

Chair Johnson and Ranking Member Smith, thank you so much for having me. I appreciate the opportunity to come and testify on the Congressional Budget Office's report on the Budget and Economic Outlook over the next ten years.

As we would all agree, forecasting is an inherently uncertain art. (No one's forecasts in January 2020 incorporated the effects of a once-in-a-century pandemic!). But the act of forecasting gives us a chance to examine where we are, where we could be going, and what that means for policymakers and citizens in the meantime.

As will be emphasized many times in this hearing, the US fiscal trajectory is likely unsustainable. The deficit is projected to be -5.8% this year and to slowly deteriorate to -6.7% as of 2036. This is despite the fact that the unemployment rate is projected to decline to 4.2% by 2036. It is highly unusual to run the types of deficits we are currently running (and are projected to run) outside of a recession. For context, based on data from before 2000, if the average unemployment rate were below 4.5% in a fiscal year, we'd have expected a slight deficit of 0.5% (and a primary surplus of around 1%).

What do these numbers mean? We are not running a large deficit in response to an economic need, but because of policy choices.

This of course has implications for the national debt. The debt-to-GDP ratio in 2025 was almost 100% (debt held by the public). By 2056, it is projected to reach over 170 percent. According to the [IMF](#), the only countries that currently have government gross debt to GDP higher than the United States are Japan, Singapore, Sudan, Bahrain, Greece, Italy, and the Maldives.

It's also important to emphasize that CBO projections reflect current law, not current policy. For instance, the Budget Lab has forecasted that if the temporary provisions (such as no tax on tips, no tax on overtime, a larger senior deduction) in the One Big Beautiful Bill Act were made permanent, that would increase deficits by \$725 [billion](#) from 2025 to 2034, raising debt-to-GDP in 2055 by almost 7 percentage points.

This is not to say that balancing the budget at all costs should necessarily be the goal. There is global demand for our debt – and borrowing allows us to make important investments in our country. In addition, we will always need to spend in response to crises like recessions. But running deficits at a rate that puts us on an unsustainable debt trajectory, during a time of solid economic growth, is not a responsible policy decision.

Sometimes when we talk about debt and deficits it can feel very removed from the average person. Economists and policymakers pontificate about large numbers and say that they are bad – but how does a higher national debt actually translate to the budgets of American families?

One answer is that higher government debt directly leads to higher borrowing costs for everyday Americans by driving up interest rates. According to new research from the Budget Lab, the cumulative effects of fiscal policy since 2015, as measured by CBO's estimated costs of enacted

legislation, have raised 10-year-ahead projected federal debt by about 49 percentage points of GDP. As a result, long-term Treasury yields have risen by about 97 basis points. For a family taking out a 30-year mortgage at the current median home price, this rise in long-term interest rates has raised borrowing costs by about \$2,500 per year or roughly \$76,000 over the life of the loan compared to a world without this additional federal debt.¹

Table 1: Impact of Fiscal Policy on Household Borrowing Costs

	Cumulative since 2015	Cumulative since 2022
Home Mortgage (30 year)		
Median sale price (Q3 2025)	\$426,800	\$426,800
Less 20% down	\$341,440	\$341,440
Fiscal-policy rate effect (percentage point)	0.97	0.18
Annual interest cost effect	\$2,534	\$482
Cumulative lifetime cost effect	\$76,014	\$14,448
Auto Loan (5¼ year)		
Average new auto loan principal (Q3 2025)	\$42,332	\$42,332
Fiscal-policy rate effect (percentage point)	0.49	0.09
Annual interest cost effect	\$117	\$22
Cumulative lifetime cost effect	\$670	\$125

Plainly stated, the actions of Congress since 2015 are costing a typical household that takes out a mortgage around \$2500/year. People can argue about what percentage of this debt increase was necessary for economic or policy reasons. But we can agree that there should be some plan to handle the fiscal impacts of those choices.

So how did we get here? It’s important to remember that in January 2001 CBO was projecting that surpluses would “exceed the amount of debt available for redemption beginning in 2006.”² They were projecting revenues would be sufficient to cover costs. Instead, we’ve seen a rise in outlays and a drop in revenues.

Between 2000 and 2024, noninterest spending usually exceeded previous spending projections. These increases were driven by legislative decisions and economic shocks: 1) unanticipated expensive recessions (Great Recession and Covid), 2) unanticipated wars (e.g. the wars in Iraq

¹ To translate increased federal borrowing into rises in interest rates, we use a standard rule-of-thumb approximation based on recent research and assume that for every 1 percentage point forecasted debt-to-GDP rises, interest rates on 10-year Treasury bonds will rise 2 basis points. These increases in Treasury yields then pass through to interest rates on household mortgages, auto loans, and small business loans.

² <https://www.cbo.gov/sites/default/files/107th-congress-2001-2002/reports/entire-report.pdf>

and Afghanistan), and 3) spending like Medicare Part D and the Bipartisan Infrastructure Law. Revenues generally fell short of projections, driven by substantial tax cuts under Presidents Bush, the renewal of those tax cuts under President Obama, and further large tax cuts under President Trump.

While we often point to the aging of the population as an important driver of increased Federal spending in recent years, we should keep in mind that in October 2000 CBO projected that non-interest spending would rise to 21% of potential GDP by 2030, given the aging of the population and cost growth in healthcare. That level is higher than our current projections, not lower. In other words, while it's true demographics and health care cost growth are pushing up spending above previous levels, old projections always knew that would happen, and current projections have spending coming in below where those old projections thought spending would be.

Similarly, in 2012, CBO projected that in 2055 primary spending as a percent of GDP would be 24.6%. As of the most recent projection, they are projecting 21% – in other words they are projecting that primary spending will be a lower percentage of GDP in 2055 than they did previously. The only reason total spending projections are up relative to old projections is that they include the interest costs from financing past debt incurred.

So far this century, we have spent more than CBO anticipated in 2000 and 2001, with that excess largely driven by temporary spending that has since abated. But moving forward, overall noninterest spending is now projected to come in significantly *below* previous projections. The issue on the spending side, relative to previous projections, is the interest burden of past debt accumulation.

The biggest issue for debt and deficits is thus two-fold: 1) rising interest costs on past debt accumulation and 2) revenues that have been cut repeatedly and are now substantially below our needs, even as primary spending is projected to be a smaller percentage of GDP than previously thought. It's important to note that interest payments are currently being offset by GDP growth. We will have to make those payments no matter what. The question is what do we do to close the primary deficit so that we can stabilize the debt-to-GDP ratio.

There are a few additional concerns to flag here.

First, even though spending is now projected to be a smaller percentage of GDP than previously forecasted, that does not mean that there is nothing to be considered on the spending side. If nothing else, we should carefully consider what we are spending on. A 2023 study by Melissa Kearney and Luke Pardue found that in 2019 we spent around \$5,600 per child, as opposed to almost \$30,000 on mandatory spending per older American. We spent around five times as much in total on older Americans—just counting mandatory spending—as we spend on children across the entire budget. If we're thinking about spending where there is the biggest bang for your buck, spending on children has a relatively high return, in the form of increased future earnings and

other benefits. In general, we should make sure that we are spending money on the areas that have the greatest return, whether economic or societal.

Second, there are other factors that can affect the path of deficits and debt. For instance, immigration has driven a substantial amount of economic growth in recent years and immigrants in general tend to be a net fiscal positive for the United States. Particularly given declining fertility in the United States, a substantial slowdown in net immigration could have implications for the fiscal trajectory in the United States.

Finally, given the projected debt load and the rising role of interest payments in driving the fiscal trajectory, it is particularly important to ensure that markets feel calm about the direction of policy and governance in the United States. The Budget Lab has analyzed the impacts of political risk on markets. To date, markets have held up and have not registered substantial ongoing concern. But that could always change. The greater our debt burden, the more we are reliant on markets to trust us and to trust that we will handle our economy, our debt, and our governance responsibly.

Thank you for the opportunity to provide testimony and I look forward to your questions.