

America Can Still Do Big Things: Dispelling the Fiscal Hysteria that Thwarts Good Public Policy

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INTRODUCTION

“America cannot be great if we go broke.”

—*The National Commission on Fiscal Responsibility and Reform, 2010*¹

“We’re broke.”

—*Speaker of the House John Boehner, 2011*²

The notion that the United States faces a dire fiscal reckoning has become almost a truism in American politics. Politicians across the ideological spectrum speak of a looming fiscal crisis, and the media describes the national debt as a crushing burden on the American people.³ While this rhetoric about the American fiscal system is incorrect, it leads to policies that cause severe economic harm to ordinary Americans.

Starting in 2011, misguided concerns about budget deficits caused Congress to abandon efforts to help the economy recover from the Great Recession.⁴ Economists linked this fiscal austerity to higher unemployment and

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¹ NAT'L COMM'N ON FISCAL RESPONSIBILITY AND REFORM, THE MOMENT OF TRUTH: REPORT OF THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM 6 (Dec. 2010) [hereinafter FISCAL RESPONSIBILITY AND REFORM REPORT], https://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf [https://perma.cc/RQ5L-CDP8].

² Michael D. Shear, *Paul Ryan to Deliver State of the Union Response*, N.Y. TIMES: THE CAUCUS (Jan. 21, 2011, 2:36 PM), http://thecaucus.blogs.nytimes.com/2011/01/21/paul-ryan-to-deliver-state-of-the-union-response/?_php=true&_type=blogs&_r=3 [https://perma.cc/N7GK-NG73].

³ See FISCAL RESPONSIBILITY AND REFORM REPORT, *supra* note 1, at 6; see also James Grant, *The United States of Insolvency*, TIME (Apr. 14, 2016), <http://time.com/4293549/james-grant-united-states-debt/> [https://perma.cc/9TUD-TDJ9].

⁴ The Great Recession was the worst economic downturn since the Great Depression, with the economy contracting from December 2007 through June 2009. See *US Business Cycle Expansions and Contractions*, NAT'L BUREAU OF ECON. RESEARCH (2012), <http://www.nber.org/cycles.html> [https://perma.cc/HL2B-TXPC].

slower economic growth.⁵ Worst of all, after austerity made it harder for jobless Americans to find work, Congress refused to reauthorize extended unemployment benefits that expired at the end of 2013. This caused over one million Americans to lose their benefits at a time when the unemployment rate was well over six percent.⁶ According to Douglas Elmendorf, who directed the nonpartisan Congressional Budget Office during this period, “A rush to reduce budget deficits after 2010 was the biggest error in this downturn.”⁷

In Part I, this article will establish that the conventional wisdom about the national debt is wrong. While reckless fiscal policy changes have the potential to destabilize the economy, the American fiscal system is fundamentally strong. Interest rates on Treasury bonds have been falling for decades, indicating that investors are fully confident that the United States will be able to afford to pay them back in the future. Over the long-term, meaning the next several decades, the United States has ample time and capacity to make whatever adjustments end up being necessary to appropriately manage the national debt.

While the conventional wisdom about the national debt is wrong, it fuels a fiscal hysteria that has a profound impact on political debate and policy outcomes. This article defines fiscal hysteria as exaggerating the impacts of deficits and debt, thereby underestimating the extent to which the United States can afford to solve problems facing the American people.

In Part II, this article will show that fiscal hysteria is among the largest roadblocks standing in the way of a stronger and more inclusive economy. The federal budget is where many of the nation’s most important economic policy choices get made. Conducting the budget debate in a climate of fiscal hysteria leads to bad economic policy, weakens the case for new progressive solutions, and threatens existing programs that help Americans make ends meet.

Dispelling fiscal hysteria is critical to developing a progressive economic agenda that responds to the concerns of the American people. Fiscal hysteria creates a deep sense of malaise that reduces American ambition by making it appear unaffordable to provide better infrastructure, paid family leave, full employment, or other progressive priorities. At the same time, fears of a fiscal crisis are used to justify deeply unpopular cuts to retirement

⁵ See MACROECONOMIC ADVISERS, LLC, *THE COST OF CRISIS-DRIVEN FISCAL POLICY* (Oct. 2013), http://www.pgpf.org/sites/default/files/10112013_crisis_driven_report_fullreport.pdf [<https://perma.cc/HWS2-5RV9>].

⁶ See *The Deficit Keeps Falling, So Why Is Congress Leaving the Unemployed in the Cold?*, THINKPROGRESS (Feb. 4, 2014), <https://thinkprogress.org/the-deficit-keeps-falling-so-why-is-congress-leaving-the-unemployed-in-the-cold-efbe93027a2d#.og6qb5329> [<https://perma.cc/TP7T-XZGB>]; see also *Civilian Unemployment Rate* [UNRATE], FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Sept. 2016), <https://fred.stlouisfed.org/series/UNRATE> [<https://perma.cc/6ZAW-NZ7Y>].

⁷ Binyamin Appelbaum, *Central Bankers Hear Plea: Turn Focus to Government Spending*, N.Y. TIMES (Aug. 28, 2016), <http://www.nytimes.com/2016/08/29/business/economy/central-bankers-hear-plea-turn-focus-to-government-spending.html> [<https://perma.cc/X96H-FNHC>].

programs, health care, the safety net, and other sectors. Since many in the media incorrectly view fiscal hysteria as a neutral position, it exerts a particularly strong pull that skews political debates in a conservative direction.

Finally, Part III of this article will offer a better approach to fiscal policy that is responsive, ambitious, and sane. Fiscal policy should respond to changing conditions, rather than viewing the federal budget with an unchanging fiscal hysteria. An ambitious fiscal policy would place the federal budget in a larger economic context, and recognize the enormous potential for the United States to do big things. And a sane fiscal policy would put a stop to threats that undermine the full faith and credit of the United States—which are often motivated by fiscal hysteria—or policy changes that actually would sow doubt about the strength of the American fiscal system.

America can do big things, but that does not mean every big thing is a good idea. Big tax cuts for the wealthy, for example, would waste fiscal resources, exacerbate economic inequality, and increase the likelihood of cuts to programs for low- and middle-income Americans. Providing paid family leave, making child care affordable, or modernizing infrastructure would be a far better use of fiscal resources. The American fiscal system has enormous potential, and while this potential can be reduced or misused by bad policy, it can also be used for an agenda that delivers robust solutions for the challenges facing the American people.

I. THE FUNDAMENTAL STRENGTH OF THE AMERICAN FISCAL SYSTEM

A. *The Budget Outlook and Treasury Interest Rates*

The nonpartisan Congressional Budget Office (CBO) does not predict any sharp increases of the national debt as a share of the economy over the four-year term of the next President of the United States unless current laws for taxes and spending are substantially altered.⁸

Likewise, investors currently see the United States federal government as an extremely safe place to lend their money. In fact, financial analysts often consider interest rates on Treasury bonds to represent the rate of return provided by the market for a “risk-free” investment.⁹

For most of 2016, interest rates on five-year Treasury bonds were so low—well below two percent—that these interest rates were actually negative after accounting for expected inflation.¹⁰ Negative real interest rates on

⁸ See CONG. BUDGET OFFICE, AN UPDATE TO THE BUDGET AND ECONOMIC OUTLOOK: 2016 TO 2026 27 (Aug. 2016), <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51908-2016outlookupdate-2.pdf> [<https://perma.cc/784A-WL2S>].

⁹ See *Treasury Securities*, BANKRATE, <http://www.bankrate.com/rates/interest-rates/treasury.aspx> [<https://perma.cc/YFL2-GYRM>].

¹⁰ See *5-Year Treasury Constant Maturity Rate*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Oct. 27, 2016), <https://fred.stlouisfed.org/series/DGS5> [<https://perma.cc/VPE8-PBXN>]; see also Bd. of Governors of the Fed. Reserve Sys. (U.S.), *5-Year Treasury Constant Maturity Rate [DGS5]*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Oct. 27, 2016), <https://fred.stlouisfed.org/series/DFII5> [<https://perma.cc/S3VQ-APLL>].

Treasury bonds mean that investors are effectively paying for the privilege of loaning their money to the United States. If investors were at all concerned that a looming fiscal crisis might threaten the ability of the United States to pay back the bondholders who finance the national debt, they would demand significantly higher interest rates to compensate them for accepting this risk.

Looking ahead thirty years, however, CBO warns that current laws for taxes and spending would lead to “steadily increasing federal budget deficits and debt” that would create “substantial risks for the nation.”¹¹ This conclusion is primarily driven by three factors. First, CBO expects an aging population to drive up costs in federal programs for the elderly, primarily Social Security and Medicare. Second, CBO expects health care costs to grow faster than the overall economy, which would increase spending for Medicare and other federal health care programs. Finally, CBO expects higher future interest rates on Treasury bonds will increase the federal spending necessary to pay interest on the national debt.

Rising interest rates are the most significant factor driving CBO’s projection of an increasing national debt.¹² CBO also projects that a rising national debt will cause interest rates to increase even higher, and warns that this would harm the economy.¹³

At the same time, however, financial markets appear to be less concerned about rising interest rates. From 2010 through 2015, interest rates averaged 3.45% on thirty-year Treasury bonds, which was much less than earlier periods.¹⁴ On July 12, 2016, the same day that CBO published its thirty-year long-term budget outlook, the interest rate on thirty-year Treasury bonds was at a near-record low of 2.24%.¹⁵ This suggests that investors expected interest rates on Treasury bonds to remain low throughout the time period covered by CBO’s long-term budget outlook. If Treasury rates do increase significantly in the future, investors who recently purchased thirty-year Treasury bonds would lose money; either by holding bonds that pay below-market rates, or by selling these bonds for a lower price to compensate the buyer for accepting the lower interest rate.

While low short-term Treasury interest rates may be caused in part by the low interest rates set by the Federal Reserve to implement its monetary policy, this explanation applies less to long-term Treasury interest rates. Economists generally view other economic factors as having a more signifi-

¹¹ CONG. BUDGET OFF., THE 2016 LONG-TERM BUDGET OUTLOOK 1 (Jul. 2016) [hereinafter 2016 LONG-TERM BUDGET OUTLOOK], <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51580-LTBO.pdf> [<https://perma.cc/2DUU-D3M6>].

¹² See Stephanie Barello & Michael Simpson, *Interest Costs in The Long-Term Budget Outlook*, CONG. BUDGET OFFICE: BLOG (Aug. 2, 2016), <https://www.cbo.gov/publication/51841> [<https://perma.cc/N6SE-NXDX>].

¹³ See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 8.

¹⁴ See Bd. of Governors of the Fed. Reserve Sys. (U.S.), *30-Year Treasury Constant Maturity Rate [DGS30]*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Dec. 3, 2016), <https://fred.stlouisfed.org/series/DGS30> [<https://perma.cc/A6QW-TNYV>].

¹⁵ See *Daily Treasury Yield Curve Rates*, U.S. DEP’T OF THE TREASURY, <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield> [<https://perma.cc/6D8G-8KD2>].

cant impact on long-term interest rates, such as demographic shifts, savings rates, and prospects for economic growth.¹⁶

It is certainly possible that Treasury interest rates could increase sharply in the future, but a sustained and worldwide decline in interest rates suggests that Treasury interest rates will tend to remain below their previous levels.¹⁷ While Treasury interest rates may not remain at the extremely low levels of recent years, structural changes such as population aging and increased global savings are likely to continue exerting downward pressure on Treasury interest rates in the future.¹⁸

B. Long-Term Debt Projections Measure Uncertainty, Not Expectations

There appears to be a dissonance between the market's acceptance of very low interest rates on thirty-year Treasury bonds and CBO's high future debt projections in the thirty-year budget outlook. But this does not mean that either the market or CBO has to be wrong. Instead, the dissonance comes from misinterpreting the budget outlook in ways that make the long-term debt appear to be a larger threat than it actually is. Placing the CBO data into proper context shows that the United States is currently on sound fiscal footing.

The low rates on thirty-year Treasury bonds might be incongruous with CBO's thirty-year budget outlook if the CBO baseline was meant to convey expectations about the likely course of fiscal policy, but CBO makes very clear that its baseline does not reflect expectations. Instead, CBO constructs its baseline by generally assuming that current laws for taxes and spending will remain unchanged.¹⁹ CBO stresses, however, that, "[b]ecause current laws surely *will* change, CBO's projections are not predictions of what the agency thinks will actually happen."²⁰

Instead of measuring expectations, the CBO's projection of constantly growing deficits and debt is better understood as measuring a type of uncertainty about the future course of fiscal policy. In other words, we do not know how future policymakers will adjust taxes and spending to appropriately manage the national debt, but that does not mean that we expect a debt crisis. In an illuminating law review article that provides context for budget

¹⁶ See Robin Wigglesworth, *Treasury Markets "Complacent" Over Fed Rate Strategy*, FIN. TIMES (July 9, 2015), <https://www.ft.com/content/6932dd26-25b3-11e5-bd83-71cb60e8f08c>.

¹⁷ See Jason Furman, Chairman, Council of Econ. Advisers, Transcript of Expanded Remarks at the Global Implications of Europe's Redesign Conference 5 (Oct. 5, 2016), https://www.whitehouse.gov/sites/default/files/page/files/20161005_furman_suerf_fiscal_policy_cea.pdf [<https://perma.cc/UG9M-7D74>].

¹⁸ See *id.* at 4.

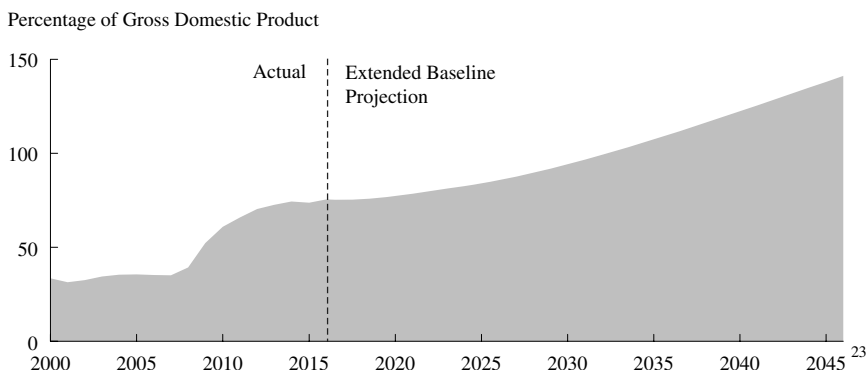
¹⁹ While the CBO baseline is often referred to as a current law baseline, it actually differs from current law in significant ways, such as assuming that Social Security and Medicare will continue to pay scheduled benefits regardless of the available balances in their respective trust funds. See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 1–2.

²⁰ *Id.* at 2 (emphasis in original).

baselines, David Kamin of the New York University School of Law characterizes this concept as a “policy uncertainty baseline”:²¹

When you see a projection of the federal budget on an unsustainable trend—as in deficits or debt rising perpetually into the future—you are probably looking at a policy uncertainty baseline, or at least a baseline that is akin to this. And, of course, this is familiar. The many warnings of the unsustainability of the federal budget often come with just such graphs, with lines ascending into the heavens.²²

FIGURE 1: FEDERAL DEBT HELD BY THE PUBLIC



Kamin goes on to connect the measurement of policy uncertainty to the concept of a fiscal gap, which measures the size of tax or spending changes that would be necessary to prevent the debt from growing over time as a share of the economy.²⁴ CBO provides a measure of the fiscal gap in its long-term budget outlook, estimating that reducing the annual budget deficit by an amount equal to 1.7% of the total U.S. economy as measured by gross domestic product (GDP) would cause the national debt to equal the same share of the economy in 2046 as it did in 2016.²⁵

The United States is a low-tax country by international standards. Even if the fiscal gap were closed entirely with tax increases, the United States would continue to be a low-tax country. The International Monetary Fund (IMF) estimates that revenues collected by federal, state, and local governments in the United States totaled 31.4% of GDP in 2016.²⁶ This was the

²¹ David Kamin, *Basing Budget Baselines*, 57 WM. & MARY L. REV. 143, 184–85 (2015).

²² *Id.*

²³ See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 10.

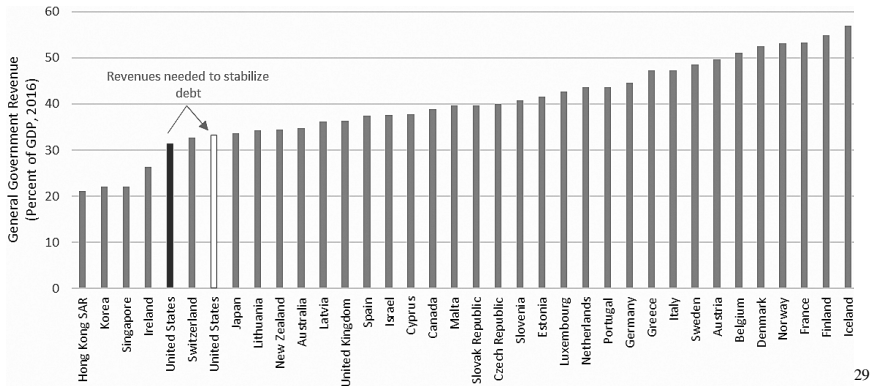
²⁴ See Kamin, *supra* note 21, at 186.

²⁵ See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 11.

²⁶ See INT'L MONETARY FUND, FISCAL MONITOR: DEBT—USE IT WISELY 67 (Oct. 2016) [hereinafter FISCAL MONITOR], <https://www.imf.org/external/pubs/ft/fm/2016/02/pdf/fm1602.pdf> [<https://perma.cc/B2HH-KFJT>].

fifth-lowest revenue burden of the thirty-five advanced economies studied by the IMF.²⁷ If the United States raised revenues by 1.7% of GDP, it would have the sixth lowest revenue burden among advanced economies.²⁸

FIGURE 2: THE U.S. IS A LOW TAX COUNTRY



The tax increase necessary to close the fiscal gap would be even smaller if combined with spending reductions, but the tax data shows that there is no fiscal imperative to dismantle programs such as Social Security and Medicare. Various tax systems used in many other advanced economies collect more than enough revenue as a share of GDP to close the U.S. fiscal gap. This indicates that the United States has more than enough economic capacity to close its own fiscal gap, even if no one can say for certain which policies will be implemented to do so.

In recent years, the economic cost of policy uncertainty has likely been exaggerated. A study by Atif Mian and Amir Sufi found that increases in unemployment from 2008 to 2011 were not correlated with increased concerns from business leaders about taxes and regulation—two problems that one could plausibly link to policy uncertainty.³⁰ Instead, weak employment was more strongly linked to a lack of demand for products sold by the business.³¹

In any case, policy uncertainty from this fiscal gap should have a much smaller impact on the economy going forward, because the fiscal gap is much smaller now than it was when President Obama first took office. This

²⁷ See *id.*

²⁸ See *id.*

²⁹ See *id.*; see also 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 11. The estimate for the thirty-year fiscal gap of 1.7% of GDP has been added to the actual revenues raised in the United States to show what it would look like in 2016 if the United States was raising enough revenue to stabilize the national debt (the dotted line).

³⁰ See ATIF MIAN & AMIR SUFI, FED. RES. BANK OF S.F. ECON. LETTER, AGGREGATE DEMAND AND STATE-LEVEL EMPLOYMENT 1 (Feb. 11, 2013), <http://www.frbsf.org/economic-research/files/el2013-04.pdf> [<https://perma.cc/Q7VU-DT57>].

³¹ *Id.*

could change, however, if the next President and Congress enact policies that increase the fiscal gap.

C. The Budget Outlook Improved Dramatically During the Obama Administration

In the long-term budget outlook published by CBO in June 2009, shortly after President Obama took office, closing the twenty-five-year fiscal gap would have required annual deficit reduction of 5.4% of GDP—much larger than the current thirty-year fiscal gap of 1.7% of GDP.³² There are many reasons for this decline, including the expiration of the Bush tax cuts for the wealthiest Americans, Treasury interest rates that are much lower than CBO's earlier projections, large spending cuts, and a significant slowdown in health care cost growth.³³

CBO's 2009 long-term budget outlook said that "the central long-term challenge for federal fiscal policy" was slowing the growth of federal health care spending, and one of the most dramatic improvements in the budget outlook comes from a major decline in Medicare spending projections.³⁴ The Patient Protection and Affordable Care Act (ACA) included major reforms, especially within Medicare, to make the health care system more efficient. According to CBO, repealing the ACA would increase Medicare spending by more than eight hundred billion dollars over ten years.³⁵

The ACA is reducing Medicare spending by penalizing hospitals for readmissions, reforming payment systems to incentivize quality over quantity in health care services, and testing a variety of policies to further increase efficiency. Medicare spending projections have also fallen due to a broader slowdown in health care cost growth, and while the causes of this broader slowdown are not perfectly understood, the reforms initiated by the ACA appear to be one reason for this as well.³⁶

³² See CONG. BUDGET OFF., THE 2009 LONG-TERM BUDGET OUTLOOK 7 (Jun. 2009) [hereinafter 2009 LONG-TERM BUDGET OUTLOOK], <https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/reports/06-25-ltbo.pdf> [<https://perma.cc/2DUU-D3M6>]. This fiscal gap was based on CBO's alternative fiscal scenario, which adjusted the standard CBO baseline to account for the widespread expectation that lawmakers would extend many laws that were technically temporary. In 2009, the alternative fiscal scenario was widely seen as more realistic than CBO's standard baseline. After lawmakers permanently resolved most of these temporary laws during the course of the Obama Administration, the CBO discontinued the alternative fiscal scenario in its 2016 long-term budget outlook.

³³ See RICHARD KOGAN, CTR. FOR BUDGET & POL'Y PRIORITIES, DECLINE IN PROJECTED LONG-TERM DEBT MOSTLY REFLECTS SLOWER HEALTH COST GROWTH, LOWER INTEREST RATES (Sept. 15, 2016), <http://www.cbpp.org/research/federal-budget/decline-in-projected-long-term-debt-mostly-reflects-slower-health-cost> [<https://perma.cc/BHG4-QFVW>].

³⁴ See 2009 LONG-TERM BUDGET OUTLOOK, *supra* note 32.

³⁵ See CONG. BUDGET OFFICE, BUDGETARY AND ECONOMIC EFFECTS OF REPEALING THE AFFORDABLE CARE ACT 4 (June 2015), https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50252-Effects_of_ACA_Repeal.pdf [<https://perma.cc/W798-WUD7>].

³⁶ See Caroline Chen & Ian Katz, *Obamacare Effect Linked to Lower Medical Cost Estimates*, BLOOMBERG (Sept. 5, 2014, 12:01 AM), <http://www.bloomberg.com/news/articles/>

In fiscal year 2016, Medicare cost the federal government over one hundred billion dollars less than CBO projected in 2009.³⁷ In fact, total spending on federal health care programs has fallen below the levels that CBO projected in 2009—an incredible result since those earlier projections did not include the ACA coverage expansion that has already helped twenty million Americans get health insurance.³⁸ The savings grow even larger in CBO’s 2016 projections for FY 2017 to FY 2026, where Medicare spending is now approximately two trillion dollars less than CBO projected it would be in 2009.³⁹

While the projected fiscal gap has not fallen all the way to zero, it is much smaller than it used to be. The current fiscal gap does not mean that the United States is on the verge of bankruptcy—as markets clearly understand—it just means that CBO’s current projections indicate that lawmakers will need to further adjust spending and tax laws at some point in the future.

D. *How Postponing Deficit Reduction Affects the Fiscal Gap*

Lawmakers are widely criticized for “kicking the can down the road” when it comes to reducing the deficit, but postponing deficit reduction does not necessarily cause the fiscal gap to increase.⁴⁰ If postponing deficit reduction means that the national debt increases as a share of the economy, closing the fiscal gap to stabilize the debt at that higher level could require more annual deficit reduction, but it might also require less deficit reduction, or the same amount as before. In this situation, the change in the fiscal gap will be determined by the growth rate of the economy and interest rates on the national debt.

To understand this, consider the effects of bringing the budget into primary balance, which means that tax revenues are sufficient to pay for current programs but not interest on the national debt.⁴¹ When the budget is in primary balance, the growth rate for the national debt equals Treasury interest

2014-09-05/obamacare-effect-linked-to-lower-medical-cost-estimates [https://perma.cc/SPU7-ULTZ].

³⁷ See Harry Stein, *The Obama Health Care Legacy: More Coverage and Less Spending*, CTR. FOR AM. PROGRESS (Mar. 25, 2016, 9:01 AM), <https://www.americanprogress.org/issues/economy/news/2016/03/25/134074/the-obama-health-care-legacy-more-coverage-and-less-spending/> [https://perma.cc/T92G-PVH7].

³⁸ *Id.*; see also NAMRATA UBEROI ET AL., U.S. DEPT. OF HEALTH & HUMAN SERVS., HEALTH INSURANCE COVERAGE AND THE AFFORDABLE CARE ACT: 2010–2016 1 (Mar. 3, 2016), <https://aspe.hhs.gov/sites/default/files/pdf/187551/ACA2010-2016.pdf> [https://perma.cc/NR4H-L6XR].

³⁹ See Harry Stein & Laura Pontari, *The Medicare Cost Curve Bent During the Obama Administration*, CTR. FOR AM. PROGRESS (Aug. 9, 2016, 9:02 AM), <https://www.americanprogress.org/issues/healthcare/news/2016/08/09/142386/the-medicare-cost-curve-bent-during-the-obama-administration/> [https://perma.cc/W3GX-3KAK].

⁴⁰ See Aaron Blake & Sean Sullivan, *Congress’s Addiction to Kicking the Can Down the Road*, WASH. POST (Jan. 22, 2013), <https://www.washingtonpost.com/news/the-fix/wp/2013/01/22/congress-addiction-to-kicking-the-can-down-the-road/> [https://perma.cc/G3QL-463Q].

⁴¹ See RICHARD KOGAN ET AL., CTR. ON BUDGET & POL’Y PRIORITIES, DIFFERENCE BETWEEN ECONOMIC GROWTH RATES AND TREASURY INTEREST RATES SIGNIFICANTLY AFFECTS LONG-TERM BUDGET OUTLOOK 4 (Feb. 27, 2015), <http://www.cbpp.org/research/difference->

rates, since the budget is fully balanced aside from interest costs. The cost of bringing the budget into primary balance is not affected by the size of the national debt, since primary balance is unrelated to interest costs.

When the budget is in primary balance, the debt-to-GDP ratio will remain constant if Treasury interest rates equal the growth rate of the economy, since debt and GDP will grow at the same rate. In other words, closing the fiscal gap simply requires bringing the budget into primary balance if Treasury interest rates match economic growth rates.

If economic growth rates are less than Treasury interest rates, then the debt-to-GDP ratio will increase even when the budget is in primary balance. Debt grows faster than the economy in this scenario. Closing the fiscal gap will require enough taxes to pay for both current programs and some interest costs. This is the only scenario in which a larger national debt means a larger fiscal gap.

Conversely, if Treasury interest rates are less than economic growth rates, then closing the fiscal gap does not even require fully paying for current programs with tax revenues. In this case, a budget that is in primary balance would cause the debt-to-GDP ratio to fall over time since debt would grow at a slower rate than GDP.

A groundbreaking analysis by Richard Kogan, Chad Stone, Bryann Da-Silva, and Jan Rejeski of the Center on Budget and Policy Priorities found that over the course of American history, Treasury interest rates have tended to be less than the growth rate of the economy.⁴² In other words, bringing the budget into primary balance has historically been more than enough to close the fiscal gap. Additionally, the difference between Treasury interest rates and growth rates has been far more stable since the end of World War II than it was in earlier eras. Looking ahead using CBO's August 2016 ten-year budget outlook, CBO projects that the growth rate of the economy will exceed Treasury interest rates in every year from 2016 to 2026.⁴³

Calculations showing that the fiscal gap increases as a result of postponing deficit reduction tend to use a constant future year and debt level to define what it means to close the fiscal gap. For example, CBO's 2016 long-term budget outlook shows that delaying the starting year for deficit reduction—but not the target year for achieving a specified fiscal goal—increases the amount of annual deficit reduction that would be needed to reach that goal, in this case reducing projected national debt to seventy-five percent of GDP in 2046.⁴⁴ This unsurprising result confirms that achieving the same amount of total debt reduction in less time requires more annual deficit reduction.

between-economic-growth-rates-and-treasury-interest-rates-significantly-affects?fa=view&id=5277 [https://perma.cc/N4Z3-ES3K].

⁴² *Id.* at 3.

⁴³ CONG. BUDGET OFFICE, ECONOMIC PROJECTIONS (supplement to AN UPDATE TO THE BUDGET AND ECONOMIC OUTLOOK: 2016 TO 2026) (Aug. 23, 2016), <https://www.cbo.gov/sites/default/files/51135-2016-08-EconomicProjections.xlsx> [https://perma.cc/NXR3-8DNG].

⁴⁴ See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 14.

If lawmakers delay the starting year of deficit reduction, they can also delay the target year for reaching their fiscal goal so they have the same number of years to reach that goal. If the national debt increases during this delay, lawmakers could choose to stabilize the debt at this higher level. In this case, postponing deficit reduction only increases the fiscal gap if interest rates exceed growth rates.⁴⁵

A 2016 paper by economists Douglas Elmendorf and Louise Sheiner studied the implications of low interest rates for fiscal policy and concluded that “the response to the high level of debt and to population aging should be quite gradual.”⁴⁶ While fiscal policy will need to adjust over time to sustain programs like Social Security and Medicare as they cover more Americans due to an aging population, lower Treasury interest rates reduce the cost of delaying these changes and implementing them more gradually. Elmendorf and Sheiner also recommend that lawmakers utilize low Treasury interest rates to borrow funds for public investments in sectors such as infrastructure.⁴⁷

E. How the National Debt May Affect the Economy

Postponing deficit reduction might mean that the national debt increases as a share of the economy, but there is no reason to expect a fiscal crisis from the increasing debt levels that CBO currently projects over the next ten years. CBO’s August 2016 budget outlook shows the debt-to-GDP ratio increasing from approximately seventy-seven percent in 2016 to eighty-six percent in 2026.⁴⁸ According to the CIA World Factbook, the debt-to-GDP ratio is approximately ninety percent in the United Kingdom, nearly one hundred percent in Canada, and over two hundred percent in Japan.⁴⁹ Like the United States, all three of these countries issue debt in a currency under their sovereign control, and all these countries are able to

⁴⁵ This dynamic is somewhat different when considering federal trust funds, such as the Social Security trust funds. In this case, preventing depletion of trust fund assets requires larger annual changes over a shorter period of time if those changes are delayed, because trust fund balances cannot fall below zero under current law. It should be noted, however, that the CBO’s baselines and fiscal gap calculations already assume that lawmakers provide open-ended transfers from general funds to trust funds in order to finance all spending scheduled under current law. If lawmakers decide to provide these general fund transfers, then trust fund balances are irrelevant to the timing and magnitude of deficit reduction necessary to close the fiscal gap. This article does not offer recommendations specific to the federal trust funds.

⁴⁶ Douglas Elmendorf & Louise Sheiner, *Federal Budget Policy with an Aging Population and Persistently Low Interest Rates* 3 (Hutchins Ctr. on Fiscal & Monetary Policy at Brookings, Working Paper No. 18, 2016), https://www.brookings.edu/wp-content/uploads/2016/02/wp18_elmendorf-sheiner_final.pdf [<https://perma.cc/H2EL-NG9V>].

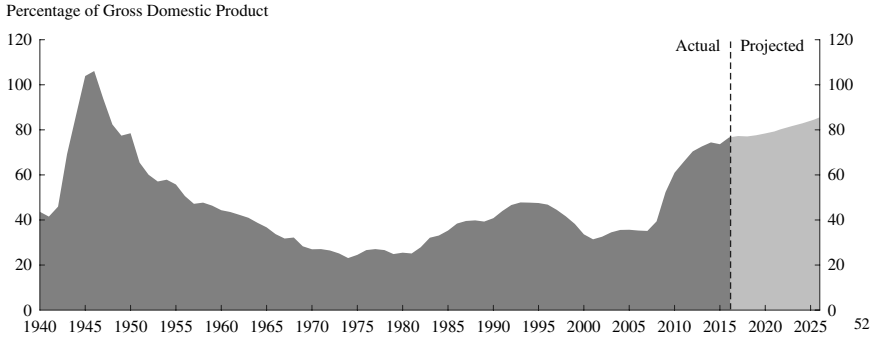
⁴⁷ See *id.* at 48–50.

⁴⁸ See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 7.

⁴⁹ CENT. INTELLIGENCE AGENCY, COUNTRY COMPARISON: PUBLIC DEBT, *in* THE WORLD FACTBOOK, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html> [<https://perma.cc/H4HS-YUZ7>].

borrow at low interest rates.⁵⁰ Interest rates on many Japanese bonds issued in 2016 were negative—even before adjusting for inflation—despite the high Japanese debt-to-GDP ratio.⁵¹

FIGURE 3: FEDERAL DEBT HELD BY THE PUBLIC



Looking at the fiscal and economic situation in the United States, the data does not support the conclusion that the increase in the national debt that CBO currently projects over the next ten years will cause slower economic growth. It is not even clear that higher debt levels have been correlated with slower growth, based on a study of fiscal and economic outcomes in advanced economies.⁵³ Even if there is a correlation, that would not prove causation. Instead, a study by economist Arindrajit Dube suggests that slow growth might cause higher debt—which makes sense because fiscal responses to recessions often result in higher deficits—but higher debt does not reliably predict slower growth.⁵⁴

Since Treasury bonds fill a vital role in the global economy, there could even be some economic benefit from increasing the supply of Treasury bonds, which could mean stabilizing the debt-to-GDP ratio at a higher level. The global supply of safe assets that can be used to save money has declined significantly in the wake of the financial crisis, but the United States can still

⁵⁰ See Paul Krugman, Opinion, *Debt, Spreads, and Mysterious Omissions*, N.Y. TIMES (Feb. 24, 2013), http://krugman.blogs.nytimes.com/2013/02/24/debt-spreads-and-mysterious-omissions/?_r=0 [https://perma.cc/76JG-RPGS].

⁵¹ See, e.g., JAPAN MINISTRY OF FIN., INTEREST RATE: JAPANESE GOVERNMENT BONDS, http://www.mof.go.jp/english/jgbs/reference/interest_rate/index.htm [https://perma.cc/W92L-S6GH].

⁵² See *An Update to the Budget and Economic Outlook: 2016 to 2026*, CONG. BUDGET OFF. (Aug. 23, 2016), <https://www.cbo.gov/publication/51908> [http://perma.cc/8LSK-CFKY].

⁵³ See Michael Ash & Robert Pollin, *Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff* Thomas Herndon 4 (Pol. Econ. Research Inst., Working Paper No. 322, 2013), <http://www.peri.umass.edu/media/k2/attachments/WP322.pdf> [https://perma.cc/7MXM-QX7R].

⁵⁴ See Arindrajit Dube, *Reinhart/Rogoff and Growth in a Time Before Debt*, ROOSEVELT FORWARD: RORTYBOMB (Apr. 18, 2013), <http://rooseveltinstitute.org/guest-post-reinhartrogoff-and-growth-time-debt/> [https://perma.cc/8HLU-7C5N].

supply these safe assets in the form of Treasury bonds.⁵⁵ Normally, the market should resolve a shortage of safe assets with lower interest rates—which should reduce demand and increase supply—but interest rates cannot necessarily decline enough when they are already near zero.

Economists Ricardo Caballero and Emmanuel Farhi call this “The Safety Trap” and believe that it creates a “structural drag” that reduces economic growth and fuels destabilizing financial bubbles.⁵⁶ Caballero and Farhi argue that when interest rates are near zero, issuing safe public debt resolves the safety trap and boosts economic output, as long as there is sufficient fiscal capacity to support this debt. But if new public debt finances policies that increase high-end concentration of wealth, as with tax cuts for the wealthy, this could further increase demand for safe assets and make it harder to escape the safety trap.⁵⁷

At a time when interest rates are stuck near zero, a moderate increase in interest rates caused by a higher national debt would actually deliver important economic benefits by creating more space for monetary policy.⁵⁸ The Federal Reserve uses interest rates to strike a balance in monetary policy: interest rates that are too high will increase unemployment, but interest rates that are too low risk sparking rapid inflation. Even with extremely low interest rates, the Federal Reserve has almost always undershot its inflation target of two percent since the end of the Great Recession.⁵⁹ If the economy enters another recession, the Federal Reserve will have a very limited ability to lower interest rates to reduce unemployment when those rates are already near zero. Of course, interest rates that are too high would also damage the economy, so this is not a reason to increase the national debt indefinitely.

One reason to limit deficits and debt is to leave as much space as possible to accumulate future debt if necessary, which is a concept known as “fiscal space.”⁶⁰ According to the economists at Moody’s Analytics, the U.S.

⁵⁵ See Pierre-Olivier Gourinchas & Olivier Jeanne, *Global Safe Assets* 9 (June 20, 2012) (paper presented to the XIth Bank for Int’l Settlements Annual Conference, Lucerne), http://www.bis.org/events/conf120621/gourinchas_paper.pdf [https://perma.cc/9FG2-U8VM].

⁵⁶ Ricardo J. Caballero & Emmanuel Farhi, *The Safety Trap* 36 (Nat’l Bureau of Econ. Research, Working Paper No. 19927, 2016), <http://www.nber.org/papers/w19927.pdf> [https://perma.cc/Y9LU-ZP6J].

⁵⁷ Thomas Goda et al., *A Case for Redistribution? Income Inequality and Wealth Concentration in the Recent Crisis* (Univ. of Greenwich, Working Paper No. GPERC05, 2014), http://gala.gre.ac.uk/14056/1/GPERC05_Onaran_Goda_StockhammerF.pdf [https://perma.cc/JJ5T-VNRD].

⁵⁸ See Furman, *supra* note 17, at 6.

⁵⁹ See Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index), FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Sept. 2016), <https://fred.stlouisfed.org/series/PCEPILFE> [https://perma.cc/D4JT-ZNXS].

⁶⁰ COMM. FOR A RESPONSIBLE FED. BUDGET, RUNNING ON EMPTY? FISCAL SPACE AND THE NEXT RECESSION 1 (Sept. 7, 2016), <http://www.crfb.org/papers/running-empty-fiscal-space-and-next-recession> [https://perma.cc/9JBL-L773].

debt-to-GDP ratio is comfortably in the safe zone in their analysis of fiscal space.⁶¹

Because fiscal space is not infinite, lawmakers should maximize its value for the American people when they use some of it. Investing in infrastructure to strengthen the economy and create middle-class jobs is a far better use of fiscal space than enacting massive tax cuts that mainly benefit the wealthiest Americans.

The United States cannot infinitely expand its national debt without negative economic consequences, but this is less of a concern at current U.S. debt levels. Furthermore, there are many other issues for lawmakers to balance when considering the fiscal gap and overall debt levels.

II. THE PROBLEMS WITH FISCAL HYSTERIA

A. *Fiscal Hysteria Hurts the Economy: The 2011 Pivot to Austerity*

Politicians can call any issue a priority, but actual prioritization requires the political system to decide which issues to tackle and which issues to leave on the back burner. In response to the Great Recession, lawmakers engaged in a significant—but brief—use of fiscal stimulus to promote economic recovery, most prominently through the American Recovery and Reinvestment Act of 2009 (ARRA).⁶² But concerns about the deficit still limited the size of the ARRA.⁶³ And the higher budget deficits that emerged in the wake of the Great Recession stoked fiscal hysteria that undermined further economic recovery efforts. “Fiscal fatigue—in a political, but not economic sense—played a role in this premature withdrawal of stimulus,” according to Jason Furman, who served as Chairman of the White House Council of Economic Advisors under President Obama.⁶⁴

In 2010, President Obama attempted to respond to concerns about the national debt by signing an executive order to establish the National Commission on Fiscal Responsibility and Reform. This was commonly known as the Bowles-Simpson Commission, as it was co-chaired by Erskine Bowles—former chief of staff to President Bill Clinton—and former Sen. Alan Simpson (R-WY).

President Obama’s executive order directed the bipartisan Bowles-Simpson Commission to develop a plan to bring the federal budget into

⁶¹ Beka Lamazoshvili, *U.K. Growth Exceeds Expectations*, MOODY’S ANALYTICS: ECONOMY.COM (July 27, 2016), <https://www.economy.com/dismal/tools/global-fiscal-space-tracker> [https://perma.cc/29GA-4CGN].

⁶² ARRA included tax cuts for individuals and businesses, fiscal relief for state governments, and investments in sectors including infrastructure and clean energy. See American Recovery and Reinvestment Act, Pub. L. No. 111-5, 123 Stat. 115 (2009).

⁶³ See David M. Herszenhorn & Carl Hulse, *Deal Reached in Congress on \$789 Billion Stimulus Plan*, N.Y. TIMES (Feb. 11, 2009), http://www.nytimes.com/2009/02/12/us/politics/12stimulus.html?_r=0 [https://perma.cc/6JN5-9VD4].

⁶⁴ See Furman, *supra* note 17, at 13.

primary balance by 2015, meaning that only interest payments would be financed with deficits.⁶⁵ According to the executive order, this goal was expected to stabilize the debt as a share of GDP after the economy recovered. In order to encourage a broad bipartisan compromise, the executive order did not allow the Bowles-Simpson Commission to issue a final report unless it was approved by fourteen of the commission's eighteen members. The Bowles-Simpson Commission never published a final report because their recommendations did not receive the required support from fourteen members.⁶⁶

The Bowles-Simpson Commission published a report anyway—just not a final report—with dire warnings about a “looming fiscal crisis.” The report described a scenario involving sharply higher interest rates for both the federal government and the private sector, and reduced confidence from investors that the United States would be able to pay its obligations. And the report claimed, “If we do not act soon to reassure the markets, the risk of a crisis will increase.”⁶⁷

Lawmakers did not enact the policy recommendations in the Bowles-Simpson report, but they did adopt its fiscal hysteria. In 2011, lawmakers appeared to decide that reducing the deficit should be the nation's top priority, even with the unemployment rate still well over eight percent.⁶⁸ This pivot to austerity reduced the rate of job creation and economic growth, and it did not even lead to significant actions to address the drivers of the nation's long-term debt.⁶⁹

This austerity was implemented in large part by the Budget Control Act of 2011 (BCA), which continues to shape fiscal policy to this day.⁷⁰ As a first step, the BCA imposed significant cuts to the spending that Congress controls on an annual basis in appropriations bills, which is known as discretionary spending. But the BCA also established a “Joint Select Committee on Deficit Reduction”—commonly known as the Supercommittee—to negotiate more than one trillion dollars of additional deficit reduction to take effect over the next ten years.

⁶⁵ See Exec. Order No. 13,531, 75 Fed. Reg. 7927 (Feb. 18, 2010), <https://www.whitehouse.gov/the-press-office/executive-order-national-commission-fiscal-responsibility-and-reform> [<https://perma.cc/3QYC-V592>].

⁶⁶ See Kathy Ruffing & Paul N. Van De Water, *Bowles-Simpson Social Security Proposal Not a Good Starting Point for Reforms*, CTR. ON BUDGET & POL'Y PRIORITIES (Feb. 17, 2011), http://www.cbpp.org/research/bowles-simpson-social-security-proposal-not-a-good-starting-point-for-reforms#_ftnref2 [<https://perma.cc/LD2L-R4GS>].

⁶⁷ FISCAL RESPONSIBILITY AND REFORM REPORT, *supra* note 1, at 11.

⁶⁸ See U.S. Bureau of Labor Statistics, *Civilian Unemployment Rate [UNRATE]*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Sept. 2016), <https://fred.stlouisfed.org/series/UNRATE> [<https://perma.cc/6ZAW-NZ7Y>].

⁶⁹ The policies described earlier to control health care costs were mostly included in the Affordable Care Act, which was passed in 2010. See Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010).

⁷⁰ Budget Control Act, Pub. L. No. 112-25, 125 Stat. 240 (2011), <https://www.congress.gov/112/plaws/publ25/PLAW-112publ25.pdf> [<https://perma.cc/BG2D-HQ6K>].

The BCA also included an automatic trigger known as sequestration: even deeper cuts to discretionary spending that would take effect if the Supercommittee failed to reach an agreement. In order to try to force a compromise out of the Supercommittee, lawmakers intentionally designed the sequestration cuts to be terrible.

The Supercommittee failed to produce a new deficit reduction package. When sequestration took effect in 2013, the CBO estimated that it would eliminate 750,000 jobs and reduce economic growth by 0.6 percentage points.⁷¹ These cuts curtailed enrollment in Head Start preschools,⁷² scuttled major scientific research,⁷³ and reduced federal readiness to fight wildfires.⁷⁴ An October 2013 report by Macroeconomic Advisers estimated that the reductions in discretionary spending since 2010—including, but not limited to, sequestration—reduced the annual economic growth rate by 0.7 percentage points, increased the unemployment rate by 0.8 percentage points, and reduced the number of jobs by 1.2 million.⁷⁵

While these discretionary spending cuts damaged the economy, they have little relevance to the fiscal questions facing the nation over the long-term. Discretionary spending is short-term by definition—Congress provides funding for discretionary programs in legislation that generally covers no more than one year. Ironically, some discretionary spending cuts even undermined efforts to prevent waste, fraud, and abuse in areas such as Social Security and tax administration that are far more relevant to the nation's long-term fiscal outlook.⁷⁶

The pivot to austerity in 2011 also reduced federal support for programs administered by state and local governments,⁷⁷ which led to damaging

⁷¹ Wendy Edelberg, *Automatic Reductions in Government Spending—aka Sequestration*, CONG. BUDGET OFFICE: BLOG (Feb. 28, 2013), <https://www.cbo.gov/publication/43961> [<https://perma.cc/Z29F-63GN>].

⁷² See Michael Alison Chandler, *Head Start Eliminated Services to 57,000 Children in U.S. as a Result of Sequester*, WASH. POST (Aug. 19, 2013), https://www.washingtonpost.com/local/education/head-start-eliminated-services-to-57000-children-in-us-as-a-result-of-sequester/2013/08/18/e1181810-06d9-11e3-9259-e2aaf5a5f84_story.html [<https://perma.cc/Q6HW-ZD4G>].

⁷³ See Sam Stein, *Sequestration Ushers in a Dark Age for Science in America*, HUFFINGTON POST (Aug. 14, 2013, 12:01 AM), http://www.huffingtonpost.com/2013/08/14/sequestration-cuts_n_3749432.html [<https://perma.cc/7CMS-XJUQ>].

⁷⁴ See Zack Colman, *Feds Warn Sequester Cuts Weakened Readiness for Wildfire Season*, THE HILL (May 13, 2013), <http://thehill.com/policy/energy-environment/299355-feds-expect-budget-cuts-to-hinder-fire-response> [<https://perma.cc/7UWA-ZE6V>].

⁷⁵ MACROECONOMIC ADVISERS, LLC, *supra* note 5, at 4.

⁷⁶ See Harry Stein & Hilary Gelfond, *How Shortsighted Spending Cuts Increase Waste, Fraud, and Abuse*, CTR. FOR AM. PROGRESS (Oct. 1, 2014), <https://www.americanprogress.org/issues/budget/report/2014/10/01/98164/how-shortsighted-spending-cuts-increase-waste-fraud-and-abuse/> [<https://perma.cc/L74X-BDAU>].

⁷⁷ See OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, HISTORICAL TABLES: BUDGET OF THE UNITED STATES GOVERNMENT, SUMMARY COMPARISON OF TOTAL OUTLAYS FOR GRANTS TO STATE AND LOCAL GOVERNMENTS: 1940–2021, Table 12.1 (2016), <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/hist.pdf> [<https://perma.cc/R6S2-EKGF>].

spending cuts at the state and local level in sectors such as education.⁷⁸ According to the Fiscal Barometer published by the Brookings Institution, fiscal austerity at the federal, state, and local levels combined to reduce economic growth in every year from 2011 to 2015.⁷⁹ The economy grew at a real annual rate of approximately two percent during this period,⁸⁰ and a major reason for this slow growth was that fiscal austerity often reduced economic growth by a full percentage point or more.⁸¹

In the years since sequestration first kicked in, federal lawmakers agreed to small and temporary budget deals that have mitigated the impact of sequestration.⁸² This has been a positive development, but the sequestration cuts have never been fully eliminated in even a single fiscal year. One of the major constraints on these budget deals is an apparent political imperative to offset sequester relief with deficit reduction, even though there has never been a fiscal imperative to do so.⁸³

James Horney and Chad Stone of the Center on Budget and Policy Priorities considered this tension between economic stimulus and budget deficits in 2010, when fiscal hysteria was beginning to overwhelm efforts to promote economic recovery.⁸⁴ The optimal policy, according to Horney and Stone, was to offset temporary economic measures with policies to reduce long-term deficits that would take effect after the economy was expected to recover.⁸⁵ The problem with this optimal policy was that lawmakers could not compromise on a deficit reduction package, as the failure of the Supercommittee made abundantly clear.

Horney and Stone urged lawmakers to pass economic recovery legislation—such as relief for unemployed workers—even if they could not agree on policies to offset the resulting temporary increase in deficits.⁸⁶ The top priority should have been growing the economy and helping struggling Americans find jobs and make ends meet. But even after deficits fell

⁷⁸ See Phil Oliff & Michael Leachman, *New School Year Brings Steep Cuts in State Funding For Schools*, CTR. ON BUDGET & POL'Y PRIORITIES 1 (Oct. 7, 2011), <http://www.cbpp.org/sites/default/files/atoms/files/9-1-11sfp.pdf> [<https://perma.cc/FY9T-EQAP>].

⁷⁹ See *The Fiscal Barometer*, BROOKINGS INST., <https://www.brookings.edu/interactives/the-fiscal-barometer/> [<https://perma.cc/XK2E-C4X6>] (last updated Oct. 28, 2016).

⁸⁰ See *Real Gross Domestic Product*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Oct. 28, 2016), <https://fred.stlouisfed.org/series/A191RL1Q225SBEA> [<https://perma.cc/N4B4-2L6B>].

⁸¹ See BROOKINGS INST., *supra* note 79.

⁸² See, e.g., Bipartisan Budget Act of 2015, Pub. L. No. 114-74, 129 Stat. 584.

⁸³ See Harry Stein, *Why One Simple Fix Would Dramatically Reduce The Sequester*, CTR. FOR AM. PROGRESS (Nov. 26, 2013, 6:00 AM), <https://www.americanprogress.org/issues/economy/reports/2013/11/26/80061/why-one-simple-fix-would-dramatically-reduce-the-sequester/> [<https://perma.cc/23PV-6CWY>].

⁸⁴ See James R. Horney & Chad Stone, *Don't Let the Ideal Prevent the Necessary: Why Offsets Are Not Needed for Temporary Economic Recovery Legislation*, CTR. ON BUDGET & POL'Y PRIORITIES (Mar. 3, 2010), <http://www.cbpp.org/sites/default/files/atoms/files/3-3-10stim.pdf> [<https://perma.cc/2QNQ-Y5EJ>].

⁸⁵ See *id.* at 4.

⁸⁶ See *id.* at 2.

substantially, the failure to agree on offsetting deficit reduction still prevented Congress from taking basic actions to support the economy.

Fiscal hysteria led to policies that caused major damage to the economy in the years since the Great Recession, by encouraging the political system to prioritize deficit reduction above other more important economic goals. And with the current budget deal expiring on October 1, 2017, with the start of FY 2018 the new President and Congress will soon have to confront sequestration yet again.

B. *Fiscal Hysteria Undermines the Progressive Agenda*

While fiscal hysteria promotes bad economic policy generally, it creates an especially powerful roadblock against progressive solutions for the economic challenges facing the American people. Fiscal hysteria thwarts sound progressive proposals by creating a false sense that the United States simply cannot afford them.

Looking at the history of economic scholarship and debate, political scientist Ruy Teixeira concludes, “Arguably, there is no greater obstacle to progressive change than the idea of austerity.”⁸⁷

The congressional debate over health care reform is a case study in the power of fiscal hysteria. While the ACA was ultimately signed into law, opponents constantly cited the national debt in their attempts to block the bill. This line of attack appears to have significantly influenced how the authors of the ACA designed the law in ways that reduced its scope and limited its political appeal.

During the debate in the House of Representatives over health care reform, Representative Eric Cantor (R-VA) declared, “We believe that this government must stop piling debt upon our children and grandchildren, and this trillion-dollar overhaul will do the opposite.”⁸⁸ Representative Mark Kirk (R-IL), who was later elected to the Senate, said, “I will vote against this legislation because it costs Illinois jobs, raises taxes and deepens the debt our children must one day pay. I wish that we could adopt a more modest set of reforms that do not have such harsh consequences for our economy.”⁸⁹

Of course, these statements were at odds with the judgment of the CBO, which estimated at the time that the ACA would reduce deficits.⁹⁰ Indeed, as described earlier, the ACA appears to be playing a significant role

⁸⁷ Ruy Teixeira, *Austerity: The Biggest Roadblock To Progressive Change*, THINK-PROGRESS (Apr. 26, 2013), <https://thinkprogress.org/austerity-the-biggest-roadblock-to-progressive-change-334303c953ce#.nclfv17z> [<https://perma.cc/3Q2M-7GN6>].

⁸⁸ 156 CONG. REC. H1891 (2010).

⁸⁹ See *id.* at H1918.

⁹⁰ See *id.* at H1913; Letter from Douglas W. Elmendorf, Dir., Cong. Budget Office, to Nancy Pelosi, Speaker, U.S. House of Representatives 2 (Mar. 20, 2010), <https://www.cbo.gov/sites/default/files/amendconprop.pdf> [<https://perma.cc/SFSY-R3ZJ>].

in reducing the growth of health care costs, particularly in Medicare, and the law is also reducing overall budget deficits.⁹¹

Even when legislators did not claim that the ACA would increase deficits, fiscal hysteria still motivated lawmakers to oppose expanding federal support for health insurance coverage—even as part of legislation that reduced deficits. Representative Gene Taylor (D-MS) explained, “With the national debt in excess of twelve trillion dollars and projected to grow far into the future, I believe that Congress should focus on fulfilling the promises that have already been made rather than make new promises that we cannot afford.”⁹² Or as Representative Dave Camp (R-MI) put it, “We simply cannot afford to create a new Federal bureaucracy that costs nearly one trillion dollars when our national debt is twelve trillion dollars and there is no plan in place to address it.”⁹³

As the statements from Representatives Taylor and Camp demonstrate, even paying for a progressive policy is not always enough to show it is “affordable.” Their opposition did not ultimately sink health care reform, but this fiscal hysteria still had a profound impact on the bills that ultimately became the ACA.

As Christopher Hayes wrote in 2009, the concept of “fiscal discipline” was understood by moderate lawmakers to not only mean reducing budget deficits, but also shrinking the size of the overall bill.⁹⁴ As lawmakers crafted the ACA, one of their goals appears to have been to keep the cost of the coverage expansion under the “magical \$1 trillion mark.”⁹⁵ This limitation forced consumers to cover more of the cost, which “resulted in making insurance less affordable, [and] making the plan less popular,” according to Richard Kirsch, formerly the chief executive of the Health Care for America Now coalition that helped lead the effort to pass the ACA.⁹⁶ While the percentage of Americans without health insurance fell to historic lows after passage of the ACA, Census data indicates that 9.1% of American adults still lacked health insurance in 2015.⁹⁷

Progressives may find the rhetoric of fiscal hysteria tempting as a way to build support for funding important programs with tax increases on the

⁹¹ See CONG. BUDGET OFFICE, BUDGETARY & ECONOMIC EFFECTS OF REPEALING THE AFFORDABLE CARE ACT 4 (June 2015), https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50252-Effects_of_ACA_Repeal.pdf [<https://perma.cc/3DWX-L76Q>].

⁹² 111 CONG. REC. H1920 (2010).

⁹³ *Id.* at H1894.

⁹⁴ Christopher Hayes, Editorial, *Bend It Like Obama?*, THE NATION, Oct. 3, 2009, at 6, 8.

⁹⁵ *Id.*

⁹⁶ Harold Pollack, *The Group that Got Health Reform Passed Is Declaring Victory and Going Home*, WASH. POST: WONKBLOG (Jan. 5, 2014), <https://www.washingtonpost.com/news/wonk/wp/2014/01/05/the-group-that-got-health-reform-passed-is-declaring-victory-and-going-home/> [<https://perma.cc/H6K9-Z2CJ>].

⁹⁷ See Jessica C. Barnett & Marina Vornovitsky, *Health Insurance Coverage in the United States: 2015*, U.S. CENSUS BUREAU (Sept. 13, 2016), <http://www.census.gov/library/publications/2016/demo/p60-257.html> [<https://perma.cc/EZ5U-AZB5>]; see also Matt Broadus & Edwin Park, *Census Data Show Large Health Coverage Gains Continued in 2015*, CTR. ON BUDGET & POL'Y PRIORITIES (Sept. 16, 2016), <http://www.cbpp.org/sites/default/files/atoms/files/9-16-16health.pdf> [<https://perma.cc/TUA3-ZSBN>].

wealthy and corporations, but this is both unnecessary and counterproductive. Using fiscal hysteria is unnecessary because progressive taxes are already popular in their own right. According to a 2015 Gallup poll, sixty-two percent of Americans say that high-income households do not pay enough taxes, and sixty-nine percent said the same about corporations.⁹⁸ Gallup has frequently asked this question—going back to 2004 for corporations and 1992 for high-income individuals—and the majority of respondents have always said that both groups pay too little in taxes.⁹⁹

Fiscal hysteria is counterproductive to enacting progressive taxes because it creates a sense that tax increases are only throwing good money down the drain of a wasteful and bankrupt government. As economist Jared Bernstein notes, “Deficit hysteria—often promulgated by those who are happy to cut taxes without making up the revenue loss—has become a stalking horse for shrinking government under the guise of fiscal rectitude.”¹⁰⁰ Increasing federal revenues will be necessary over the long-term to support an aging population, but exaggerating the immediacy and magnitude of this problem only makes programs like Social Security appear hopelessly broken without drastic cuts.

C. *Fiscal Hysteria Threatens Existing Programs That Help Americans Make Ends Meet*

In addition to undermining support for economic recovery measures and progressive legislation, fiscal hysteria is also a linchpin of the strategy to undo major elements of the economic support system for low- and middle-income families, particularly Social Security, Medicare, and Medicaid. These programs are extremely popular with the American people, but they are vulnerable to fiscal hysteria. By convincing the American people that otherwise popular programs are simply unaffordable, opponents can open the door to cutbacks that voters would not otherwise accept.

Conservatives use fiscal hysteria as part of a “starve the beast” strategy to enact massive cuts to social insurance programs.¹⁰¹ Even when higher debt projections are a consequence of recent tax cuts, some Congressional Republicans have used the updated data to call for cuts to Social Security and Medicare in order to avert a debt crisis.¹⁰²

⁹⁸ See Justin McCarthy, *More Americans Say Low-Income Earners Pay Too Much in Taxes*, GALLUP (Apr. 15, 2015), <http://www.gallup.com/poll/182426/americans-say-low-income-earners-pay-taxes.aspx> [<https://perma.cc/T83Z-CKHA>].

⁹⁹ See *id.*

¹⁰⁰ Jared Bernstein, Opinion, *Jobs, Investments Must Come First: Opposing View*, USA TODAY (Aug. 15, 2016, 5:07 PM), <http://www.usatoday.com/story/opinion/2016/08/15/jobs-investments-deficit-social-security-medicare-editorials-debates/88795380/> [<https://perma.cc/3N28-6S7G>].

¹⁰¹ See generally Bruce Bartlett, “Starve the Beast,” 12 INDEP. REV. J. 5 (2007).

¹⁰² See Harry Stein, *GOP Uses Debt They Created As an Excuse for Program Cuts*, THINKPROGRESS (July 12, 2016), <https://thinkprogress.org/gop-uses-debt-they-created-as-an-excuse-for-program-cuts-886506648765#.2ny14lw4b> [<https://perma.cc/GWX8-J395>].

Budget resolutions offered by Congressional Republican leaders open with dire warnings about “a truly devastating fiscal crisis,” which they claim to solve with harsh spending cuts.¹⁰³ Over sixty percent of these cuts hit programs that are designed to help people with low- and moderate-incomes.¹⁰⁴ These cuts fall especially hard on Medicaid,¹⁰⁵ which helped ninety-seven million struggling Americans access health care at some point during 2015.¹⁰⁶

Additionally, the Republican budgets would turn Medicare into a premium support program, where beneficiaries receive a voucher to purchase either private insurance or traditional Medicare.¹⁰⁷ These budgets reduce Medicare spending by limiting the rate at which the voucher can grow, but this also means that traditional Medicare and private insurance may become increasingly unaffordable if the voucher grows slower than health care costs.¹⁰⁸

Leading Republicans have also called for big cuts to Social Security. While the most recent Republican budgets have not included major Social Security proposals, an earlier budget authored by Representative Paul Ryan (R-WI) advocated partially privatizing Social Security and making large cuts to traditional benefits.¹⁰⁹ At the time, Representative Ryan was the ranking Republican on the House Budget Committee, but he later rose to become Speaker of the House.

House Ways and Means Committee Chairman Kevin Brady (R-TX)—whose committee has jurisdiction over Social Security¹¹⁰—also advocates cutting benefits by raising the retirement age to seventy.¹¹¹ This is an across-the-board cut for all beneficiaries. The Social Security formula currently increases or decreases monthly benefits based on the age at which they are

¹⁰³ TOM PRICE, COMM. ON THE BUDGET, U.S. H.R., FISCAL YEAR 2017 BUDGET RESOLUTION, 10, 43 (Mar. 2016), http://budget.house.gov/uploadedfiles/fy2017_a_balanced_budget_for_a_stronger_america.pdf [https://perma.cc/A5FZ-PC96].

¹⁰⁴ See Richard Kogan & Isaac Shapiro, *House GOP Budget Gets 62 Percent of Budget Cuts From Low- and Moderate-Income Programs*, CTR. ON BUDGET & POL’Y PRIORITIES 1 (Mar. 28, 2016), <http://www.cbpp.org/sites/default/files/atoms/files/3-28-16bud.pdf> [https://perma.cc/R3DU-F5KL].

¹⁰⁵ See *id.* at 2.

¹⁰⁶ See CONG. BUDGET OFFICE, DETAIL OF SPENDING AND ENROLLMENT FOR MEDICAID FOR CBO’S MARCH 2016 BASELINE (Mar. 2016), <https://www.cbo.gov/sites/default/files/51301-2016-03-Medicaid.pdf> [https://perma.cc/FKM6-67AX].

¹⁰⁷ See Emily Oshima Lee, *The Ryan Budget Includes Devastating Health Care Cost Increases for Seniors—Again*, CTR. FOR AM. PROGRESS (Mar. 12, 2013, 3:50 PM), <https://www.americanprogress.org/issues/healthcare/news/2013/03/12/56445/the-ryan-budget-includes-devastating-health-care-cost-increases-for-seniors-again-2/> [https://perma.cc/F9VP-B366].

¹⁰⁸ See *id.*

¹⁰⁹ See Paul N. Van de Water, *The Ryan Budget’s Radical Priorities*, CTR. ON BUDGET & POL’Y PRIORITIES 1 (July 7, 2010), <http://www.cbpp.org/sites/default/files/atoms/files/3-10-10bud-rev7-7-10.pdf> [https://perma.cc/DD8S-FUKY].

¹¹⁰ See *Biography*, KEVIN BRADY, <http://kevinbrady.house.gov/about/> [https://perma.cc/WH3N-A7EM] (last visited Oct. 29, 2016).

¹¹¹ See Kevin Brady, *Brady: Time for Congress, President to Work Together to Save Social Security*, HOUSTON CHRON. (Mar. 6, 2015, 9:23 AM), <http://www.chron.com/opinion/outlook/article/Brady-Time-for-Congress-president-to-work-6117579.php> [https://perma.cc/BJ5E-UGW5].

claimed, so a worker who waits longer to retire gets a larger monthly benefit.¹¹² For example, a worker who waits to retire until age seventy would receive a larger monthly benefit under current law, but raising the retirement age to seventy would cut their benefit since they would no longer receive the extra boost from delaying their claim. Workers who claim Social Security earlier receive a smaller monthly benefit under current law, and raising the retirement age would increase this penalty. As economist Henry J. Aaron explains, raising the Social Security retirement age to seventy is “simply a twenty-four percent across-the-board cut in benefits for all new claimants.”¹¹³

Putting aside the policy merits of cuts to Social Security, Medicare, and Medicaid, these proposals are extremely unpopular. The 2012 Cooperative Congressional Election Study (CCES) found that only nineteen percent of respondents supported the Ryan budget.¹¹⁴ Even among only Republican respondents, the Ryan budget only received thirty-two percent support.¹¹⁵

The CCES data shows that the Ryan budget was more popular with high-income Republican campaign donors. The proposal received seventy-two percent support among Republicans who donated to a political campaign and reported an annual income of more than \$250,000.¹¹⁶

Public opinion looks similar for Social Security. A 2014 poll by the Pew Research Center found that sixty-seven percent of respondents do not think Social Security benefits should be reduced.¹¹⁷ But a study by Benjamin Page, Larry Bartels, and Jason Seawright found that the wealthiest Americans and the general public have different views on Social Security. While the general public supports expanding Social Security over cutting benefits by a margin of forty-six percentage points, the wealthiest Americans favor Social Security cuts over expansion by a margin of thirty-three percentage points.¹¹⁸

Here is how fiscal hysteria makes it possible to enact deeply unpopular cuts to progressive programs: the same Pew Research Center poll that found widespread support for maintaining Social Security benefits also found that forty-three percent of Americans under age sixty-five do not expect Social

¹¹² See Henry J. Aaron, *Recent Social Security Blogs—Some Corrections*, BROOKINGS INST. (Apr. 15, 2016), <https://www.brookings.edu/opinions/recent-social-security-blogs-some-corrections/> [https://perma.cc/84CM-TT89].

¹¹³ See *id.*

¹¹⁴ See Harry Stein & Alex Rowell, *How the House Budget Sides with the Wealthy over Everyone Else—Even Republican Voters*, CTR. FOR AM. PROGRESS (Mar. 15, 2016, 2:41 PM), <https://www.americanprogress.org/issues/economy/news/2016/03/15/133350/how-the-house-budget-sides-with-the-wealthy-over-everyone-else-even-republican-voters/> [https://perma.cc/E4R-85H7].

¹¹⁵ See *id.*

¹¹⁶ See *id.*

¹¹⁷ See PEW RESEARCH CTR., *MILLENNIALS IN ADULTHOOD DETACHED FROM INSTITUTIONS, NETWORKED WITH FRIENDS* 37 (2014), http://www.pewsocialtrends.org/files/2014/03/2014-03-07_generations-report-version-for-web.pdf [https://perma.cc/VG2E-Q9NP].

¹¹⁸ See Benjamin I. Page et al., *Democracy and the Policy Preferences of Wealthy Americans*, 11 PERSP. ON POL. 51, 56 (2013).

Security to pay any benefits when they retire.¹¹⁹ An additional thirty-nine percent expect reduced benefits.¹²⁰

To be clear, even if no changes are made to Social Security, the Social Security trustees estimate that the trust fund has enough reserves to pay full benefits until 2034, after which payroll tax revenues would be sufficient to support seventy-nine percent of scheduled benefits.¹²¹ Changes will need to be made if lawmakers wish to avoid benefit cuts in the future, but it is also possible to expand Social Security benefits without depleting the trust fund, as some lawmakers have already shown with proposals that rely on additional revenues.¹²² The only way that today's workers would get no benefits from Social Security is if lawmakers decide to abolish the program.

The pessimism about Social Security is fiscal hysteria at its worst—an inaccurate understanding of the federal budget that undermines support for an effective and popular program. Cutting Social Security is neither popular nor necessary. But for Americans who do not expect the program to exist at all for them, even drastic benefit cuts may appear to be the best they can expect from their government.

On the bright side, Social Security has survived previous attacks when the public was pessimistic about its finances. In 2005, Gallup found that fifty-one percent of non-retirees did not expect Social Security to be able to pay them any benefits.¹²³ President George W. Bush pushed hard to privatize Social Security in 2005, claiming that there was only a “narrow window” to fix the program and that savings in the Social Security trust fund only represented “empty promises.”¹²⁴ Yet a Republican Congress ultimately rejected President Bush's plan amid widespread public opposition.¹²⁵ If the public grows even more pessimistic about Social Security, however, it may become more vulnerable to cuts.

D. Fiscal Hysteria is Wrongly Viewed as Politically Neutral

Even though fiscal hysteria supports the conservative agenda, many appear to view it as a neutral point of view. This makes fiscal hysteria a partic-

¹¹⁹ PEW RESEARCH CTR., *supra* note 117, at 59.

¹²⁰ *Id.*

¹²¹ See THE BD. OF TR. OF THE FED. OLD-AGE & SURVIVORS INS. AND FED. DISABILITY INS. TR. FUNDS., ANN. REP. 6 (2016), <https://www.ssa.gov/oact/TR/2016/tr2016.pdf> [<https://perma.cc/7NY4-K2K3>].

¹²² See Letter from Stephen C. Goss, Chief Actuary, Soc. Sec. Admin., to John Larson, Representative, U.S. House of Representatives 1–2 (Mar. 18, 2015), https://www.ssa.gov/oact/solvency/JLarson_20150318.pdf [<https://perma.cc/7A5Y-9JZ3>].

¹²³ See Frank Newport, *Many Americans Doubt They Will Get Social Security Benefits*, GALLUP (Aug. 13, 2015), <http://www.gallup.com/poll/184580/americans-doubt-social-security-benefits.aspx> [<https://perma.cc/UU2J-45LL>].

¹²⁴ See *Strengthening Social Security for Future Generations*, THE WHITE HOUSE: PRESIDENT GEORGE W. BUSH, <https://georgewbush-whitehouse.archives.gov/infocus/social-security/youth/> [<https://perma.cc/XK33-MXPV>] (last visited Nov. 6, 2016).

¹²⁵ See Jacob Weisberg, *Bush's First Defeat*, SLATE (Mar. 31, 2005, 9:00 AM), http://www.slate.com/articles/news_and_politics/the_big_idea/2005/03/bushs_first_defeat.html [<https://perma.cc/N5Z7-ENJM>].

ularly effective way to influence public policy. While claims about the crushing burden of taxation are generally presented as a conservative point of view, the national debt is often presented without dispute as a crushing burden on the American people.

TIME Magazine prominently displayed this fallacy on its cover in April 2016, informing readers that every American man, woman, and child owed \$42,992.12 in order to pay off the national debt.¹²⁶ The number actually came from an opinion piece by Jim Grant, who used the national debt as a way to argue that tax payments fuel a wasteful “squandermania.” Grant’s proposals to “escape from our self-constructed fiscal jail” were to switch to a flat tax and abolish the practice of withholding taxes from paychecks.¹²⁷ A flat tax would shift the tax burden from the rich to the poor,¹²⁸ and eliminating tax withholding would increase deficits by making it harder to collect taxes.¹²⁹

Grant’s calculation of the debt burden is designed to frighten rather than illuminate, but *TIME Magazine* presented it as a neutral fact. Dividing the national debt by the current U.S. population dramatically overstates its burden, since it fails to account for future generations. But most of all, there is no need to immediately pay off the entire national debt, and the policy changes needed to stabilize the debt as a share of the economy are relatively modest. Michael Hiltzik of the *Los Angeles Times* speculated that, “*Time*’s [sic] editors were snookered into running an ideological screed under the misimpression that it was an act of reportage.”¹³⁰

But *TIME Magazine* is not alone. A 2015 *U.S. News and World Report* article headlined, “National Debt a Crisis, but Congress Divided on Fix,” takes the debt crisis as a given.¹³¹ An Associated Press article about Senator Marco Rubio’s (R-FL) 2016 presidential campaign announced, “Rubio in home state vowing to solve national debt crisis,” with no analysis in the article about whether the national debt was indeed a crisis.¹³² NBC News similarly accepted the narrative of a debt crisis when covering an event with

¹²⁶ See Grant, *supra* note 3 (cover describing the national debt).

¹²⁷ See *id.* at 33.

¹²⁸ See Alexandra Thornton & Harry Stein, *Who Wins and Who Loses?*, CTR. FOR AM. PROGRESS (Oct 22, 2015, 5:00 AM), <https://www.americanprogress.org/issues/economy/reports/2015/10/22/123815/who-wins-and-who-loses/> [<https://perma.cc/RJL5-9VN7>].

¹²⁹ See IMF, CURRENT CHALLENGES IN REVENUE MOBILIZATION: IMPROVING TAX COMPLIANCE 18–19 (2015), <https://www.imf.org/external/np/pp/eng/2015/020215a.pdf> [<https://perma.cc/P6Y9-VP6K>].

¹³⁰ See Michael Hiltzik, *Time’s Debt Scare Cover Story Is a Journalistic—And Economic—Train Wreck*, L.A. TIMES (Apr. 15, 2016, 8:56 AM), <http://www.latimes.com/business/hiltzik/la-fi-hiltzik-time-debt-20160414-snap-htmlstory.html> [<https://perma.cc/UH7R-S3HE>].

¹³¹ See Gabrielle Levy, *National Debt a Crisis, but Congress Divided on Fix*, U.S. NEWS & WORLD REPORT (Jan. 28, 2015, 5:25 PM), <http://www.usnews.com/news/articles/2015/01/28/national-debt-a-crisis-but-congress-divided-on-fix> [<https://perma.cc/G7XE-CR5U>].

¹³² See Sergio Bustos, *Rubio In Home State Vowing to Solve National Debt Crisis*, BUS. INSIDER (Jan. 11, 2016, 2:25 PM), <http://www.businessinsider.com/ap-rubio-in-home-state-vowing-to-solve-national-debt-crisis-2016-1> [<https://perma.cc/XP48-EBUT>].

Senator Mark Warner (D-VA), with a headline reading, “Senator Mark Warner Speaks on National Debt Crisis at UVA.”¹³³

When Democrats echo the fiscal hysteria coming from Republicans, they send a signal to the media that fiscal hysteria is politically neutral—even though it promotes conservative policy outcomes. The warnings of a looming fiscal crisis from the Bowles-Simpson Commission came from both Democratic and Republican members.¹³⁴ The 2015 *U.S. News & World Report* article about the debt “crisis” is a particularly strong illustration of this dynamic, as it quotes a bipartisan array of elected officials lamenting the national debt without any attempt to dispute the narrative of a fiscal crisis.¹³⁵

The emphasis that politicians place on deficit reduction is not responding to demands from voters. In February 2011, when lawmakers were pivoting to austerity, only nineteen percent of Americans told Pew pollsters that the deficit was their largest economic concern.¹³⁶ Forty-four percent were most concerned about jobs.¹³⁷ Since only eighteen percent believed cutting spending to reduce the deficit would improve the job market, it was not the case that Americans saw austerity as necessary for job creation.¹³⁸

While many Republican lawmakers use fiscal hysteria as a way to push for spending cuts, Ruy Teixeira speculates that some Democratic lawmakers stress deficit reduction as a way to appear “responsible” to voters, and especially independents.¹³⁹ Teixeira points out, however, that voters tend to reward economic success rather than deficit reduction.¹⁴⁰ Therefore, in times when austerity is economically counterproductive it will also be politically counterproductive. As for voters who identify as independents, most actually lean reliably towards one party or the other.¹⁴¹ And in the uncommon case of

¹³³ See *Senator Mark Warner Speaks on National Debt Crisis at UVA*, NBC29 WVIR-TV (Feb. 25, 2013, 5:41 PM), <http://www.nbc29.com/story/21127563/senator-mark-warner-speaks-on-national-debt-crisis-at-uva> [<https://perma.cc/N3ZG-Z37N>].

¹³⁴ See Member Statements for Final Commission Report, Nat’l Comm’n on Fiscal Responsibility and Reform (Jan. 31, 2011), <https://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/MemberStatements.pdf> [<https://perma.cc/H2VJ-V7AT>].

¹³⁵ See Levy, *supra* note 131.

¹³⁶ See *2011 March Political Typology Final Topline*, PEW RESEARCH CTR. FOR THE PEOPLE & THE PRESS 121, <http://www.people-press.org/files/2011/05/Political-Typology-Topline.pdf> [<https://perma.cc/ERL3-7B4M>].

¹³⁷ See *id.* at 144.

¹³⁸ See *id.*

¹³⁹ See Ruy Teixeira, *Not by Popular Demand*, NEW REPUBLIC (May 19, 2011), <https://newrepublic.com/article/88663/budget-deficit-popular-opinion-bowles-simpson> [<https://perma.cc/ZA6V-J3XV>]; Ruy Teixeira, *Obama’s Unhealthy Obsession with Independents*, NEW REPUBLIC (Aug. 2, 2011), <https://newrepublic.com/article/93041/obama-independent-voters> [<https://perma.cc/VE4K-QH5X>].

¹⁴⁰ See Teixeira, *Not by Popular Demand*, *supra* note 139.

¹⁴¹ See Alan I. Abramowitz, *Setting the Record Straight: Correcting Myths About Independent Voters*, UNIV. OF VA. CTR. FOR POLITICS: SABATO’S CRYSTAL BALL (July 7, 2011), <http://www.centerforpolitics.org/crystalball/articles/aia2011070702/> [<https://perma.cc/UB5V-EAG9>].

actual swing voters, economic performance has a particularly large influence on their voting behavior.¹⁴²

The bottom line is that fiscal hysteria should not diminish a realistic appraisal of the American fiscal system. The most significant risk of an actual fiscal crisis comes from self-inflicted errors, such as failing to raise the statutory debt limit or passing unaffordable tax cuts. A responsible fiscal framework would reject these irresponsible actions.

III. A BETTER APPROACH TO FISCAL POLICY

This part outlines an alternative framework to replace fiscal hysteria: good fiscal policy should be responsive, ambitious, and sane. This approach is grounded in economic reality and recognizes the enormous fiscal potential of the United States. Rather than accepting fiscal hysteria as a given and trying to work within its flawed assumptions, a clear-eyed view of the federal budget and U.S. economy can marginalize fiscal hysteria and open the door to a policy agenda that responds directly to the problems facing the American people.

This is not to say that progressives should take the position that, “deficits don’t matter,” as Dick Cheney reportedly said when advocating for the 2003 Bush tax cuts.¹⁴³ While the United States has substantial fiscal space, consuming this space with tax cuts for the wealthiest Americans means less resources are available for progressive priorities. Permanent tax cuts also increase the risk of future cuts to fundamental programs such as Social Security and Medicare in order to close a larger fiscal gap. And if interest rates increase and the economy is consistently operating at full employment, then there is a stronger economic case for deficit reduction.

A. *Responsive Fiscal Policy Supports Stable and Sustainable Economic Growth*

A fiscally responsible budget is a budget that responds to economic reality. Federal borrowing, like taxation and spending, is a policy tool. All of these tools can be overused or underused.

In the same way that the Federal Reserve studies economic indicators as it sets monetary policy, lawmakers should study economic data when making fiscal policy decisions. Economic data is not stagnant, and thus fiscal policy should not be stagnant either. Nearly all economists scoff at the idea of abolishing the Federal Reserve and returning to the gold standard,

¹⁴² See John Sides, *Do Democrats Understand Political Independents?*, THE MONKEY CAGE (Nov. 16, 2010), http://themonkeycage.org/2010/11/do_democrats_understand_politi/ [<https://perma.cc/EP9M-2EPL>].

¹⁴³ See Rebecca Leung, *Bush Sought “Way” to Invade Iraq?*, CBS NEWS: 60 MINUTES, (Jan. 9, 2004), <http://www.cbsnews.com/news/bush-sought-way-to-invade-iraq/> [<https://perma.cc/7YJP-J56K>].

which would limit the ability of the United States to adjust monetary policy based on economic conditions.¹⁴⁴ A fiscal policy that always points in the same direction should be viewed with the same derision.

There are many factors that policymakers should consider when debating the appropriate levels of deficits and debt. This section will discuss two of the most important factors: interest rates and demand.

High deficits or debt can become problems for the economy if they drive up interest rates and reduce the ability of private businesses to access capital for investment. This could happen if increased demand from the government for loans increases the price that investors charge to supply loans, which would be reflected in higher interest rates. In this scenario, government borrowing might “crowd out” private-sector borrowing, if investors choose to loan their money to the government instead of businesses.¹⁴⁵ As a result, businesses would have to offer higher interest rates to entice investors to loan them money, and businesses may forego some investments if high interest rates make them unprofitable.

While business investment has been relatively low in recent years, the problem has not been a lack of access to capital.¹⁴⁶ Like Treasury bonds, interest rates on corporate bonds are also low.¹⁴⁷ If corporations wanted to make investments, they could easily access very affordable capital to do so.

The problem since the Great Recession has been a lack of demand. Businesses are reluctant to make new investments to expand their production if they lack confidence that consumers will be there to buy their products.

Maintaining sufficient demand is essential to keeping the economy at full employment, which is when unemployment is as low as it can be without accelerating inflation.¹⁴⁸ Since the mid-1970s, full employment has become far less common for the U.S. economy.¹⁴⁹ Failing to sustain full employment has meant that many Americans are left behind even when the overall economy is growing.¹⁵⁰

Fiscal policy has not sufficiently prioritized the goal of running the economy at its maximum sustainable potential, with full employment and

¹⁴⁴ See *Gold Standard*, UNIV. CHI. BOOTH SCH. OF BUS.: INITIATIVE ON GLOB. MKTS. (Jan. 12, 2012, 9:54 AM), http://www.igmchicago.org/igm-economic-experts-panel/poll-results?SurveyID=SV_cw1nNUYOXSAKwrq [<https://perma.cc/Z57X-QTQD>].

¹⁴⁵ See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 8.

¹⁴⁶ See Jason Furman, Chairman, Council of Econ. Advisers, Business Investment in the United States: Facts, Explanations, Puzzles, and Policies 14 (Sept. 30, 2015), transcript available at https://www.whitehouse.gov/sites/default/files/page/files/20150930_business_investment_in_the_united_states.pdf [<https://perma.cc/XG5D-LKAM>].

¹⁴⁷ See *Moody's Seasoned Aaa Corp. Bond Yield*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Oct. 3, 2016), <https://fred.stlouisfed.org/series/AAA> [<https://perma.cc/9CDK-9VAE>]; *Moody's Seasoned Baa Corp. Bond Yield*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Oct. 3 2016), <https://fred.stlouisfed.org/series/BAA> [<https://perma.cc/GK7B-7M5A>].

¹⁴⁸ See Jared Bernstein, *The CBPP Full Employment Project: Overview*, CTR. ON BUDGET & POL'Y PRIORITIES 1 (Apr. 2, 2014), <http://www.cbpp.org/sites/default/files/atoms/files/4-2-14fe-bernstein.pdf> [<https://perma.cc/Y5BL-FNMB>].

¹⁴⁹ See *id.* at 3.

¹⁵⁰ See *id.* at 8.

wages that increase with productivity growth. One reason is fiscal hysteria, as seen when political leaders turned their focus from economic recovery to deficit reduction in 2011. Monetary policy experts recently stressed this problem at a conference in Jackson Hole, Wyoming, urging fiscal policy-makers to increase government spending to support the economy.¹⁵¹

Recent research by economists Lawrence Summers, Brad DeLong, and others suggests that chronic demand shortfalls are becoming an increasingly significant problem for the economy.¹⁵² Various economic shifts are causing increases in savings, but a lack of productive investments to make use of those savings leads to financial bubbles and a lack of adequate demand to sustain strong economic growth.¹⁵³ Former Federal Reserve Chairman Ben Bernanke is more optimistic that these financial imbalances, which he attributes to a “global savings glut,” will dissipate over the long-term.¹⁵⁴

Even if a demand shortfall is temporary, failing to keep the economy running at its full potential not only increases unemployment, it also causes economic damage that could be permanent. While the gap between actual and potential output has slowly narrowed over the last several years, one of the reasons for this narrowing is that economists have lowered their estimates for potential output.¹⁵⁵ In other words, the economy is closer to its potential in part because it has less potential.

CBO states that one of the reasons for its declining estimates for potential output is the slow recovery from the Great Recession.¹⁵⁶ This phenomenon is known as hysteresis. A study by economists Olivier Blanchard, Eugenio Cerutti, and Lawrence Summers found that many past recessions have also permanently lowered potential output in ways that are consistent with hysteresis,¹⁵⁷ suggesting that decisive policy responses to recover quickly from recessions are critical to supporting long-term economic growth.

¹⁵¹ See Appelbaum, *supra* note 7.

¹⁵² See J. Bradford DeLong, *The Scary Debate Over Secular Stagnation*, MILKEN INST. REV. 34, 36 (2015), <http://delong.typepad.com/milken-review-secular-stagnation-34-51-mr68.pdf> [<https://perma.cc/VQL6-4AZZ>].

¹⁵³ See *id.* at 48–50.

¹⁵⁴ Ben S. Bernanke, *Why are Interest Rates So Low, Part 3: The Global Savings Glut*, BROOKINGS INST. (Apr. 1, 2015), <https://www.brookings.edu/blog/ben-bernanke/2015/04/01/why-are-interest-rates-so-low-part-3-the-global-savings-glut/> [<https://perma.cc/4Z6D-KXB9>].

¹⁵⁵ See Laurence M. Ball, *Long-Term Damage from the Great Recession in OECD Countries 4* (NAT'L BUREAU OF ECON. RESEARCH, Working Paper No. 20185, 2014).

¹⁵⁶ See CONG. BUDGET OFFICE, BUDGET AND ECONOMIC OUTLOOK: 2016 TO 2026 49 (Jan. 2016), <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129-2016Outlook.pdf> [<https://perma.cc/69A3-RNK9>].

¹⁵⁷ See Olivier Blanchard et al., *Inflation and Activity—Two Explorations and Their Monetary Policy Implications*, in ECB F. ON CENT. BANKING, INFLATION AND UNEMPLOYMENT IN EUR.: CONFERENCE PROCEEDINGS 25, 25 (May 2015), <http://www.ecb.europa.eu/pub/pdf/other/ecbforumoncentralbanking2015en.pdf> [<https://perma.cc/H949-FGR7>]. For implications specific to fiscal policy, see also Antonio Fatás & Lawrence H. Summers, *The Permanent Effects of Fiscal Consolidations* (CTR. FOR ECON. POL'Y RESEARCH, Discussion Paper No. 10902, 2015), http://faculty.insead.edu/fatas/CEPR_DP10902.pdf [<https://perma.cc/KKB9-PV8T>].

Public investments, such as increased infrastructure spending, are one way that fiscal policy should respond to weak consumer demand and low private investment. Improving transportation systems, for example, can connect businesses with new potential customers and encourage additional private investment. Preventing childhood lead poisoning by removing lead from water systems, old housing, and contaminated soil would create jobs now, and improving childhood health would also boost long-run economic outcomes when those children grow up to be healthier and more productive adults.¹⁵⁸ This infrastructure investment must be well-targeted to ensure that it benefits working-class Americans. A program that only subsidizes projects that pay returns to private investors—such as toll roads—would fail to include many of the most important sectors and projects, while giving a windfall to the wealthy interests who capture the private returns.¹⁵⁹

The IMF has encouraged the United States to increase public investment in order to “spur demand in the short term, raise supply in the medium term, and, through the accelerator effect, give a boost to private investment today.”¹⁶⁰ This accelerator effect refers to the IMF’s finding that low levels of business investment are due to economic weakness caused by low demand, which creates a negative feedback loop where business do not invest because the economy is weak, and the economy is further weakened by this lack of private investment.¹⁶¹ Fiscal policy can act as an economic accelerator that turns this into a positive feedback loop: increasing demand encourages private investment, and in turn this private investment further strengthens the economy, which encourages more private investment.

Fiscal policy should not be set in stone. A responsive fiscal policy should change as the economy changes. For example, CBO simulations that show economic benefits from deficit reduction assume that interest rates will increase and that the economy will consistently operate near full employment.¹⁶² If these conditions actually happen, then there will be a stronger economic case for deficit reduction.

In the same way that one would not rely on a stopped clock to tell time—even though it will occasionally be correct—policymakers should not

¹⁵⁸ See Elise Gould, *Childhood Lead Poisoning: Conservative Estimates of the Social and Economic Benefits of Lead Hazard Control*, 117 ENVTL. HEALTH PERSP. 1162, 1164 (2009).

¹⁵⁹ Larry Summers, *A Badly Designed U.S. Stimulus Will Only Hurt the Working Class*, LARRY SUMMERS (Nov. 17, 2016), <http://larrysummers.com/2016/11/14/a-badly-designed-us-stimulus-will-only-hurt-working-class/> [<https://perma.cc/Y9ZA-9B9C>].

¹⁶⁰ See David Lipton, *The Key to Raising Business Investment: Keep Pushing the Accelerator*, IMF: IMFDIRECT (July 20, 2015), <https://blog-imfdirect.imf.org/2015/07/20/the-key-to-raising-business-investment-keep-pushing-the-accelerator/> [<https://perma.cc/3H2C-7J2E>].

¹⁶¹ See IMF, *WORLD ECONOMIC OUTLOOK: UNEVEN GROWTH, SHORT- AND LONG-TERM FACTORS* 111–17 (Apr. 2015), <http://www.imf.org/external/pubs/ft/weo/2015/01/pdf/text.pdf> [<https://perma.cc/7PM2-4EV2>].

¹⁶² These simulations also assume that the policies enacted to reduce spending or increase taxes will have no economic effects aside from changing deficits and debt, which makes them largely irrelevant to evaluating actual policy proposals. See 2016 LONG-TERM BUDGET OUTLOOK, *supra* note 11, at 65, 96.

succumb to a fiscal hysteria that always gives the same answer on deficits and debt.

B. Ambitious Fiscal Policy Thinks Big to Solve Big Problems

No nation in the world produces more than the United States as measured by GDP; it is not even close.¹⁶³ The American economy has never produced more goods and services than it does right now.¹⁶⁴ This is a wealthy country with a powerful economy. In short, America can do big things.

The United States has more than enough resources to repair its roads and bridges, improve public transit systems, and prevent lead poisoning from water systems, paint, or contaminated soil. It is possible to make high-quality child care affordable for every American family.¹⁶⁵ And there is no reason that the United States cannot guarantee paid family leave for new parents, especially when far less prosperous countries have managed to do so.¹⁶⁶

Fiscal hysteria discourages Americans from thinking big. Ambitious ideas sound fanciful to an audience that believes America is somehow bankrupt.

Fiscal hysteria also plays a powerful role in setting the political agenda in ways that discourage big ideas. Fiscal hysteria suggests that big accomplishments might still be possible, but only after lawmakers fix the debt. This was the argument that some lawmakers made during consideration of the ACA, when they pointed to the size of the national debt as a reason to oppose an expansion of health insurance coverage that was more than paid for with other measures.

Agenda setting plays a major role in the policymaking process. Political scientists have long understood that the amount of attention that the media gives to an issue affects the importance that voters assign to that issue.¹⁶⁷ When the political discourse is full of warnings about deficits and debt, voters are more likely to prioritize deficit reduction above other issues. Agenda

¹⁶³ See WBG, *Gross Domestic Product*, WORLD DEVELOPMENT INDICATORS DATABASE (Oct. 11, 2016), <http://databank.worldbank.org/data/download/GDP.pdf> [<https://perma.cc/7S68-F5E9>].

¹⁶⁴ See, e.g., U.S. Bureau of Econ. Analysis, *Real Gross Domestic Product [GDPC1]*, FED. RESERVE BANK OF ST. LOUIS: ECON. RESEARCH (Oct. 28, 2016), <https://fred.stlouisfed.org/series/GDPC1> [<https://perma.cc/A7PX-692D>].

¹⁶⁵ See Katie Hamm & Carmel Martin, *A New Vision for Child Care in the United States*, CTR. FOR AM. PROGRESS: EARLY CHILDHOOD (Sept. 2, 2015, 10:55 AM), <https://www.americaprogress.org/issues/early-childhood/report/2015/09/02/119944/a-new-vision-for-child-care-in-the-united-states-3/> [<https://perma.cc/43PE-3Z4H>].

¹⁶⁶ See Danielle Kurtzleben, *Lots of Other Countries Mandate Paid Leave. Why Not the U.S.?*, NAT'L PUB. RADIO (July 15, 2015, 11:47 AM), <http://www.npr.org/sections/itsallpolitics/2015/07/15/422957640/lots-of-other-countries-mandate-paid-leave-why-not-the-us> [<https://perma.cc/7JAS-ZWCW>].

¹⁶⁷ See Maxwell E. McCombs & Donald L. Shaw, *The Agenda-Setting Function of Mass Media*, 36 PUB. OPINION Q. 176, 180–81 (1972).

setting occurs before Congress ever votes on legislation, and it determines what kind of bills will receive a vote. Lawmakers have limited time and bandwidth, and there are far more issues to be considered than there is time to consider them all. Advocating to make any issue a higher priority, including deficit reduction, necessarily means making other issues lower priorities.

This does not mean that lawmakers should ignore the fiscal gap, but the mere presence of uncertainty about how tax and spending policies might need to be adjusted in the future is not a reason to put every other policy objective on hold. When considering whether new spending or tax cuts should be paired with offsetting deficit reduction, one important distinction is whether the policy is temporary or permanent. When the deficit increase is temporary, the only long-term fiscal obligation that remains after the policy expires is interest costs from the resulting debt. Whether deficit spending makes sense in this case will depend on economic conditions, such as interest rates and economic growth.

When considering a new permanent fiscal commitment, whether it is a spending program or a tax cut, it is usually best to agree on how to finance this commitment. Enacting major new fiscal commitments without offsets, such as the tax cuts in 2001 and 2003, increases the extent to which taxes and spending may need to be altered in the future to address a larger fiscal gap. The 2001 and 2003 tax cuts were technically temporary when they were enacted—even though President Bush consistently sought to make them permanent—which is a cautionary example of how budget gimmicks can disguise major permanent fiscal changes.¹⁶⁸ If lawmakers enact new permanent tax cuts, this will increase the likelihood of future spending cuts for programs like Social Security and Medicare, or future tax increases that might adversely impact low- and middle-income Americans.

Fiscal hysteria is limiting American ambition. Lawmakers should consider how their actions will affect the national debt, especially when contemplating new permanent fiscal commitments, but they should not lose sight of the big picture. The United States economy is larger than ever before, which means that this country has never had more capacity to do big things than it does right now.

C. Sane Fiscal Policy Avoids Self-Imposed Crises and Uses Realistic Data

Sanity might seem like an obvious value for fiscal policy, but the self-imposed fiscal crises of the past several years have been anything but sane. Fiscal brinkmanship has caused needless damage to the economy and to

¹⁶⁸ See Edwin Chen, *Bush Asks Congress to Make Tax Cuts Permanent*, L.A. TIMES (Apr. 16, 2002), <http://articles.latimes.com/2002/apr/16/news/mn-38153> [<https://perma.cc/493B-GY3G>]; see also Carolyn Pesce, *Bush Seeks Tax Relief Package To Stimulate Economy*, USA TODAY (Jan. 1, 2018, 1:18 PM), http://usatoday30.usatoday.com/news/washington/2008-01-18-bush-economy_N.htm [<https://perma.cc/7F9Z-JPKD>].

American fiscal credibility.¹⁶⁹ Fiscal sanity also means that lawmakers should not disregard realistic data showing that their policies would dramatically increase fiscal shortfalls. While markets are fully confident in the ability of the United States to manage its fiscal obligations, reckless policy changes could certainly change that judgment.

Many of the recent episodes of high-stakes brinksmanship were motivated by fiscal hysteria, when lawmakers placed the economy at unnecessary risk in repeated attempts to force an elusive compromise on deficit reduction. The BCA tried and failed to force a deficit reduction agreement using the fiscal brinksmanship caused by the threat of sequestration. And the BCA itself was the result of another failed attempt to use even higher-stakes brinksmanship to force a deficit reduction agreement: threatening to allow the United States to default on the national debt.¹⁷⁰

In 2011, many members of Congress refused to raise the statutory debt limit unless their proposals to cut spending were also enacted.¹⁷¹ Raising the debt limit is a routine action to ensure that the Treasury Department can finance the commitments that lawmakers have already made in previous legislation.¹⁷² If the debt limit is breached, then on any given day the federal government can only make payments with whatever revenues happen to be available from that day's receipts or any surplus receipts from previous days. This could mean failing to fulfill all of the legal obligations of the United States, including laws mandating Social Security benefits, salaries for military and civilian personnel, and payments to Treasury bondholders. Because failing to make these payments would mean not following the law, and borrowing to meet these obligations would also be illegal, the government would be unable to comply with the law.

According to the Treasury Department, breaching the debt limit could cause a financial crisis worse than the 2008 financial crisis, as the public would suddenly lose confidence in the United States.¹⁷³ And even though Congress ultimately avoided a default in 2011, the Government Accountability Office estimated that the debt limit crisis still caused a needless \$1.3 billion increase in FY 2011 federal borrowing costs.¹⁷⁴ While this increase in

¹⁶⁹ See MACROECONOMIC ADVISERS, LLC, *supra* note 5, at 8–9.

¹⁷⁰ See Ted Barrett et al., *Debt Ceiling: Timeline of Deal's Development*, CNN (Aug. 2, 2011, 5:55 PM), <http://www.cnn.com/2011/POLITICS/07/25/debt.talks.timeline/> [https://perma.cc/9VZX-PCNG].

¹⁷¹ See *id.*

¹⁷² See *Debt Limit: Myth v. Fact*, U.S. DEP'T OF TREASURY 1 (May 2011), <https://www.treasury.gov/initiatives/Documents/Debt%20Limit%20Myth%20v%20Fact%20FINAL.pdf> [https://perma.cc/T67Z-7RJD].

¹⁷³ U.S. DEP'T OF TREASURY, THE POTENTIAL MACROECONOMIC EFFECT OF DEBT CEILING BRINKSMANSHIP 1 (Oct. 2013), <https://www.treasury.gov/initiatives/Documents/POTENTIAL%20MACROECONOMIC%20IMPACT%20OF%20DEBT%20CEILING%20BRINKMANSHIP.pdf> [https://perma.cc/8XQP-G29L].

¹⁷⁴ U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-12-701, DEBT LIMIT: ANALYSIS OF 2011-2012 ACTIONS TAKEN AND EFFECT OF DELAYED INCREASE ON BORROWING COSTS 22 (July 23, 2012).

borrowing costs only represented 0.04% of total federal spending in FY 2011, it was still a complete waste of resources.¹⁷⁵

A sane fiscal policy would not invite the possibility of a needless self-imposed fiscal crisis from breaching the debt limit. When lawmakers pass legislation regarding taxes and spending, there should be no question that the Treasury Department will pay the bills necessary to carry it out. Lawmakers should abolish the debt limit or change the budget process so that the debt limit cannot be held hostage to force policy concessions.

Fiscal sanity also means that tax and spending choices must be connected to reliable cost estimates and reasonable economic assumptions. Congress significantly strengthened the federal budget process with the establishment of the CBO in the Congressional Budget and Impoundment Control Act of 1974.¹⁷⁶ This created a nonpartisan source for budget analysis that was independent of the Executive Branch. The CBO is a fundamental source of fiscal discipline on spending policy, since its cost estimates force lawmakers to acknowledge tradeoffs. The Joint Committee on Taxation has a similar role in tax policy. These institutions make it more difficult for lawmakers to avoid serious discussions about the cost of their agenda.

The myth that tax cuts pay for themselves—and therefore require no tradeoffs—is one of the most serious threats to fiscal sanity. Proposals for massive tax cuts are often divorced from any discussion of their broader fiscal context, such as the wildly unrealistic tax plans offered by many candidates who ran for President in 2016.¹⁷⁷

In Congress, some fiscal sanity could be restored by repealing the “cut-as-you-go” rule, under which spending increases must be offset with spending cuts, but tax cuts do not require any offsets.¹⁷⁸ This rule is part of a recent pattern by congressional leaders to ignore the cost of tax cuts. In March 2016, for example, House Budget Committee Chairman Tom Price (R-GA) unveiled a budget resolution that endorsed a level of tax revenues that was roughly consistent with current law.¹⁷⁹ Later in 2016, House Republican leaders rolled out a tax plan that was designed to raise significantly less revenues than called for in Chairman Price’s budget resolution.¹⁸⁰ Chairman

¹⁷⁵ Federal outlays totaled approximately \$3.6 trillion in FY 2011. See OFFICE OF MGMT. & BUDGET, *supra* note 75, at Table 1.1.

¹⁷⁶ See *History*, CONG. BUDGET OFFICE, <https://www.cbo.gov/about/founding> [<https://perma.cc/VY58-PLL4>].

¹⁷⁷ See Jackie Calmes, *Analysts Question Viability of Deep Tax Cuts Proposed by Republican Candidates*, N.Y. TIMES (Feb. 22, 2016), http://www.nytimes.com/2016/02/23/us/politics/analysts-question-viability-of-deep-tax-cuts-proposed-by-republican-candidates.html?_r=1 [<https://perma.cc/C457-GJU4>].

¹⁷⁸ See Robert Greenstein & James R. Horney, *House Republican Rule Changes Pave the Way for Major Deficit-Increasing Tax Cuts, Despite Anti-Deficit Rhetoric*, CTR. ON BUDGET & POL’Y PRIORITIES 1 (Jan. 5, 2011), <http://www.cbpp.org/sites/default/files/atoms/files/12-23-10bud.pdf> [<https://perma.cc/7V58-JWWE>].

¹⁷⁹ See PRICE, *supra* note 103, at 45–47.

¹⁸⁰ Specifically, the tax plan was not intended to raise enough revenues to pay for the extension of temporary tax provisions or the repeal of tax increases in the ACA. House Republican leaders claimed their tax plan was revenue neutral relative to a baseline that already included lower revenues from ACA repeal and extension of temporary provisions, but the

Price praised the tax plan despite the fact that it would lead to lower revenues and higher deficits than called for in his budget resolution.¹⁸¹

The United States has more than enough capacity to support a vibrant economy, do big things, and manage any lingering fiscal gap. But the fiscal system cannot harness this capacity if the federal government defaults on its legal obligations or cannot administer a tax system that raises a reasonable level of revenues. Permanent commitments regarding taxation and spending both need to be evaluated using reliable information and cost estimates. Reasonable people will disagree about the appropriate levels of spending and taxes, but a sane fiscal policy would, at a minimum, conduct this debate without a self-inflicted economic crisis.

CONCLUSION

Fiscal and economic policy can get complicated, and fiscal hysteria thrives in debates that rely on scary trillion dollar figures that feel incomprehensible and overwhelming. This article explores some important details of fiscal policy regarding interest rates, debt-to-GDP ratios, and budget baselines, but at the core of this article are a few simple truths.

The U.S. economy is larger than it has ever been before, and it is easily the largest in the world. When private investors are loaning the U.S. federal government money at extremely low rates, they are not at all concerned about a debt crisis. As with other issues, public perceptions about the federal budget affect policy outcomes. Fiscal hysteria skews those perceptions in a way that promotes bad policy outcomes.

The fact that policymakers have not eliminated the fiscal gap does not mean that the fiscal system is broken or in crisis. Policymakers will have to decide how to prioritize further reducing the fiscal gap among the many other challenges facing the nation, such as extreme economic inequality, slow wage growth, unaffordable child care, and the household debt issues that are examined in the other articles in this volume.

A fiscal framework that is responsive, ambitious, and sane can dispel the fiscal hysteria that has become conventional wisdom in some quarters. It is long past time for the federal budget to live up to its potential.

House Republican budget included higher revenue levels that were not reduced to account for these policies. Subsequent analysis by the Tax Policy Center estimated that the tax plan would reduce revenues by approximately three trillion dollars over ten years. See Tax Reform Task Force, *Tax Reform Blueprint* (June 24, 2016), http://abetterway.speaker.gov/_assets/pdf/ABetterWay-Tax-PolicyPaper.pdf [<https://perma.cc/ZWV2-V4DZ>]; see also James R. Nunns et al., *An Analysis of the House GOP Tax Plan*, URBAN INST. & BROOKINGS INST. TAX POLICY CTR. 1 (Sept. 16, 2016), <http://www.taxpolicycenter.org/publications/analysis-house-gop-tax-plan/full> [<https://perma.cc/KA8Z-29J3>].

¹⁸¹ See Press Release, Tom Price, Chairman, H.R. Comm. on the Budget, Price Statement on Tax Reform Task Force Report (June 24, 2016), <http://budget.house.gov/news/documentsingle.aspx?DocumentID=394228> [<https://perma.cc/K9Z3-PAXC>].