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Testimony Before the Senate Budget Committee
Hearing on "The Rich Get Richer, Deficits Get Bigger: How Tax Cuts for the Wealthy and Corporations Drive the National Debt"
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Chairman Whitehouse, Ranking Member Grassley, Members of the Committee, thank you very much for inviting me to testify before you.

It is with enormous happiness that I come here today, having served as a staff member for six and a half years on this committee, under both Senator Murray and Senator Sanders. I am currently the senior director of Federal Budget Policy at the Center for American Progress, working to ensure the federal budget prioritizes policies that help the most vulnerable people. Prior to joining American Progress, I served in the Biden-Harris White House as adviser to the director of the Office of Management and Budget, where I assisted with the American Rescue Plan and the Inflation Reduction Act, as well as the president's budget requests, budget concepts, and budget scorekeeping.

Today, I hope to leave you with two main points.

First: without the Bush tax cuts, their extensions, and the Trump tax cuts, which gave a disproportionate share of their benefit to the rich, the ratio of debt to gross domestic product (GDP) would be declining indefinitely.[ii]

Second: our current rising debt ratio is due entirely to these tax cuts, not spending increases.[iii]

This testimony will focus on stabilization of the ratio of debt as a percent of the gross domestic product because debt is a non-issue if GDP grows faster. All else being equal, a shrinking debt-to-GDP ratio means a shrinking interest-to-GDP ratio. In other words, the cost of financing our debt would shrink as a percent of GDP if the debt itself shrank as a percent of GDP.

This testimony will also focus on "primary" spending and "primary" deficits – that is, spending and deficits not counting interest payments – for two reasons. The policy reason is that interest costs result from the federal debt, which grows with the annual deficit – and the annual deficit is a function of this year's revenues, this year's program spending, and interest on outstanding debt. In short, interest is just as much a result of tax policy as spending policy. The analytical reason is that budgeteers look at the trajectory of debt (and deficits) relative to the size of the economy – i.e., at the ratio of debt to GDP. As explained by Professor Alan Auerbach in the 1990s[iv], the calculation of the trajectory of the debt ratio depends on four factors: the primary deficit as a percent of GDP, the starting level of the debt as a percent of GDP, the Treasury's interest rate, and the GDP growth rate. His algebra shows, for example, that if the Treasury's interest rate equals the GDP growth rate, then a primary deficit of zero will keep the debt ratio constant even though the total budget, including interest, is running a deficit. That's why the Congressional Budget Office (CBO) focuses on the primary deficit when considering the trajectory of debt.[v]

The Long-Term Debt Ratio Used To Be Stable, Despite Rising Spending

According to CBO's February 2023 budget outlook, primary deficits are on track to rise from their current level of roughly 3% of GDP, stabilizing at roughly 4% of GDP over the next 30 years.[vi] These high primary deficits are projected to cause debt as a percent of GDP to rise every year in CBO's 30-year baseline.[vii]

The common refrain that you will hear, that I heard when I served as a staff member on this committee, and unfortunately that I expect to hear today, is that our long-term rising debt ratio is due to spending that grows faster than GDP. After all, relative to GDP, revenues have been roughly flat since the 1960s.[viii] And while primary spending was also roughly flat as a percent of GDP until recently, demographic changes and rising health care costs are now pushing up primary spending.[ix] These facts are true. And they also appeal to our natural intuitions. One might reasonably think that, because debt stabilization is primarily a factor of our primary spending compared with our revenue, and one of those has stayed the same while the other has changed, the one changing must be to blame for the rising debt ratio.

But our natural intuitions are wrong, as my testimony today will show.

Earlier in the 21st century, demographic changes were looming, and health care costs were growing – in fact, at a faster pace than they are today[x], with our current growth slower in part thanks to the success of the Affordable Care Act.[xi] CBO in its long-term budget outlooks projected primary spending to rise as a percent of GDP. Despite this, CBO's forecasts showed long-term debt stability for decades into the future, because revenues were projected to keep up with this rising spending due to real economic growth moving a portion of taxable incomes into higher tax brackets[xii] – not due to tax increases, but due to our tax code bringing in more as our country and the people in it prospered; that prosperity results in both higher revenue collection and higher real after-tax income for the people whose incomes are growing.[xiii] It's a win-win. In other words, we had a tax system that, as it stood, would fully keep pace with rising spending.

The Passage Of The Bush Tax Cuts, Their Bipartisan Extensions, And The Trump Tax Cuts

And then the Bush tax cuts were enacted and expanded.

Under the rules of reconciliation, a title of the reconciliation bill may not cause long-term deficits in any year outside the budget window, which is almost always 10 years.[xiv] Because of this, Congress sunset the Bush tax cuts at the end of ten years. On a bipartisan basis, these tax cuts were extended for two years in 2010 and then largely made permanent in the beginning of 2013[xv], two days after they had expired.[xvi]

Under the law setting forth baseline construction, which CBO and the Office of Management and Budget strive to follow, temporary changes in tax law are assumed to end as scheduled or go into effect as scheduled.[xvii] In practice, what this meant is that CBO's projections showed the Bush tax cuts ending on schedule, with the tax code then reverting to prior law. 2012 was therefore the last year in which CBO's projections reflected the Bush tax cuts expiring.[xviii] In the long-term budget outlook produced that year, CBO projected primary spending rising over the long run, just as it had in previous projections.[xix]

Importantly, CBO showed revenues exceeding that primary spending for all 65 years of its extended baseline.[xx] With these primary surpluses continuing indefinitely, CBO showed debt as a percent of GDP declining indefinitely.[xxi] However, ever since the Bush tax cuts were made permanent, CBO has forecast that revenues would be lower than primary spending and has projected debt to rise indefinitely as a percent of GDP.[xxii] And since then, budget reconciliation has been used to further reduce revenues with the enactment of the Trump tax cuts in 2017.[xxiii]

In total, the Bush tax cuts, their bipartisan extensions, and Trump tax cuts have cost $10 trillion to date and their cost will increase enough over time to account for the entire long-term growth in the debt ratio. In other words, without the Bush tax cuts, their extensions, and the Trump tax cuts, debt would be declining as a percent of the economy indefinitely.[xxiv]

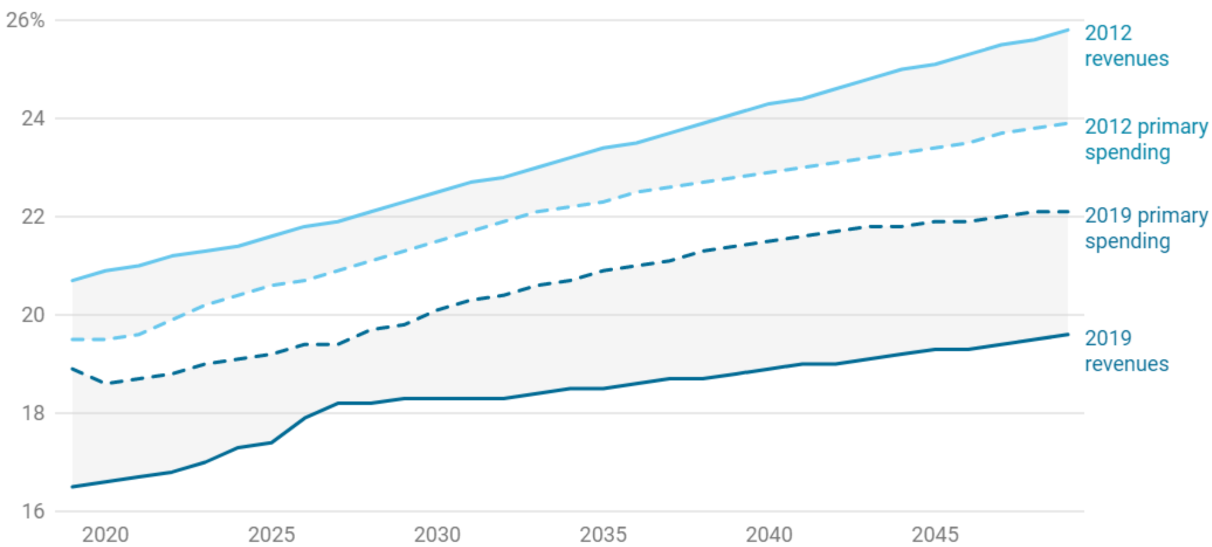
Why Tax Cuts, Not Spending, Are Responsible For The Rising Debt Ratio

There are two ways to explain my conclusion. The first employs a concept called the fiscal gap, which measures how much primary deficit reduction is required to stabilize the debt over any given period of years. The current fiscal gap over 30 years is roughly 2.4% of GDP[xxv], meaning primary deficits over 30 years would need to be an average of 2.4% of GDP lower for debt as a percent of GDP in 2053 to be the same level as it is now.[xxvi] The size of the Bush tax cuts, their extensions, and the Trump tax cuts under current law over the next 30 years is 3.8% of GDP.[xxvii] Because their cost is larger than the fiscal gap, what this means is that, mathematically and unequivocally, without those tax cuts, debt would be declining as a percent of GDP.

To the second argument, a person might reasonably ask whether increased spending bears some responsibility for increased debt as a percent of the economy. The answer is no. In 2012, CBO projected that debt as a percent of GDP would decline indefinitely.[xxviii] That's the last time CBO made that projection. And relative to those projections, current primary spending projections are down, not up. While it's true that primary spending as a percent of GDP is rising year over year, primary spending has declined relative to the last projections that showed a stable debt ratio. As illustrated in the figure below, the darker blue dashed line is below the lighter blue dashed line. That means that, if you were trying to explain how we got from the 2012 projections of a debt ratio declining indefinitely to current projections of a debt ratio increasing indefinitely, changes in spending have decreased the debt. However, relative to 2012 projections, revenues have declined roughly three-and-a-half times as much as primary spending has. The darker blue solid line is significantly below the lighter blue solid line – a much bigger difference than the space between the dashed lines. So, it's the changes in revenue that are therefore entirely responsible for our ever-growing debt as a percent of the economy.[xxix]

Both revenues and spending are lower than earlier projections, meaning low revenues are responsible for persistent primary deficits

2012 and 2019 Congressional Budget Office projections of annual revenues and primary spending as a percentage of gross domestic product



Hover or click to see values.

Notes: 2019 was the last year in which the Congressional Budget Office produced long-term budget outlooks that contained data without macrodynamic feedback, which are essential to fiscal gap analysis. Therefore, the 2019 outlook is the most recent comparison possible. This analysis assumes that the temporary portions of the Trump tax cuts expire as specified in current law. "Primary spending" means spending excluding interest costs. Primary, not total, deficits are one of the three factors that determine whether debt will be stable as a percentage of gross domestic product.

Source: Congressional Budget Office, "The 2012 Long-Term Budget Outlook" (Washington: 2012), available at https://www.cbo.gov/publication/43288; Congressional Budget Office, "The 2019 Long-Term Budget Outlook" (Washington: 2019), available at https://www.cbo.gov/publication/55331.

Chart: Center for American Progress

Importantly, a disproportionate share of the benefits from the Bush tax cuts, their extensions, and the Trump tax cuts accrued to very rich Americans, profitable corporations, and wealthy heirs.[xxx] Any discussion of how to address the deficits caused by these tax cuts should look first to the source.

Thank you.

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[i] Huge thanks to Richard Kogan and my colleagues at American Progress, including Jean Ross, Jessica Vela, Lily Roberts, Emily Gee, Mara Rudman, and Madeline Shepard for helpful feedback and assistance.

[ii] Bobby Kogan, "Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio," (Washington: Center for American Progress, 2023), available at https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio/.

[iii] Ibid.

[iv] Alan J. Auerbach, "The U.S. Fiscal Problem: Where We Are, How We Got Here, and Where We're Going," NBER Macroeconomics Annual 9 (1994): 141–186, available at https://www.nber.org/system/files/chapters/c11009/c11009.pdf.

[v] Kogan, "Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio," available at https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio/.

[vi] Congressional Budget Office, “The Budget and Economic Outlook: 2023 to 2033,” (Washington: Congressional Budget Office, 2023), available at https://www.cbo.gov/publication/58848.
[vii] Ibid.
[viii] Ibid.
[ix] Ibid.
[x] Congressional Budget Office, “The Long-Term Budget Outlook,” (Washington: Congressional Budget Office, 2000), available at https://www.cbo.gov/system/files/2018-10/12749-long-term-budget-outlook.pdf; Congressional Budget Office, “The Budget and Economic Outlook: 2023 to 2033,” available at https://www.cbo.gov/publication/58848.
[xi] Jason Furman and Matt Fiedler, “Continuing the Affordable Care Act’s Progress on Delivery System Reform Is an Economic Imperative,” White House, March 24, 2015 available at https://obamawhitehouse.archives.gov/blog/2015/03/24/continuing-affordable-care-act-s-progress-delivery-system-reform-economic-imperative.
[xii] Congressional Budget Office, “The 2012 Long-Term Budget Outlook,” (Washington: Congressional Budget Office, 2012), available at https://www.cbo.gov/publication/43288.
[xiii] Congressional Budget Office, “The 2022 Long-Term Budget Outlook,” (Washington: Congressional Budget Office, 2022), available at https://www.cbo.gov/publication/58340.
[xiv] Richard Kogan and David Reich, “Introduction to Budget “Reconciliation”,” May 6, 2022, available at https://www.cbpp.org/research/federal-budget/introduction-to-budget-reconciliation.
[xv] Emily Horton, “The Legacy of the 2001 and 2003 “Bush” Tax Cuts,” October 23, 2017, available at https://www.cbpp.org/research/federal-tax/the-legacy-of-the-2001-and-2003-bush-tax-cuts.
[xvi] 112th Congress, “American Taxpayer Relief Act of 2012,” January 2, 2013, available at https://www.govinfo.gov/content/pkg/PLAW-112publ240/html/PLAW-112publ240.htm.
[xvii] There is a special exception for excise taxes dedicated to trust funds. See, Committee on the Budget, U.S. House of Representatives, “A Compendium of Laws and Rules of the Congressional Budget Process,” August 2015, available at https://www.govinfo.gov/content/pkg/CPRT-114HPRT96107/pdf/CPRT-114HPRT96107.pdf.
[xviii] Congressional Budget Office, “The 2012 Long-Term Budget Outlook,” available at https://www.cbo.gov/publication/43288.
[xix] Ibid.
[xx] Ibid.
[xxi] Ibid.
[xxii] Congressional Budget Office, “The 2013 Long-Term Budget Outlook,” (Washington: Congressional Budget Office, 2013), available at https://www.cbo.gov/publication/44521; Congressional Budget Office, “The 2019 Long-Term Budget Outlook,” (Washington: Congressional Budget Office, 2019), available at https://www.cbo.gov/publication/55331.
[xxiii] Seth Hanlon, “Budget Reconciliation Is a Critical and Regularly Used Tool,” February 5, 2021, available at https://www.americanprogressaction.org/article/budget-reconciliation-critical-regularly-used-tool/.
[xxiv] Kogan, “Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio,” available at https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio/.
[xxv] Ibid.
[xxvi] Technically, the fiscal gap is a present value calculation: it shows how much the present value of primary deficits would need to be reduced over a given period, measured as a percent of the present value of GDP over that period. Using present values accounts for the interest effect of the deficit reduction. Put differently, the fiscal gap shows the average level of discounted primary deficit reduction that’s needed for the debt ratio at the end of the period to equal, rather than exceed, the debt ratio at the beginning of the period.
[xxvii] Kogan, “Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio,” available at https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio/.
[xxviii] Congressional Budget Office, “The 2012 Long-Term Budget Outlook,” available at https://www.cbo.gov/publication/43288.
[xxix] Kogan, “Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio,” available at https://www.americanprogress.org/article/tax-cuts-are-primarily-responsible-for-the-increasing-debt-ratio/.
[xxx] Horton, “The Legacy of the 2001 and 2003 “Bush” Tax Cuts,” available at https://www.cbpp.org/research/federal-tax/the-legacy-of-the-2001-and-2003-bush-tax-cuts; Tax Policy Center,

"Analysis of the Tax Cuts and Jobs Act," May 8, 2020, available at https://www.taxpolicycenter.org/feature/analysis-tax-cuts-and-jobs-act.