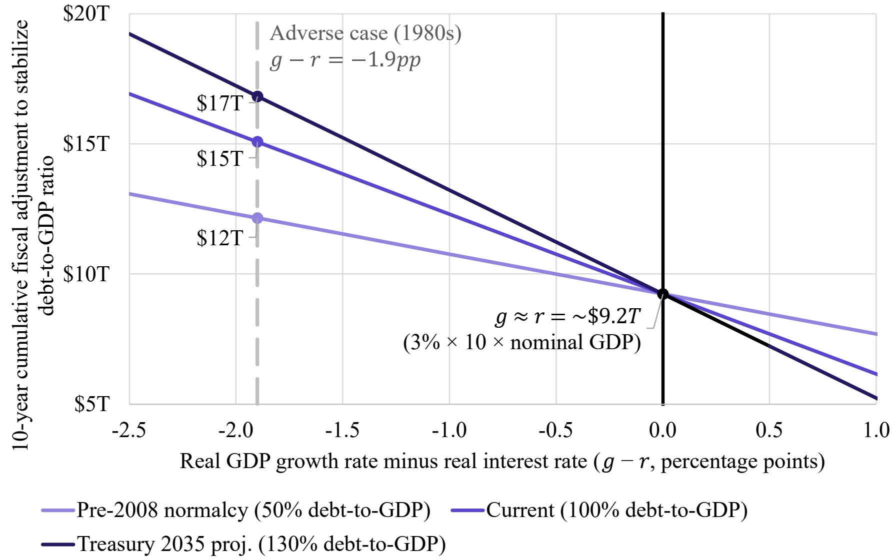
[20] By "in terms of today's budget," we mean that the new adjustment needed would be analogous to a $12 trillion fiscal adjustment over the ten-year window *today.* More specifically, under a 50 percent debt-to-GDP ratio, the adverse case increases the necessary adjustment relative to the size of the economy from 3 percent of GDP (closing the primary deficit) to 4 percent of GDP, which multiplied by today's GDP and sustained over ten years, is $12 trillion. Under a 100 percent debt-to-GDP ratio, the adjustment needed would be 5 percent of GDP sustained over ten years, or a $15 trillion adjustment in today's terms. The economy in ten years would be larger, and so the fiscal adjustment in ten years would be larger in both nominal and real dollars, but we express the adjustment in terms of today's budget so that the magnitudes can be compared to contemporary policy proposals.

Figure 5: Estimated 10-Year Fiscal Adjustment Needed to Stabilize Debt-to-GDP Ratio Under Different Assumptions



Source: JEC calculations

The promise of economic growth—and how to unleash it

Faster economic growth is among the most powerful levers available for improving the fiscal outlook. The President's Budget makes the point starkly. In its analysis of the budget, the CRFB finds that the Administration's assumption of roughly 3 percent average annual real growth is by itself enough to bend the debt curve downward: debt held by the public peaks near 103 percent of GDP in 2029 and then falls to about 94 percent by 2036.[21] The President's Budget partly attributes these higher growth assumptions to "implementation of the Administration's proposed policies such as deregulation, energy abundance, reindustrialization, etc."[22]

Smarter regulation could substantially unleash private sector investment and innovation, leading to meaningful increases in economic growth. There is rigorous economics research to support this, with estimates suggesting that regulatory accumulation has slowed U.S. growth by roughly 0.8 percentage points per year since 1980, leaving the economy nearly 25 percent smaller by 2012 than it would otherwise have been.[23] More recent work exploiting differences in regulation across states echoes these results.[24]

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[21] Committee for a Responsible Federal Budget, "An Overview of the President's FY 2027 Budget," April 3, 2026, https://www.crfb.org/blogs/overview-presidents-fy-2027-budget.

[22] Office of Management and Budget, "Economic Assumptions," chap. 1 in *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2027* (U.S. Government Publishing Office, 2022), https://www.whitehouse.gov/omb/information-resources/budget/analytical-perspectives/.

[23] Bentley Coffey et al., "The Cumulative Cost of Regulations," *Review of Economic Dynamics* 38 (2020): 1–21, https://doi.org/10.1016/j.red.2020.03.004; *Barriers to Supply Chain Modernization and Factor Productivity Enhancements, Before the U.S. Congress Joint Economic Committee,* 119th Cong. (2025) (statement of Dr. Patrick A. McLaughlin, Research Fellow, Hoover Institution), https://www.jec.senate.gov/public/_cache/files/2934db7f-fb68-42f7-a4e5-1d5101352268/dr.-mclaughlin-testimony.pdf.

[24] Patrick A. McLaughlin and John T.H. Wong, "The Causal Effect of Regulations on Economic Growth: Evidence from the US States," working paper (SSRN, March 1, 2025), https://dx.doi.org/10.2139/ssrn.5191651. The authors find that a 10 percent increase in regulatory restrictions reduces GDP growth by 0.37 percentage point.

This discussion establishes the stakes: if growth can be increased, perhaps through smarter regulation, the fiscal challenge becomes far more manageable. There have been two especially bright spots in recent Federal policymaking. But two recent policies moving through the pipeline have revealed cracks in the pro-growth agenda.

The first bright spot is P.L. 119-21. Many of the pro-growth provisions of the *2017 Tax Cuts and Jobs Act* (TCJA) were set to expire at the end of 2025, which would have produced one of the largest tax increases in American history. P.L. 119-21 headed that off, delivering an average of $3,818 in tax relief per taxpayer in 2026 and a present value of $25,413 in relief through 2035.[25] Importantly, the law made many of the expiring TCJA provisions permanent, and businesses are more likely to commit to large, irreversible investments when the tax treatment of those investments is stable rather than uncertain. Beyond averting the hike, P.L. 119-21 extended and expanded a set of provisions that directly lower the cost of domestic investment and innovation—restoring immediate expensing of domestic research and experimental costs, extending full expensing for equipment, adding expensing for certain domestic manufacturing structures, and broadening the Qualified Small Business Stock exclusion that supports market entrants. Taken together, the law tilted after-tax returns in favor of R&D, capital investment, and startups, all factors that drive long-run growth.

The second bright spot is the Administration's deregulatory agenda. The Administration has a track record of deregulation. In Trump's first term, the stock of Federal regulatory restrictions tracked by RegData posted an outright decline in 2019 for the first time since 1996.[26] In its second term, the Administration is moving in the deregulatory direction even faster: Executive Order 14192, "Unleashing Prosperity Through Deregulation," took the first term's two-for-one rule and ratcheted it up to a ten-for-one requirement, directing agencies to identify ten regulations for repeal for every new one they issue.[27] Also, the Office of Information and Regulatory Affairs has reoriented the rulemaking process, with tougher, slower scrutiny for new regulations, paired with a faster track for removing old ones.[28] Analysis of the effects of these changes and the economic growth payoff will take time, but the Administration's deregulatory push is strong and unambiguous.

Unfortunately, recent bills moving through Congress reveal cracks in the pro-growth agenda. The most prominent is the Federal housing package, the *21st Century ROAD to Housing Act*, which bars large institutional investors who own 350 or more single-family homes from buying more. In an earlier version of the bill, this investor ban would have directly restricted the build-to-rent sector. The version most recently passed in the House may have stripped enough of these provisions to come out net-positive for housing supply, or it may not. But effort and time should not be wasted on reforms that are "maybe, maybe not."

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[25] These calculations discount 2026–2035 reductions to 2026 at a 5 percent annual rate. Garrett Watson, "US Taxpayers to See a Nearly $2,300 Average Tax Cut in 2026 Under the Big Beautiful Bill," Tax Foundation, March 6, 2026, https://taxfoundation.org/data/all/federal/obbba-average-tax-cuts-impact-map/.

[26] QuantGov, "Regulatory Growth and Accumulation," accessed June 3, 2026, https://www.quantgov.org/federal-regulatory-growth.

[27] The White House, "Unleashing Prosperity Through Deregulation," January 31, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/unleashing-prosperity-through-deregulation/.

[28] Finn Dobkin et al., "2025 Regulatory Year in Review," George Washington University – Regulatory Studies Center, January 20, 2026, https://regulatorystudies.columbian.gwu.edu/2025-regulatory-year-review.

As another example, Congress is poised to write a Federal two-person crew mandate for freight trains into law through the *Railway Safety Act*, now attached to the surface transportation reauthorization.[29] It appears this crew mandate's primary effect is featherbedding, locking in employment levels by statute, regardless of route, traffic, or available technology. If Federal law will mandate two people—not one—in the cab of a freight train, what does that herald for the self-driving car? Congress should instead focus on transparently smarter regulations, not enacting employment minimums.

Fiscal reforms: what we have accomplished (a lot), what we must do (a lot more)

P.L. 119-21 delivered two meaningful spending reductions. The left side of Figure 6 shows the fiscal savings, the larger of which was in Medicaid. The CRFB estimates P.L. 119-21's Medicaid provisions will reduce Federal outlays by approximately $1.2 trillion over the next ten years.[30] Medicaid spending continues to grow over the window—these are reductions against a rising baseline, not absolute cuts—but these reforms begin to bend the program's trajectory toward sustainability. The second reduction was in the Supplemental Nutrition Assistance Program (SNAP), where P.L. 119-21 is estimated to lower Federal spending by about $186 billion over ten years.

It is important to recognize that both of these fiscal reforms were phased in over a window. Delaying savings from fiscal adjustment has a long history. The Social Security reforms of the 1980s took decades to phase-in. On the other side of the ledger, pro-growth deregulatory and economic policies will take time to have a positive impact. Practically speaking, fiscal change will need to occur over a window. This is partly why policy reforms must be made soon to stabilize the debt trajectory.

Together, these reforms represent nearly $1.4 trillion in ten-year savings—a genuine achievement, and among the most significant spending restraint enacted in years. But measured against the roughly $9.2 trillion adjustment needed to stabilize the debt-to-GDP ratio (under favorable economic conditions), they are not enough. Indeed, stabilizing the fiscal trajectory will require reforming programs P.L. 119-21 left untouched, including Medicare.

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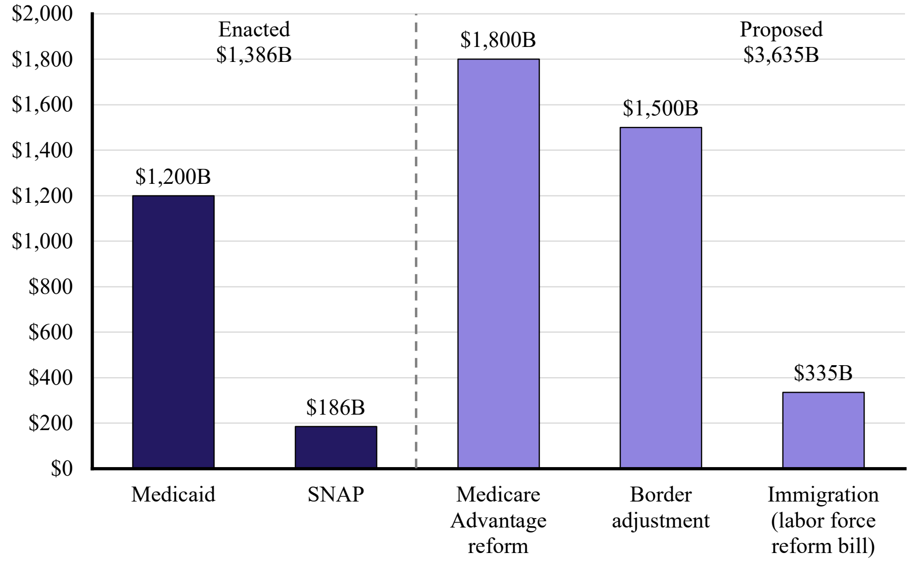
[29] Kristian Stout, "The Wrong Track: How the Railway Safety Act Risks Derailing Innovation," International Center for Law and Economics, May 4, 2026, https://laweconcenter.org/resources/the-wrong-track-how-the-railway-safety-act-risks-derailing-innovation/.

[30] Committee for a Responsible Federal Budget, "CBO Projects High Federal Health Program Costs," February 25, 2026, https://www.crfb.org/blogs/cbo-projects-high-federal-health-program-costs.

Figure 6: Net 10-Year Fiscal Impacts of Selected Policy Reforms



Source: Committee for a Responsible Federal Budget;[31] Congressional Budget Office;[32] JEC calculations

We propose three reforms that would reduce deficits. The right side of Figure 6 shows the fiscal savings (spending decreases plus revenue increases) from our proposals.

Medicare Advantage reform. Reform of the Medicare program, and of Medicare Advantage in particular, is among the most consequential steps available to improve the fiscal outlook. Medicare beneficiaries may enroll in traditional fee-for-service Medicare or in a privately administered Medicare Advantage (MA) plan, and MA has grown rapidly—today it covers 55 percent of all beneficiaries. Unlike traditional Medicare, MA plans are paid a risk-adjusted capitated rate, a design intended to deliver the same care at lower cost. However, flawed payment policies and excessive coding practices combined with insufficient enforcement and Federal inaction have driven up costs. Instead of delivering the intended savings, MA beneficiaries are now estimated to cost roughly 14 percent more than they would under traditional Medicare—an estimated $76 billion in excess Federal spending in 2025 alone. Realigning MA incentives is the basis of H.R. 3467, the *Better Medicare Act*. We estimate the bill would reduce Federal spending by approximately $1.8 trillion over ten years by addressing the underlying drivers of overpayment.

Border adjustment. A border adjustment taxes business income according to where products are sold rather than where they are produced—excluding export receipts from the tax base and disallowing deductions for imports.[33] Because the United States runs a large trade deficit, with imports exceeding exports by roughly $1 trillion last year, applying this treatment at the 21

[31] Committee for a Responsible Federal Budget, "CBO Projects High Federal Health Program Costs."
[32] Congressional Budget Office, *Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline,* Title I, https://www.cbo.gov/publication/61570.
[33] For further details, see U.S. Congress Joint Economic Committee, "JEC Brief Outlines Economic Benefits of Border Adjustment Reforms for American Consumers and Businesses," March 11, 2026, https://www.jec.senate.gov/public/index.cfm/republicans/2026/3/jec-brief-outlines-economic-benefits-of-border-adjustment-reforms-for-american-consumers-and-businesses.

percent corporate rate raises substantial net revenue. We estimate this could increase revenues by approximately $1.5 trillion over ten years.

Immigration reform. An aging population and a shrinking pool of young workers are draining the labor force the economy needs to grow and service its debt. High-skilled immigration is the fastest available offset. Yet the United States currently allocates employment-based visas largely by queue position—first to apply, first admitted—rather than by expected economic contribution. Reordering admissions toward higher-producing applicants would raise the fiscal return on every visa granted. An approach to consider is reforming the existing employment-based categories and family-based visa quotas with a points-based, industry-targeted framework. We estimate that such a reform could have a net fiscal benefit of $335 billion over ten years, and $1.34 trillion over twenty, assuming total annual immigration is held at current levels.

Concluding thoughts

There is great uncertainty about when and how the debt will switch from sustainable, business-as-usual, to an unsustainable, market-unraveling nightmare. It is better not to find out. Every year we wait to change course increases leverage, and the higher the debt-to-GDP ratio the easier it is for bad headwinds—such as crisis spending or interest rate fragility—to lock us into a debt spiral. In short, allowing the debt burden to increase is a *levered bet*, and the downside risks are already enormous.

I have highlighted fiscal reforms that would bring us about 40 percent of the way to stability of the debt-to-GDP ratio. While there is strong potential for increasing economic growth as a partial solution, we should not count on growth alone to address our fiscal problems. Moreover, while there is much to celebrate, especially in P.L. 119-21 and smarter regulation, some recent bills moving through Congress reveal cracks in the pro-growth agenda. Congress should focus on transparently pro-growth reforms. To give a few examples, smart adoption of Federal land sales, reforms of the *Jones Act*, and policy related to port automation could all be transparently pro-growth.

The staff of the Joint Economic Committee continue to advise on policy reforms that are pro-growth and fiscally sound, consistent with the goals of the *Employment Act of 1946.* Through wise policy change, we can improve the U.S.'s fiscal health and encourage economic prosperity.

Sincerely,

Representative David Schweikert
Chairman
Joint Economic Committee