BALANCE SHEET: THE US GOVERNMENT BUDGET AND NATIONAL DEBT

Josh Barro 00:00

Good afternoon, everyone. It's kind of a funny time to be doing this panel. We were discussing when, when we were preparing for it—at this you're seeing it all over this conference. It's a little bit difficult to see two or three months in the future right now. We're going to look 25 or 50 years into the future on this panel, and we're going to try to set that frame so we can get that look into the future and look at what we can do, at a serious and persistent problem in the United States, which is our large federal debt, persistently high budget deficits, and budget deficits that may be set to increase before they can decrease. To have that conversation I have with me today. Maya MacGuineas, who runs the Committee for a Responsible Federal Budget in Washington, DC. Steven Mnuchin, of course, the former treasury secretary, also founder and managing partner at Liberty Strategic Capital. Paul Ryan, former speaker of the House of Representatives, also budget committee chairman prior to that. Alan Schwartz, who is the executive chairman at Guggenheim Partners. And finally, Philip Swagel, who directs the Congressional Budget Office. So Phil, I'd like to start here with you to scope what is this problem that we're looking at? A couple of times a year your office puts out projections for the next 10 years, projecting a budget deficit of just over 6 percent of GDP for this year, also just over 6 percent of GDP 10 years from now, but that's a projection that comes before a lot of things that we know are coming down the pike. There's going to be a reconciliation bill that Congress will pass that's likely to grow the budget deficit. Your projections are based on 1.9 percent economic growth this year. I don't think we're likely to see that. There have been significant headcount cuts at the IRS, which could impact collections. And then, of course, there have been the tariffs and the changes to interest rates as a result of the tariffs. And so when you add all of that together, can you help give us a little bit of a picture of what we're actually looking at in terms of budget deficits that are likely to come in the next few years?

Phillip Swagel 01:58

Okay—you know it can get scary quickly. We'll do our next budget update in—sometime over the summer, but adding up, and so just taking that scenario right the extension of the 2017 Act, the expiring provisions, that's about one percentage point of GDP. If the volatility that we've seen over the last couple of weeks knocks a percentage point off of GDP growth—well, that gives you another percent, you know, sort of smoothing out the non-linearity there. So you can start looking at budget deficits of 8 percent now and then. If GDP growth remains weak, you know, if that's persistent, it can get much, much higher. Can I just say one more word which is on the positive side. Now, on the other hand, right? The administration is very focused on stronger growth. And, you know, we have a pretty modest growth path, and if they are successful over time, that would help go in the other direction.

Josh Barro 02:53

Right, that growth path, it's basically 2 percent real growth long run. Is that right?

Phillip Swagel 02:57

That's—that's right. And this is we have balancing out of slower demographics. And then you know that that's holding down GDP—GDP growth, but then productivity growth is rebounding somewhat from kind of the weak productivity growth of the past decade.

Josh Barro 03:13

Secretary Mnuchin, we had your successor, Scott Bessent here this morning, who said, among other things, that he's hopeful that we will be back to 3 percent real growth about a year from now, and that he's hoping to reduce the budget deficit by about a percentage point a year. Do you—do you see a path in that direction from the policy that we're seeing from the new administration? What's—what's the case that we're actually going to be looking at shrinking budget deficits and more robust growth than the CBO might predict?

Steven Mnuchin 03:43

I'd say that's that's definitely a potential path. I think there's a lot of uncertainty over certain issues at the moment. But, you know—I look back to when Paul and I worked together on the 2017 tax cuts, the numbers were smaller. It was a trillion and a half at the time, and we were saying the same thing. We were saying that if we can grow the economy at 3 percent instead of 2 percent we will have a surplus, and we will begin to pay down the debt. Now, at the time, debt to GDP was close to 100 percent , we're closer to 125 percent—so I think we're in a much more difficult situation. We were also in a low interest rate environment. We're in a higher interest rate environment now, but I think it is critical that we begin to lower these leverage ratios. And you know, I do look back at COVID—and COVID was obviously just an extraordinary situation where we shut down the economy. And I think the first true trillion dollars we needed to spend, or we would have had a depression, not worldwide recession, but then the ongoing spending, and part of the problem was this normalized trillion dollar spending is a problem. And then lastly, I would just say, you know, I do think Elon and DOGE coming in, and we'll see where they end up. But you know, the President—you know, appears to be interested in cutting government spending. So if we can have some government spending and some additional growth, I think we can get a path that's on the right track, but there's a lot of work to do, because you said we're starting from a 6 percent number.

Josh Barro 05:21

Speaker Ryan building on that in terms of—if, you know, if there is an aspiration in this administration to have spending cuts that materially move this these numbers, it seems to me, the president has circumscribed a lot of that. He doesn't want to cut Medicare or Social Security. There's an ongoing political fight over Medicaid, but seems to be they're trying to keep it in the waste box. And then there's an argument over what—what's really waste. But we're probably not looking at the sort of deep Medicaid cuts that certain conservatives in the House might want. They want to spend more on the military. They can't affect the spending on interest and interest rates have gone up. Is there? I can't look at that budget math and say that I see a way—it looks—it looks to me like, you know, if anything there's, there's not going to be significant spending savings here.

Paul Ryan 06:05

You're looking at about—about 10 percent of the budget they want to cut by 22 percent in their current budget. So domestic discretionary spending—there's an appetite to cut that. I think the budget that just came out yesterday proposes like a 22.6 percent cut to that. But that's about it. If you look at the current reconciliation bill, it has spending in it. It's got 300 billion in spending for DOD and for immigration and border stuff. So there the 880 billion that commerce committee is trying to get out of Medicaid, will see—they're having a hard time putting the votes together for that. But this—this Congress, isn't what we used to be. I don't think either the two political parties, frankly, have any real appetite for entitlement reform, which is where the money is. So when you're looking at, you know, three-quarters of the budget is in mandatory spending. Put your interests aside. It's the mandatory entitlement programs which is driving this debt. And both parties have been sort of more or less taken over by populism, which stands against doing something about that. It wasn't too long ago we would actually make these proposals and pass these bills. But that is just not where we are. So I just do not see an appetite in Congress today, or in the White House today to go after the big drivers of our debt, which is the mandatory spending.

Josh Barro 07:22

And then, while I continue doing the rain cloud bit, before we start talking about possible solutions—Alan the you know—one silver lining that one would normally look for in a situation like this, where we're having this economic turmoil, is that normally you expect, when there's some sort of crisis, that there's flight to quality and that that drives lower interest rates on government debt and maybe a stronger dollar. And we're really seeing the opposite of that right now. Can—can you help us make sense of why? Why are the financial markets reacting in this direction? And you know, what should we expect in terms of, are we going to get any help on those interest costs? Are actually just going to see more headwinds there

Alan Schwartz 07:58

Right—well, got to define what flight to quality means, right? And so I think what people have been missing is that we've been, you know, very comfortable that everybody looks at the dollar as being the strength in the global economy, but foreign central banks have not been feeling that for a number of years. And so I believe that the underlying foundation of the dollar and Treasury market has been eroding over the last number of years, and we better pay attention to it pretty soon. So—the easiest sign of that for me to see—there's two things out there. One, over decades bottom line is gold would go up in periods whenever real interest rates went down, and they just correlated, the real interest rates go down, gold goes up, real interest rates goes up, gold goes down. It was—it was a very, very careful thing. Over the last—I'm going to guess, three or four years, we've had a rise in real interest rates and a rise in gold to record highs. And now think about where gold might be if speculation wasn't allowed to move over to Bitcoin at the same time. So even with that, gold has gone up to record highs, less speculation and more of it driven in my belief, because foreign central banks have been moving more of their reserves, even in a period of a strong dollar, in high real interest rates, into gold and out of dollars. What they're sort of saying is, we know there is no alternative right now to the dollar, but we have to start hedging, because we don't know how long we can rely on the dollar being the safety. And then one other thing that we're seeing, if you look at getting geeky, the SWIFT payment system, all transactions amongst countries went through SWIFT right. All of a sudden, in the last year or two, we're seeing China and some bilateral, and now multilateral agreements to trade through another system that allows them to transact in different currencies, through a system that is an alternative to SWIFT and if you think about it, they say we're trying to move further and further away from reliance on the dollar for everything we do. So the main point about that is we should not sit here and think that we've got a lot of years to figure out what we're going to do about this deficit, because at some point the markets are saying we're going to have to hedge against the dollar, and it's no longer the safe place to go.

Josh Barro 10:38

Maya, the thing that strikes me about all of this is this—this is the situation we're describing before the acute crisis. I mean, like these 6% of GDP budget deficits are not a deficit that is arising because of a recession. This is the budget deficit before we might be on the cusp—

Maya MacGuineas 10:51

These are the good times—

Josh Barro 10:52

Right, exactly. And then similarly, this distress, you know, that makes the—that adds these additional risks if the government is going to have to go out and borrow in a more intense way. That is again, coming at a time when we, you know, we should be in a position of strength. When you look back, you know over the decades, you know your efforts in Washington to get people to focus on this problem, this—this feels like, I mean—these this isn't the worst fiscal position that we've ever been in in the last 30 years, but it's the worst—it feels like the worst combination of fiscal position and political capacity to do anything about the fiscal position, it should be a relatively good time, and it's not.

Maya MacGuineas 11:28

Yeah, let me drill down on some of the bad news that the other panelists have shared, because this one of the reasons you want fiscal responsibility is to be ready when the bad times come along. And we're not in one, we're in a good time, and yet all the warning lights are blinking really loudly. The fiscal situation itself, like Phil was talking about, terrible. Our debt in four years as a share of GDP, is going to be the record. Last time that—was that happened, it was set right after World War Two. If we do nothing else, we're going to borrow like $22 trillion over the decade. Interest payments are the single fastest growing item in the budget, and the deficit is the highest it's ever been in a non-emergency period. Oh, and Social Security and Medicare are both going to become insolvent in roughly a decade, and we have a bunch of politicians promising not to fix them. So it's a terrible situation, and it's a terrible political environment. I really missed the days when Paul Ryan was in Washington actually talking about this issue and showing people you could talk about reality. But we spent the past decade only talking about fiscal myths like, don't worry, everything pays for itself. No, it doesn't. Don't worry, MMT, you can just print more money. That's a terrible idea. And because everybody's running away from the actual choices of budgeting. I think what the secretary laid out of a 3 percent target of GDP is exactly right, exactly the right target. That would take about seven and a half trillion in savings over the next 10 years. And just for perspective, the only deficit reducing action we've taken in the past decade was the Fiscal Responsibility Act, and that saved about one and a half trillion. So this will be many times more. And to end on like what I think is the worst of all of these parts, our political environment is absolutely crummy for doing this, because we have people who run on promising not to do anything real. They aren't on the level about what it's going to take. We're going to have to do very structural entitlement reform, because we waited until the last minute. We're going to need new revenues. They don't have to be stupid. You don't I mean, the corporate rate should stay low, individual rates should stay low, but we spend over $20 trillion through the tax code over a decade in tax expenditures. We need to broaden that base. But we're so polarized, our two parties are in the midst of like a cage match over who can pander more and give away more. So you don't really have this discussion in Washington at all these days, and I think it makes us incredibly vulnerable.

Josh Barro 13:49

Paul, did you have?

Paul Ryan 13:50

Yeah, I was just gonna say, unfortunately, everything Maya is saying is correct. What's frustrating from as—for recovering politicians is we were more serious before, and we have relapsed on our seriousness of dealing with this. And what's frustrating about this, especially is all of these problems are within our control as our own country. We see this coming. We know what we need to do. We could fix this, but we won't, or we're not, and it's because our political situation has deteriorated even more. Just give you a sense of this. Before I was speaker, in Ways and Means chair, I chaired the Budget Committee. Ten years ago, I passed a budget off the House floor with 231 votes that cut $6.4 trillion out of the baseline. We raised the retirement age. We means tested Medicare. We block rented Medicaid. We did food stamp, able bodied work requirements, etc, etc. If you took that budget on today's baseline, we'd be cutting $11.6 trillion out of the baseline. Ten years ago, we had the votes for that. 10 years ago we passed that off the House floor. They'll be lucky if they can get two trillion in this reconciliation bill out of this baseline. By the way, that won't be net 2 trillion, because the 300 billion spent— It will be 1.7 if you're lucky. So the problem is we have just deteriorated, you know, fiscally with the ability to take these things on. So that's what's frustrating about this, is this is the most predictable economic crisis we've ever seen in our country. We know Treasury auctions may fail, we just don't know when. And we know what the Fed will do when that happens. And we—the guys like this, probably know what it's going to look like when it happens, and we could avoid this, but it doesn't look like we're going to—that's what's so frustrating about this.

Maya MacGuineas 15:06

they'll add 2.8 trillion to the debt—

Josh Barro 15:37

I do want to flag for the audience. There's a QR code that we'll bring up if you have questions that you'd like to ask the panelists, you can scan the QR code, which they will put up there any moment, and then you can type in your question. It will appear on the iPad that I'm holding here. And we'll take some of those audience questions as we get into that. One thing I wonder about, given what Maya and Paul have described here, is, you know, you have this—this political situation where there's, there's no desire to take this on, and we have these warnings of, you know, long run risks if we fail to do that. And it makes me wonder what—what is the forcing mechanism here? Because, I mean, the US has done fiscal adjustments in the past. In 2011 there was a major agreement with—under President Obama, when you —

Paul Ryan 16:21

Did a deal with Patty Murray.

Josh Barro 16:23

Right—and then, and then, you know, they're in 1993, in 1990 and in the—with the Greenspan commission the 80s, we—we used to do this. We used to—people, used to look at it and say, you know, there's this big gap and they get together and come to fix it. So what—what has to change for that to happen? Does anyone have ideas about what—what forces might bring that to bear in Washington?

Steven Mnuchin 16:44

I would say there's a couple of different things. So, you know, just—let's just take Social Security and—it's obviously very difficult for any politician to say that they're going to cut Social Security benefits. Having said that, as treasury secretary, I had to sign off on a Social Security report every year. So there's a date we know, the date that Social Security will run out of money, and this is effectively an off balance sheet liability, so at some point in the near future, we need to have a bipartisan solution. What we do for Social Security, since neither party is going to want social security to run out of money, I think, you know, health-care costs—you know, look, I'm optimistic that with AI and other technology, we'll have savings in health-care costs, which are a big component of this. You know, as it relates to the—the treasury auctions, it's unfortunately, not quite as simple as the Fed stepping in and buying a failed auction. The Fed technically can't do that. You know, we're also in an environment where the Fed is downsizing the portfolio and not increasing, which puts additional pressure. So I mean—I think step one is the administration has to get through the things they're doing—they want the economic plan, which is tax cuts, regulatory relief and their trade agenda. And then I'm hopeful that later on in this term, that there can be a bipartisan focus on costs. Some of that can be done now through the Republicans controlling the House, the Senate and the presidency, and putting in savings and reconciliation. I had suggested on the tariff front, if you want to have a 10 percent tariff across the board, score it, put it in, and you can use that as savings if you want to downsize certain of the expenses. And yeah, there are limitations, but there are there are clearly government expenses that can be cut and can be booked. But I agree with Paul, ultimately, you have to deal with the other side of the income statement and the spending, not just the—

Josh Barro 19:12

Alan?

Alan Schwartz 19:13

Quick point. I think one of the things, if you look at the financial crisis, which I read about, but—you look at the financial crisis, consumers through that bit, said, you know, I can take on a lot more debt on my house as long as my monthly payment is lower. And basically the government took over from consumers since then, and with the big decline in interest rates, one of the things that's allowed this to keep going on, my opinion, is everybody looks at their current monthly payment. So we went rough numbers 17 years where interest expense has been flat, and it was flat because you paid off 8 percent with 6 percent with 4 percent, all of that higher coupon debt has been paid off. So we had flat interest spends while we tripled our debt. Now, as we go forward. If interest rates stay around where they're supposed to be—our current interest expense is going to keep going up, and if, by chance, we have to let interest rates go higher, that squeeze on what the interest expense is going to start to be, as opposed to just the spending itself, could be a catalyst to get people in the room.

Josh Barro 20:19

Phil, can we put some numbers to a couple of those things? First, the Social Security Trust Fund exhaustion. And so guess, as a legal matter, when the when the trust fund runs out of money, the government is only allowed to send out a fractional percentage of the Social Security—and so I think as a political matter, people expect that isn't what would happen there would be some sort of patch, but that you get people to the table, they have to pass the patch, and then you can argue over what terms to have in it. And so when are we looking at for that to happen?

Phillip Swagel 20:48

Right. So that's right—that when the trust fund is exhausted, the system becomes effectively a cash system, and that we have that as 2033 and benefit reductions would be about 25 percent to start, go up a little bit from there, so that I agree that that's kind of the—the obvious driving factor. You know, the thing that's creeping up are interest payments and then net interest outlays, and Alan—it's exactly like Alan said. And there's a sense which that's probably crowding out other priorities that as members, whatever they want to do is tax relief or more national security spending or Homeland Security spending, whatever it is, those interest payments are instances crowding out those other things.

Josh Barro 21:33

Maya, I want to ask you about the—the interest rates, because I see this as a possible political forcing mechanism. I, you know, I—I actually really like to look back at the 1992 campaign, because that, I think, was the last presidential campaign that really had deficit reduction as an issue at the forefront, with all three candidates pressing the idea that they were going to do that. And the focus there on why individuals should care about the deficit was, there was this idea that when the government borrows too much money, that makes it expensive for you to borrow money. It makes it makes it expensive for you to get a mortgage. Companies can't get financing to invest. Is that?—Is that a connection that can be start—can start being drawn for people again, because we went through this long period with interest rates so low they weren't really central in our politics, but I don't really see politicians making that argument yet about we need lower budget deficits so that your mortgage rate can be low.

Maya MacGuineas 22:21

Yeah, yeah. In fact, the era of low interest rates made this so much more complicated. And we even had people saying, Look, interest rates are so low, borrowing is basically free. We should borrow more. And you don't have to say that twice for a politician to be like, okay, that seems like a pretty good plan. So we borrowed incredible amounts beyond just COVID. I do think the increase in interest rates is already being felt. I think people in the markets, financial people, are talking about this and feeling this much more than they were just a few years ago. One thing you'll hear from folks in Washington is, 'No one cares about this issue.' I don't hear from anybody that it matters to them, but they are starting to a little bit, and folks who understand markets are saying what happened with treasuries was quite alarming, and to watch that with stocks, the dollar and bonds all at once was a big warning to us. The way that this is going to change is one of two models. It's either going to be out of crisis or leadership, and the crisis almost certainly will come from something in the bond market, or if there is a big emergency where, usually when we borrow during an emergency, our rates stay low, but if we are out of fiscal space and the next emergency comes, our borrowing will be much more difficult. That will be the kind of warning sign. Leadership also happened in the 90s in an odd package of Ross Perot, right? You had somebody who wrestled this issue onto the agenda and forced the politicians who didn't want to talk about it, to talk about it. So in my weird fiscal circles, we spend a lot of time saying, how do you create, like, a pseudo-crisis that would just nudge people enough to start taking this seriously? And think about what you would do ahead of time, like build a break-the-glass plan so you're ready, instead of waiting to the stupid, self-inflicted crisis of waiting till the last moment

Josh Barro 24:02

When we—I want to turn to the revenue side in a second, but to stay on spending cuts for a moment. If we're talking about, you know, quote, unquote entitlement reform, is this just the usual menu of options. You can raise the retirement age, you can adjust benefit formulas. It's basically that, you know, you either have some sort of—you could cut across the board. You can do something that tries to make it more make it more progressive with some sort of means testing. But is that—is that what the political proposition has to be, that basically, benefits, especially old age benefits, will simply be less generous in the future?

Paul Ryan 24:31

Yeah, I would say we've learned a lot about how to run retirement systems and health care systems since we started these programs in 1932 and 1965. So there's a lot more we know. In Medicare's example, the Federal Employee Health Benefits System is a very popular system that works well, that has far lower cost increases than current Medicare. So we have road maps on what to emulate to bring good reforms, and—for the score keepers, if you do something like that you're effectively taking a program that is now a defined benefit, open ended program, and putting a fixed growth rate on it, and basically turning into a defined contribution program, and then you're underneath that doing things like you just described, raising retirement age, means testing the benefit, subsidizing a person's premium based on health and wealth. That that model works, they score it pretty well, and it gets you out of the woods. But it is a combination of newer things we've learned in society about how better to run these programs using private sector choice and competition, along with those sort of austere, screw turning things. The good thing about all of this is, if we step ahead of this, we don't have to do it to current seniors. It can be prospective. So anybody who is in or near retirement today won't have the apply to them. It will be to tomorrow's retirees. Let's just take before. When we did, it was 55 and below. I don't think we had the physical space for that. Let's just say 60 and below. So at least you have a little bit of time to prepare and politically, you can survive it because you're not taking it away from current seniors. We wait till we get a really bad situation, we may not be able to do that. If we're doing urgent budget surgery to dodge the vigilantes in the bond markets. We may not be able to do that. The last thing I'd say is, I think the only game in town right now is a fiscal commission with teeth. I was on Bowles-Simpson, Bowles-Simpson was literally dead before we left the room in the last meeting because the president United States and the Speaker of the House at the time put out press releases saying we're not doing it, and therefore they didn't. So a fiscal commission with teeth like the Greenspan '84 Commission on Social Security that requires Congress to vote on it, not amend, not filibuster it. And then, you know, maybe a president in his, you know, in his last term, second half of last term—you know, looking for a legacy, save the dollar, dodge a debt crisis could do that. But to Steve's point, it has to be bipartisan. And the linchpin is a debt limit deal, some fiscal deal where you have a tight Congress, and that is the price of getting that package passed, which is requiring a statutory commission to bring to Congress something like that.

Josh Barro 27:13

Phil, you had your hand up?

Phillip Swagel 27:14

No, I was just—I certainly agree with everything. I was going to—I was just thinking about your original question is that entitlement reform doesn't have to be only austerity, right? I mean, you can make the system more progressive by increasing benefits at the bottom, and, you know, decreasing benefits—net benefits at the top with revenues or with spending, because the system is progressive now, but the benefits for people at the bottom, in terms of dollars, are really quite meager, and that's what Paul means. But we've learned a lot that it's a safety net, and maybe the bottom of the safety net just isn't, you know, isn't as strong as it could be.

Josh Barro 27:51

That's true as a theoretical matter. But I just again, I think back to what's actually happening in this political environment. The one of the president's key proposals around social security is to exempt Social Security benefits from taxes. That is effectively a benefit increase for the upper end of the scale, because lower income people don't pay—

Paul Ryan 28:07

—and that revenue finances Medicare and Social Security. You're actually cutting those programs if you actually took that revenue stream away—

Josh Barro 28:13

Right—so, and then—we also one of the few examples of Congress working together in a bipartisan manner effectively recently, was to increase Social Security benefits. They passed a law. There's—there's a Byzantine system for if you're spent part of your career as a government employee, not in Social Security, and some people had some reasonable fairness complaints, and instead of tweaking the system, they just basically threw a whole bunch of money at all of these people. So, you know the—in theory that could be done. But you know the idea that Donald Trump would want, you know, as you know, his last lame duck period, to be doing this like horrible thing that everyone in Washington hates to try to do in defense of a dollar which it doesn't even seem to me that the administration is sure that it wants a strong dollar. So I just, you know, the—I see the theory here. I just, you know, I have a very grim feeling about the likelihood of that actually materializing.

Paul Ryan 29:02

I didn't say it was a great answer. That was the best answer I had for you.

Maya MacGuineas 29:06

But—but we just have, we do have to start telling the truth about Social Security. Like it is not rocket science how to fix it. It's a bunch of moderately difficult choices. One of the benefits is many young people think they're not going to get it anyhow. So by just giving them partial benefits they are getting above what they think they would get. But if we just go along and then we hit the trust fund, we run out of money, and we start plowing general revenues into it. Just remember, our budget, we already give $6 to every—to a senior for every one we give to people under 18. So we are making a choice then to increase the share of our budget that's going to seniors at a time where there are huge needs in terms of whatever it is for security, cybersecurity, investments, competition, energy, human capital, like take your priority. It's unlikely to be wealthy seniors, pensions, and that would be the thing we are making a choice to put trillions dollars more, and so we can't—and by the way, in that thing you just mentioned web GPO, one of the unions, leaked my phone number to the seniors about protesting this. And so I know they're very, very scary. I would never want to be a politician who had to go against the AARP or other groups, but we have to tell the truth that this program, we are continuing to make promises that we can't keep, and putting all the resources in there takes them from something else that's arguably a higher priority.

Steven Mnuchin 30:12

I wanted to make a comment on the dollar, because now that I'm no longer the treasury secretary, I can comment on these—

Josh Barro 30:36

Yes, please—

Steven Mnuchin 30:38

I believe that the administration understands the importance of the dollar being the reserve currency. And I think for the foreseeable future, notwithstanding, there may be some central banks that move into gold. Those are on a relative basis—

Alan Schwartz 30:53

No, there's not alternative—

Steven Mnuchin 30:54

it's just a numbers. There really is no alternative currency. So I think the good news is for the foreseeable future, we will be the reserve currency. We couldn't finance these deficits if we weren't the reserve currency. And I think with that comes a level of responsibility, because we are the reserve currency of the world, but also comes a level of benefits on the SWIFT issue, the reason why people are trying to get away from SWIFT is because of sanctions. And you know, again—our sanctions, because they reserve currency, are a very important foreign policy tool. So I think we always wanted a stable dollar. We didn't want a weak dollar. We also didn't want a dollar that was too strong over time. But it is in our interest of a stable dollar, and it is very important for us to keep the dollar as the reserve currency of the world, because if—if people don't view that, then we're going to have an even bigger problem financing our debt.

Josh Barro 31:56

I just—one more thing to Steven and then Paul go to you—Do you think that the—the desire to maintain the dollar as the reserve currency and to have a stable dollar is that consistent with the administration's stated desire to achieve this sort of rebalancing in the global economic system? I mean, they seem to want to discourage other countries from holding US Treasury bonds.

Steven Mnuchin 32:15

No, I don't believe that at all. I think that they absolutely understand that. And I think, by the way, on trade, I mean, a lot of these issues were in Trump 1.0, they're just stronger. But I mean—I go back to and President Trump's been talking about trade way before he was president. During the first term, the economic plan was tax cuts, regulatory relief, and trade. And if we look at China trade just as an example, there's no question that, you know, administrations, on both parties, for a long period of time, had a China policy. The more we open up to them, the more they'll become like us. They didn't, and we ended up with these big trade deficits because our markets were open to them, and their markets weren't open to us. So I think to the extent the tariffs are being used to create a fair and level trading pattern—that's something that is a good thing, and I know is the president's objective.

Josh Barro 33:13

Sorry, Paul—

Paul Ryan 33:14

I was just—on the good news front, I think Congress is going to pass the stablecoin legislation this summer, and that is going to help spread the dollar more widely across the world. It's going to digitize the dollar. I think it's going to help us buttress the dollar as the global reserve currency. So I think—we've got good news also coming on the dollar front.

Josh Barro 33:31

Can we turn and talk about the revenue side? We've talked about ways to cut spending. Do we need tax increases as part of this rebalancing?

Steven Mnuchin 33:39

We don't, and if we look at corporate taxes, and everybody criticized us the first time around, we cut corporate taxes, and corporate revenues went way up, and we simplified the tax code in certain aspects. But we need growth—

Paul Ryan 33:54

We need growth—

Steven Mnuchin 33:54

We need to get to 3 percent and not 2 percent and we need a tax policy, things like expensing, which are very pro growth, that get us to that point.

Maya MacGuineas 34:05

I'll take the other side of this—

Josh Barro 34:05

But then—yeah, go ahead— Alan?

Maya MacGuineas 34:08

So, and I agree on the corporate tax rate completely. That is not the place where you want to get revenue. But there's, there's two points I would make. One, if you look at the current reconciliation bill, which they're talking about, take the House version of it, they are assuming growth of about $2.6 trillion out of their entire package. Outside estimators, the range is negative 50 billion to 700 billion. So they have an estimate that's many, many multiples above. Part of the reason is the most pro-growth tax cuts are already permanent, the ones that they're extending are much less pro-growth, but so they're assuming a much larger multiple than is credible. But the second thing I would say is, we have the chance right now to cut spending. There is a reconciliation bill out there. The Senate has put on the table something where they would borrow $4.8 trillion, and they're asking themselves to save 2 trillion. Now keep in mind, spending over the 10 year period is going to be $86 trillion, and an all Republican House, Senate and president is asking for 2 trillion. But the Senate didn't like that bill. They said, no, not 2 trillion. We're going to just shoot for 4 billion. 4 billion out of 86 trillion. So the problem that I'm seeing is that no—no one actually has the courage or convictions—when it comes to the hard things, they don't actually want to cut government spending, and Democrats don't really want to raise revenue, except on millionaires and billionaires, 2 percent of people. And so we have an issue where I don't think there's any conceivable way where you can bring down, get to that seven and a half trillion in savings, from spending alone. So I think you have to look at the revenue side, which would do the least damage to growth. And again, I would go into our terrible tax base that's filled with these tax expenditures that are honestly just spending programs hidden through the tax code.

Alan Schwartz 35:53

Yeah, there's a number of things to discuss. One quick one on Bowles-Simpson, I agree with Paul, and I know—that's when Maya and I first met, I tried to go to the Obama administration say, the way you should do Bowles-Simpson is put it out there and then give Congress six months, which has happened before in bills say, I'll give you six months to come up with something you like better that's bipartisan, if not this becomes law, and that's what I think, not looking to this administration, necessarily, but if we run into a problem with the dollar, I'd like to see a bipartisan group come together and say, unless we get in a room and not just argue that, no, we need less this and you need more that we're never going to get it done. But—I happen to believe that we do need more revenue, and growth is not the total answer. I'm a Jack Kemp aficionado like Paul, but we go through how many years of saying, okay, we'll grow our way out. Corporate taxes are a whole different thing. They're not really the place to tax. But the reality is, of saying we have 16 to 18 percent of our GDP and revenue, and we have 23 to 25 percent, we're going to cure it all from up there, is just not realistic. And so something we've talked about—demographics, which to me, are the future that's already happened. You hear about them for so long that that seems like no big deal. We not only—everybody's aware of the demographic impact of senior citizens now growing rapidly and what we owe them, we're not aware of the fact that we now have a declining working age population that is significant. So that we used to have five 18- to 64-year olds for every 65 and over, we now have three and a half, and we're on our way to two and three quarters. So the main way we tax is through wages, right?—and earnings. That's the main—80 percent of our tax revenue comes from that. So if we're going to turn around and say this smaller and smaller percentage of the population is going to have to come up with 80 or 90 percent of our revenue, we're kidding ourselves. We're not looking forward. So as—I think somebody people know here, I have said, yes, we have to change Social Security, we have to make the adjustments, everything else. But when you really get into means testing and stuff, it gets very, very tough to prove and get, so I have believed for a long time that we are the only country in the OECD that does not have a VAT. And a VAT is, quote, a consumption tax, although it's not entirely, and I say if you want to really means test retirees, they spend a lot if they have a lot of money, and therefore most of that revenue will come from there. You can turn around and give more benefits to the people at the lower end, because it's, quote, regressive. So we have to think about get in a room and think about the new ways we look at both revenue and spending, instead of sitting on two sides of the aisle. Say, get the revenue from the rich or get the spending and that's all. So I think we got to look at both.

Josh Barro 38:56

Phil?

Phillip Swagel 38:57

Oh no—I was just I agree with everything—everything has been said. And just to expand on the challenge here, it's in some ways, the 2017 Act was very thoughtful, right, as was said just a minute ago, the pro-growth parts are permanent, right? The corporate rate is permanent, and the international tax provisions that increased US competitiveness are permanent. And you know, then there are a bunch of base broadeners, right? The—indexation of the tax brackets, the mandate in the ACA—

Paul Ryan 39:26

SALT—

Phillip Swagel 39:26

—SALT, yeah—or other instances, the repatriation, and so that offsets some of the drag from the deficit. And it's just hard to do that again, because the, you know, the really pro growth stuff is permanent already. That means you can't extend it. And so, you know, the individual rates are, there's some pro-growth incentives, there labor supply, but it's just, it's just not as sort of high powered as what was made permanent. And that's, that's the challenge.

Maya MacGuineas 39:26

Can I make—

Josh Barro 39:29

The flip side of that that the economic damage from increases on the individual side are not as pronounced? I mean, the corporate income tax base is on the order of 10 percent of GDP, and that's where you get the biggest bang for your buck in terms of economic growth—but through both cuts and restructuring. It seems like we ought to be able to get both the growth and the revenue thing by a shift in where the base is, I mean whether a VAT or even an increase in the payroll tax there are ways that you could raise the revenue that have a much smaller impact on GDP than if you wanted to raise the corporate rate back to 35 percent?

Maya MacGuineas 40:24

I make another point on the growth?—

Josh Barro 40:25

Yes. And then Paul—

Maya MacGuineas 40:27

want to answer that?

Paul Ryan 40:28

No. Go ahead first and I'll go after you—

Maya MacGuineas 40:30

Well it was the similar thing, which is—we're actually also getting to the point where $1—so if you cut taxes, the dollar of additional debt is close to doing more damage to the economy than the dollar of growth from the tax cut, depending on which tax cut it is. So we have to be really careful to do what you're saying, which is cut the most pro-growth taxes and raise the least pro-growth increases.

Paul Ryan 40:51

That's a decent trade. You're not going to get that in this this moment. But when we—we wrote that bill intentionally keeping the business stuff permanent. Steve and I, we were the designers of this because we knew that that needed to be permanent for business planning and certainty, etc, etc. The challenge on the individual side of it is—is most of our businesses aren't C-corps, they're pass throughs, and they file individual taxes. If you're an LLC or a sole provider Subchapter S corporation, you're filing as a person. That's like 80 percent of American businesses. And what we did not want to do is drop C-corps to 21 and keep the S-corps up at 44.6 percent effectively, which would have happened had we not done that. So we dropped their rate correspondingly, and that goes back up. So there is some pro-growth or anti-growth tax policy over here on the individual side that's expiring that we don't expiring that we don't want to let expire, because it will really do a lot of damage to a lot of businesses. And then, as Steve mentioned, the expensing stuff, that's really the biggest kicker for growth in this bill. I think everybody would agree on that. That's—that's right, growth stuff, there's collateral damage if you don't get this done to growth.

Steven Mnuchin 41:59

Right. And not only do we lower the top rate, but we added the pass through deduction—

Paul Ryan 42:02

Exactly 199A, we call it—

Steven Mnuchin 42:04

which is critical—

Paul Ryan 42:06

But last thing I say—tax reform can fix this. You can get a broader base at higher revenues and still maximize economic growth through a reformed tax code that is more consumption based by exempting savings and investment from taxation, effectively taxing consumption. There are different ways of skin in that cat. You could do, what? What Alan saying? Could do an X tax, a cash flow tax. We talked about our border adjustment tax. Wouldn't that be nice versus tariffs these days? I digress, so—but I think you can get to that maybe 20 percent of GDP revenue line, not 24%-25%,—but not with this code. That's the challenge.

Alan Schwartz 42:44

But I want to push back on one thing, Paul, because I was pushing back on this when you guys are doing your bill, I—agree. You want to be fair to pass throughs versus C-corps, but the only reason pass throughs exist is because people that own their own business and then we're taking home their profits didn't want to pay a corporate tax and then pay a tax on dividends, so they weren't being double taxed. So the reason that you had the pass through was to say, okay, pay your personal tax rate. That's one time. Now, all of a sudden you say, if I'm going to bring the corporate rate down to here, I'm going to still only tax you once, and you're going to get a C-corp rate. But then those that are getting dividends out of C-corps are going to have to pay a tax again. So I lobbied against it. The funny thing was, said, look, I'm an LLC, so I'll benefit, but I still don't think —and then they went ahead and said, oh, sorry investment banks couldn't do it. So I said, okay, so you know, you knocked me out—but I do think we have to think those things through. As to I said—why not give businesses the opportunity to either pay this the corporate rate and then go ahead and pay taxes on distributions, or be your pass through? But by giving them both, I think those are the kinds of things that I personally think we have to think through.

Paul Ryan 43:55

We made a run at it in the Bush administration to get rid of the tax on dividends, and we came up short.

Alan Schwartz 44:00

Right, but I'm just saying that, yeah, one or the other, not both.

Josh Barro 44:05

I want to take some questions that have come in from the audience, and again—if you have more questions you want to submit, we'll put that QR code up again, and you can send them in. We have one question about the IRS. If the government's revenue model is almost completely based on taxing income, why do we refuse to invest as much as possible in the IRS? And so, of course, what's, what's been in the news is there's a huge head count reduction ongoing at the IRS, from about 100,000 employees the ballpark of 65 or 70,000 employees. And that's below—there was a big increase in head count, but this is a larger decrease in the prior increase.

Steven Mnuchin 44:36

Let me comment on that one. Okay—and this goes back to—I can tell you, eight years ago, the IRS needed more money for technology, and Paul remembers this kind of one of the things I said, it's critical. We have to use technology. We don't need more bodies. The technology was in the stone ages and needs to be upgraded. The reason why the Biden administration added all these people to the IRS is there's a way that these things are scored. And if you add more people, you assume you'll collect more taxes, and you can put it through reconciliation. So I mean—I would argue, and maybe we shouldn't be downsizing it exactly the way we're doing it, but we didn't need all those people. What we needed was a long-term investment in technology to upgrade the IRS and particularly with AI. There's ways of doing this today that are much more efficient than just throwing bodies at it.

Josh Barro 45:37

But so you don't see—if we have 30 percent fewer revenue agents, fewer auditors, you don't think that that has an impact on—?

Steven Mnuchin 45:43

No. I think that technology can replace people. And I think the motivation of adding all these people was, when they were scoring this, they could count the—

Paul Ryan 45:54

tax cap score. It's a gimmick—

Alan Schwartz 45:56

I agree with Steve—I'll tell you one thing, headlines about getting rid of everybody. I swear to God, I've heard this a few times. My wife's hairdresser said, isn't it great we don't have to file our taxes. And there's a bunch of people that are now saying that, and without the technology, it's really just funny that people are going, this is great. We don't have to pay taxes.

Josh Barro 46:16

Well they're going to repeal the tax on tips anyway, so he actually isn't going to have to pay taxes. Phil—I think this is probably not something that you loved having to deal with, but you were doing that score, and I remember you came under criticism from Democrats that the score wasn't big enough, that you had underestimated the amount of revenue that would come from this. What's your view on how these changes at the IRS affect?

Phillip Swagel 46:38

Yeah, yeah —that was a highlight of my first term at CBO was having it was, I think, the deputy White House press secretary criticizing me, like it was some line, like, CBO doesn't know anything about the IRS. And of course, like, of course, all of our people doing it were former Treasury people. So, yeah, we—we do that cost estimate. We tried to get information from the Biden administration Treasury about, okay, you're going to get this money. If you get it, what will we use it on? And it was, you know, very general. They said technology. So they, you know, such as they, they have that in their heads. But we just, we couldn't get information on, well, exactly what are you going to do? So our cost estimate, our score for that those resources is very general. And we just, we assumed they're going to do, like the, you know, the highest ROI things first and then go down. But it's based on these historical studies. And just—we just could not get them to say, well, exactly what are you going to do? And that was just—you know, what am I supposed to do? If they won't tell us what their plans are.

Josh Barro 47:43

We have a question about population growth. And basically, is there a role for more population growth, more immigration, a higher birth rate? I mean, obviously those are both long run things, and birth rate especially is not proven especially amenable to policy influence. Are there?—is there anything we can do to control our destiny there, in terms of this? You know, the math that feeds into the budget?

Paul Ryan 48:04

I would ask Phil Swagel a question, if I'm not mistaken, your long- term model says we're going to grow at about 1.3 percent over the next 30 years, almost solely because of the lack of population growth. And if we—if we change our immigration laws and brought in working age populations in a work-based system in such a way that doesn't depress people's wages, which you can do with today's technology. Their model gets you up in growth. I don't know if you get to 3 percent but my question is, we could get with, let's—let's just say we do entitlement reform and we save the dollar and prevent a debt crisis. The only other thing we really got to do to get to 3 percent growth is this right?

Phillip Swagel 48:40

Skills?—yeah, and it's something we've enhanced our modeling to do that, that we have a lot of modeling, and you can—

Paul Ryan 48:45

so you could reconcile it.

Phillip Swagel 48:47

We're—yes, we now can take into account, well, what are the characteristics of the immigrants, of people with relatively low education, or higher education, and there's a bigger growth impact from higher education. And they know normative view there.

Paul Ryan 48:58

But these are scorable savings now—

Phillip Swagel 48:59

Now, these are, we would be part of a dynamic score, we would do that.

Alan Schwartz 49:03

There's one other thing, just—it really people—it's over hyped right now. But if—growth is hours times productivity, there's two ways you can get more growth. It's either hours or productivity, right? And if we invest the right way, and we really have public partner, private partnerships, et cetera, to build out the infrastructure that some of these AI can ride on, we actually could get a situation that sounds the opposite, where people are afraid of but we could use, you could get a big productivity kick on the investment over the infrastructure that we could build out. Look, China now has dark factories building cars without one person in the factory. Now, that sounds terrible, right now, you say we don't want to replace all those jobs, but if you have fewer people, but you actually kick up the productivity that way, you can actually get the growth that you need and distribute in ways to the people that are going to be supporting that. So we've got—we've got to think about, you know, one of the things I said when I became an economist, people said, would you have studied economics? I said, no, I would have studied history, because you got to look back and say, it's not just the period we've been in, what are the secular things that we have to look at? And if we would think more about the infrastructure build out around the productivity boom, it could be a big game changer.

Josh Barro 50:23

We've several questions about a sovereign wealth fund, and there's been some talk about this in the administration. I'm—sovereign wealth funds are for countries with lots of oil like and budget surplus. Is there any is there any role here for a sovereign wealth fund? Do you have a sense, Steve, are they serious? okay—

Steven Mnuchin 50:42

I think the answer is, there can be I mean, there can be strategic investments that it makes sense for the US to do, and—in that sense, the sovereign wealth fund could have a role. Now, in a way, we do have a sovereign wealth fund, it's called Social Security. Had we invested Social Security in the S&P a long time ago, as opposed to investing it in our own bonds, we wouldn't have a problem with Social Security today. So, I mean, I think—and this is what, you know, Paul said, if we can get rid of kind of, you know, defined benefit plans and convert them into defined contribution plans, then there is a role for, potentially a sovereign wealth fund to manage that money.

Josh Barro 51:26

I just want to sort of—

Maya MacGuineas 51:27

But our sovereign wealth fund would still be financed all from borrowing, so it's not even really a sovereign wealth fund. It's just borrowing.

Alan Schwartz 51:36

We have a sovereign wealth fund. It's called the Fed. Quantitative easing is basically a sovereign wealth fund—[cross talk]

Maya MacGuineas 51:42

There's lots of good resources, but it would still just be borrowing.

Steven Mnuchin 51:47

Well, it wouldn't be the equivalent of a sovereign wealth fund that other countries have when they have limited resources and their objective is to transform the economy. So there could be a role. It's not synonymous with exactly what every other one is a good point.

Josh Barro 52:01

I just want to review some of the things that we've discussed here in terms of, you know, things that would be part of the way out of the woods. We're supposed to cut Social Security, probably by—with a retirement age increase, you might have some increase in progressivity. So, instead of things like eliminating taxes on Social Security benefits, you would be reducing benefits for higher income seniors. We're maybe going to have more immigration. Alan wants a VAT. All of this is just politically awful, like the absolute opposite of what people are discussing doing in Washington right now.

Steven Mnuchin 52:37

Well, let me go on the record I don't like the VAT, so [crosstalk] and a lot of people think, you know, kind of the reasons why Europe, amongst a bunch of other things, is—it's very easy to just add a VAT and continue to tax and spend. I also think, and I just want to clarify, I think we need to fix Social Security. I don't mean that—I don't think the headline should be, we're going to cut Social Security. Matter of fact, the headline has to be, we're not cutting Social Security benefits, at least for the majority of the population.

Josh Barro 53:13

Okay, because I mean, to save money, you have to cut something—

Alan Schwartz 53:16

I want to say one thing about the VAT, these guys don't like—Larry Summers a while ago on a panel we were on, you know, conservatives don't like a VAT because they say it's a spending machine. Then liberals don't like the VAT because they say it's regressive. Sooner or later, they're going to realize the other one is right.

Paul Ryan 53:16

The game is always, we're never going to cut current seniors. We're going to do it—we're going to make changes for the next generation so that we can cash flow the program for the program for current seniors and save it from insolvency and bankruptcy. But what the politicians say, if I do that and I raise retirement age in 10 years, or taper the benefit formula for future generations, the ad against me is going to be, I'm cutting current seniors, and everybody's going to get confused, and I'm going to lose. That's basically the political calculation. That's the problem. That's why these things got to be bipartisan. The problem with—for Republicans and conservatives is they want the revenue, but they don't want to give us the spending cuts, and so it's like we're just going to give you more revenue to feed this unsustainable spending trajectory? The only way a deal like this ever works is if you have them paired together, where you know you're getting real spending changes, real, actual changes to the spending line—baseline, then and only then, I think our conservatives willing to entertain—

Alan Schwartz 54:25

Look, Paul, that's 100 percent that's why I—we need more revenue period full stop, and we need less spending period full stop. And if all we do is argue that the other one's got to get it done, and then we'll be fine. We got to get in a room like a Bowles-Simpson, and say, okay, how can we come together and come up with something that we can all agree on is a way to bring this together, because we just keep arguing, it's your side versus that side. Because the one thing I want to say something I totally agree with Steve that there is no alternative to the dollar as a reserve currency, and that's really important. But the real question is, how much is it going to cost us to get the capital to be the reserve currency? Because if, over time, we get downgraded again in the US Treasuries, we can still be the reserve currency, but if our cost of capital is going like that, it's going to cause a dramatic impact on our economy. So we shouldn't just take that reserve currency for you know—

Maya MacGuineas 55:21

Can I address your question in that? I mean, we have to do something about this fiscal situation. At the moment it is weakening our economy. It's weakening our ability to respond to emergencies. It's threatening our national security, and it could lead to a fiscal crisis when we would not be able to fix it on our own terms. We have to do something. I think the problem with your question is, it's really unattractive what the solutions are. That's why we haven't been doing it for so long. That's why it's much more fun to be in the period where you're borrowing than you're fixing it. The bottom line, the truth is, the way you fix a fiscal imbalance is you cut spending and you raise taxes and you try to do them in the best way you can—

Steven Mnuchin 56:01

Or you cut spending and you grow the economy—

Maya MacGuineas 56:03

you can do that, but,—and you know—you both are talking about that, but again, the Republicans right now don't seem to want to cut any spending, like, let's cut some spending, but they're not showing up to do it. And so I'm really worried about there being any willpower to do anything. And I think part of that is because we're out of practice of actually budgeting and making these choices. So the way that—the thing I would recommend is like, we should start by passing budgets. We don't pass budgets. We haven't passed a serious budget in basically a decade. The ones we pass are only to unleash reconciliation. We should do that. We should bring in the 3 percent deficit goal. And anybody who puts forward a budget, it should have to meet that 3 percent deficit goal or something like that. We should stick with pay as you go, which means you've got to offset these things. So let's do these tax cuts and let's offset them. Or if somebody wants to grow spending, you've got to figure out how. And finally, I think, like others have talked about, we will need a fiscal commission, because we are so out of practice with making the hard choices. We will need something to give politicians the political cover to do the choices that there really is no avoiding at the end of the day, those are the things we're going to have to do.

Josh Barro 57:09

I think that's a good note that we can leave the panel on. I want to thank everybody for joining us today. Thank you. [applause]

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