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More Revenue Is Required to Meet the Nation's Commitments, Needs, and Challenges

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Executive Summary

To support sound budget policies, the level of federal revenue — measured as a percent of the nation's economy, or gross domestic product (GDP) — needs to increase over previous and currently projected levels. Our nation's budget policies reflect our approach to two fundamental questions: what and whom will our country invest in and support, and how will we pay for those investments? Our current approach is one of low investment and support for people and communities relative to other wealthy nations, coupled with even lower revenue. This has led not only to a fiscal deficit, with federal debt growing more quickly than GDP, but also an investment deficit.

To meet our commitments to seniors, make high-value investments that will improve well-being and broaden prosperity, and improve our fiscal outlook, we must raise more revenue. Simply put, we cannot meet 21st-century needs with past levels of revenue. As a first step, policymakers should use the scheduled expiration of most provisions of the 2017 tax law in 2025 as an opportunity to bolster the revenue base, not erode it by failing to pay for any tax cuts that are extended and potentially adding still more tax cuts for corporations and high-income households on top.[1]

Specifically, higher revenue is needed to address three challenges:

- **Meeting long-standing retirement and health care commitments to seniors**. Budget needs are growing simply because the increasing number of baby boomers in retirement increases the costs of Social Security and Medicare. Costs for these two programs are growing faster than the economy and are projected to continue doing so.

  The demographics underlying this upward budgetary pressure have been understood for decades — the results are no surprise. Indeed, cost growth for Social Security and Medicare has been slower than the Congressional Budget Office (CBO) predicted in 2010. Federal costs *outside* of these two programs are projected to grow more slowly than the economy, but this will not completely offset the demographic shift propelling the growth of Social Security and

[1] Jacob Bogage, "Republicans pitch tax cuts for corporations, the wealthy in 2025," *Washington Post,* June 9, 2024, https://www.washingtonpost.com/business/2024/06/09/biden-trump-taxes-election/.

Medicare. (See Figure 1.) To finance our commitments to current and future seniors, we will need to raise more revenue.

- **Making high-value investments that improve well-being and broaden opportunity**. Underinvesting in people, communities, and the building blocks of the U.S. economy increases poverty and hardship, worsens racial and ethnic inequities, shortchanges opportunity, and restrains economic growth.

  For example, child poverty is higher in the U.S. than in other similarly wealthy countries due to our weaker support for families with children. Temporary policies enacted during the COVID-19 pandemic produced a historic decline in child poverty and narrowed differences in poverty rates by race and ethnicity, but those gains disappeared when the measures expired. Investing in children has long-term payoffs for the entire country, and that means our under-investment is harming the nation's potential.

  Investments in this and other areas — including investments to bring down the high cost of housing and child care for families, address climate change, expand access to higher education, improve our infrastructure, and support research and technological advances — all could yield significant short- and long-term benefits to people, communities, and the economy as a whole. But they will require more revenue.

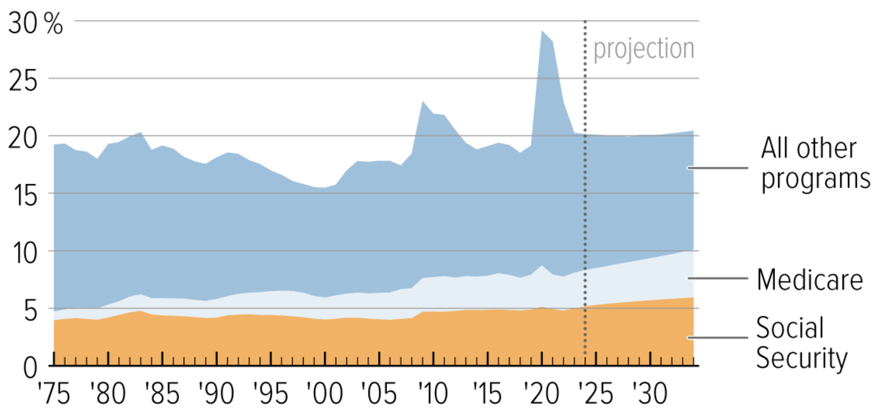
- **Managing the future risks associated with higher debt**. Policymakers should consider the risks associated with a federal debt that's growing faster than the economy and is projected to continue doing so. While there is no consensus among economists as to what level of debt relative to the size of the economy (known as the debt ratio) will cause significant economic harm, higher debt ratios increase risks to the economy.

  At the same time, policymakers must weigh the uncertainty of those risks against the more certain, damaging consequences of underinvestment in public services and the economy, which include higher poverty, reduced health and well-being, and limited opportunity. They can best manage these risks by raising sufficient revenue both to finance investments today and to improve our long-term fiscal outlook.

FIGURE 1

Social Security, Medicare Growing While Other Programs Shrink

Costs as a percentage of GDP



Note: Historical and projected costs and GDP data are from Congressional Budget Office (CBO), but see the Appendix.

Source: CBPP analysis of CBO data

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Arguments Against New Revenue Don't Hold Up

Some critics argue that increasing revenue slows economic growth. But research doesn't support the conclusion that countries with higher levels of revenue have experienced lower economic growth over time. Studies have produced conflicting findings, likely because many factors affect growth — including the type of tax, economic conditions, monetary policy, the time frame examined, and importantly, what the funds are used for. Revenue is used for a range of spending and investment that itself can both improve well-being and bolster growth.

Some critics also argue that the nation's long-term fiscal challenges are caused by overspending and thus should be addressed by cutting programs rather than raising revenue. This argument ignores the very substantial costs in deficits and debt caused by the Bush and Trump tax cuts. Absent those tax policies, deficits and debt would be much lower. And in any case, those critics have been unable or unwilling to show how the budget can be cut to achieve their fiscal goals. Budget proposals claiming to embrace that approach have combined some specific, extreme, and damaging program cuts with large additional cuts that are generally *unspecified*.[2]

The most recent House Republican budget resolution, for instance, called for $9.3 trillion in program cuts over ten years, but almost half of the cuts were unspecified. The specified cuts, which

[2] Sharon Parrott, "House Republican Budget Reflects Disturbing Vision for the Country," CBPP, September 19, 2023, https://www.cbpp.org/press/statements/house-republican-budget-reflects-disturbing-vision-for-the-country. Also see Richard Kogan and Joel Friedman, "Five Things to Look for in the House Republican Budget Plan," CBPP, September 18, 2023, https://www.cbpp.org/research/federal-budget/five-things-to-look-for-in-the-house-republican-budget-resolution.

targeted health care and programs that help people with low incomes afford the basics, would drive up poverty and hardship and the number of people without health coverage. The unspecified cuts would require, among other cuts, massive disinvestment from the part of the budget that funds a broad range of public services, such as national parks, child care, education, scientific and medical research, and veterans' health care. While some reasonable savings can be achieved in certain areas, such as by ending inefficient subsidies, they are far less than these extreme proposals call for, and far less than the amounts required to address the needs discussed in this report.

Similarly, some argue that revenue today (relative to the economy) should not be allowed to exceed historical levels, as if they represent an inevitable or natural constraint on revenue. But a backward-looking benchmark is of little use in guiding policies designed to meet current and future needs and a country with far different demographics than decades ago.

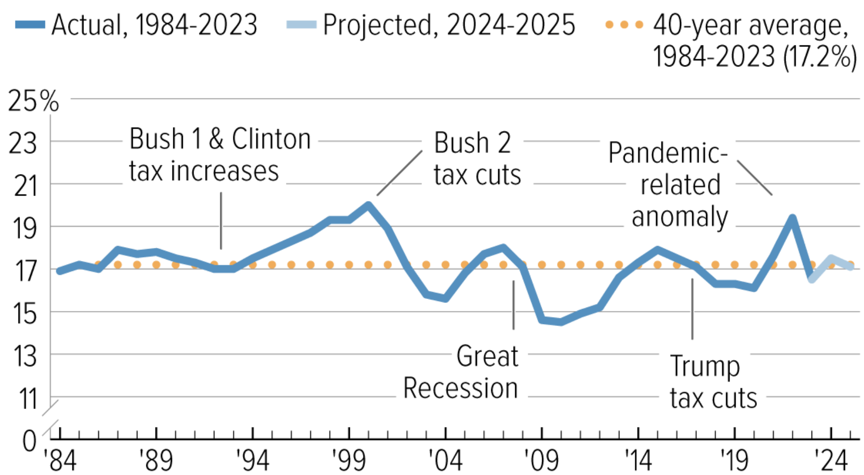
In 2024, CBO estimates that revenue will be 17.5 percent of GDP — roughly equivalent to the average over the past 40 years and close to the level in 1984. (See Figure 2.) But the country today is very different. For example, 40 years ago members of the baby boom generation (those born between 1946 and 1964) were in or still approaching their "prime working years;" today they are in the "prime retirement years," with all but the very youngest now eligible for Social Security. And over the next 40 years, this aging trend will continue. By 2064, the share of the population over age 65 is projected to reach 22.7 percent, or nearly double the 11.6 percent share in 1984. Similarly, the dangers and challenges of climate change are more dramatic and urgent than they were 40 years ago, demanding more action today and in the future. And in 1984 we did far less than we do today to reduce child poverty, invest in child care, or ensure that people without health coverage through their jobs have access to health coverage.

In short, 21st century revenue needs are much different from those in the 1980s.

FIGURE 2

Inadequate Revenue Over the Last 40 Years Should Not Guide the Future

As a percent of GDP



Source: Congressional Budget Office

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It is notable that policymakers did not let revenue levels from the first half of the 20th century dictate those of the second half. Federal revenue averaged only about 4 percent of GDP from the beginning of the last century to the beginning of World War II. But during the second half of the century, when our defense needs were notably greater and key social insurance costs (such as Social Security and public support for health insurance for seniors) emerged or began to grow, federal revenue averaged more than 17 percent of GDP. It should also be noted that economic growth was faster in the second half. The past should not bind the present or future.

Moreover, revenue levels from the past four decades were insufficient even then; the debt ratio more than doubled over that period, even before the pandemic. Despite some progress in recent decades, we invest notably less than other wealthy countries in children, families, and workers — including less in child care, paid leave, and financial help to families — and we have significantly more people without health coverage.[3] Counting all levels of government, the U.S. collects only about two-thirds as much revenue as other wealthy countries such as those in the European Union, relative to the size of the economy. Addressing our underinvestment in children, workers, and access

[3] This comparison of economic security investments is based on an analysis of 2019 OECD data on gross public social spending, excluding health, at all levels of government in a country. This OECD category of spending covers old age pensions, disability benefits, families and children, unemployment benefits, and housing, among other supports, but excludes most social benefits provided through the tax code (for instance, for the U.S., it includes only the refundable portion of the Earned Income Tax Credit). See "Social Expenditure Database (SOCX)," OECD, https://www.oecd.org/social/expenditure.htm. Some 90 percent of the U.S. population had health insurance coverage, compared with an average of 99 percent among European Union countries in the OECD in 2019. See "Population Coverage for a Core Set of Services, 2019 (or nearest year)," OECD, November 9, 2021, https://doi.org/10.1787/dcae7ac1-en.

to health care, as well as other challenges such as climate change and aging infrastructure (the result, in part, of underinvestment over past decades), will require making greater investments in the future than in the past.

Tax Cuts Have Weakened Revenues; Focus Should Be on Raising Revenues

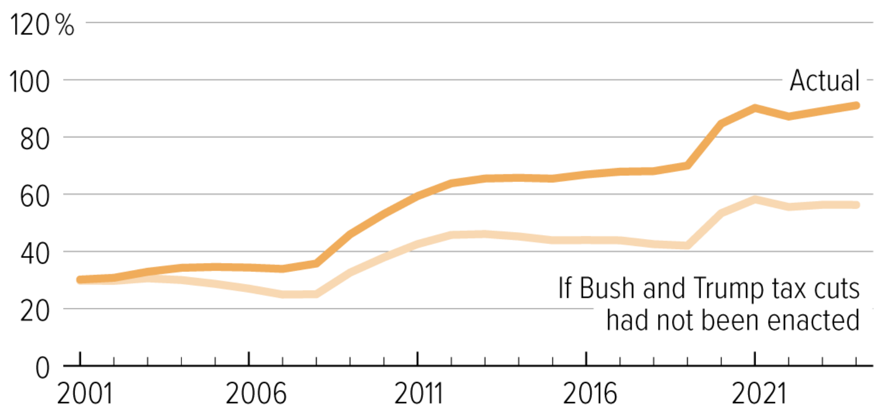
Despite rising costs due to the aging of the baby boom generation and our investment deficit, policymakers have enacted tax cuts in the past two decades that have eroded the revenue base. This has undermined investments and driven up deficits and debt, increasing future economic risks.

Tax cuts enacted during the Bush and Trump administrations have substantially increased the nation's deficits and debt. We estimate that if the Bush tax cuts and their extensions and the 2017 Trump tax cuts had not been enacted, the deficit would be less than half its current size, and the debt ratio would be considerably lower as well: 56 percent of GDP in 2024, compared to the actual 91 percent.[4] (See Figure 3.)

FIGURE 3

The Debt Is Higher Due to the Bush and Trump Tax Cuts

Debt as a percentage of GDP



Note: Debt refers to "net debt," which is the government's total debt net of its financial assets.

Source: CBPP analysis of data from CBO and JCT

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[4] The Bush tax cuts and their extensions included revenue losses caused by limiting the amount that the Alternative Minimum Tax (AMT) would recapture from better-off tax filers. Because the AMT was not indexed for inflation in 2000, just before enactment of the Bush tax cuts, the AMT would have recaptured growing amounts of revenue as the years passed. As a result, legislation to limit the reach of the AMT became increasingly costly as the years passed, relative to 2000 AMT law. Those very costly effects were part of the Bush tax cuts and its extensions and so were part of all scores of that legislation by the Congressional Budget Office and Joint Committee on Taxation. In our analysis, however, we attribute smaller revenue losses to the AMT provisions of those tax cuts, measuring those revenue losses relative to a hypothetical AMT that had been indexed for inflation (rather than the actual, unindexed AMT), so our estimates of the costs of the Bush tax cuts are more conservative.

The individual and estate tax provisions of the 2017 tax cuts are scheduled to expire in December 2025. Extending these tax cuts without offsets would cost about $4 trillion over ten years. Allowing many of these provisions to expire, and completely offsetting any extensions with other revenue increases, is an essential first step toward rebuilding the revenue base.[5]

Even with this step, revenue in the next decade would remain below the levels of the late 1990s as a percent of the economy and below the levels of nearly all of our peer countries. Most importantly, revenue would still be well short of what is needed to accommodate the costs of an aging population and to manage our long-term fiscal challenges, let alone address our investment deficit. Additional revenue-raising efforts will therefore be needed.

These revenue increases should be progressive, which is particularly appropriate given that the nation's income in recent decades has grown increasingly unequal. Typical middle-income families with children had almost 50 percent more income after taxes in 2019 than such families had in 1984, after adjusting for inflation. But among the top 1 percent of households, their already disproportionate incomes grew three times as fast over that period: almost 150 percent. Indeed, by 2019, the top 1 percent had annual incomes averaging $1.7 million, almost 20 times that of typical middle-income families with children.[6] Revenue-raising efforts should therefore focus on those who have gained the most over the last four decades, while new investments should focus on solving national problems and expanding opportunity.

The United States is a significantly wealthier nation than it was in 1984 and can afford to devote a greater share of its resources to addressing these challenges. It is among the world's richest countries on a per-person basis;[7] per-person income is twice the level it was four decades ago, after adjusting for inflation, and per-person wealth has grown even more, rising 270 percent.[8] Moreover, CBO projects that over the next 30 years, inflation-adjusted per-person income will rise by another 46 percent.[9] Growing income and wealth means that even if revenue rises somewhat faster than GDP

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[5] Chuck Marr, Samantha Jacoby, and George Fenton, "The 2017 Trump Tax Law Was Skewed to the Rich, Expensive, and Failed to Deliver on Its Promises," CBPP, updated June 13, 2024, https://www.cbpp.org/research/federal-tax/the-2017-trump-tax-law-was-skewed-to-the-rich-expensive-and-failed-to-deliver.

[6] CBPP analysis of CBO's distribution of household income for households with children, at Congressional Budget Office, "The Distribution of Household Income in 2020," November 14, 2023, https://www.cbo.gov/publication/59509. We use CBO's data through 2019 (2020, the latest year with available data, is distorted by COVID effects). Amounts are after taxes, exclude medical benefits, include other means-tested government transfers, and are adjusted for inflation to 2019 dollars. Incomes are ranked by post-tax, post-transfer incomes.

[7] U.S. GDP per person is an estimated $80,000 in 2023, according to the International Monetary Fund, which uses Purchasing Power Parity as the basis for its calculations. This compares favorably with that of virtually every other country. The exceptions are a few tax havens (e.g., Luxembourg, Ireland, Switzerland, San Marino) and a few oil-rich nations (e.g., Qatar and the Emirates). See International Monetary Fund, "Report for Selected Countries and Subjects," June 4, 2024, https://www.imf.org/en/Publications/WEO/weo-database/2023/October/weo-report.

[8] The income figures compare 2024 estimates with 1984 figures, using data from CBO. Wealth data are as of December 31, 2023, from Table b.1 of the Federal Reserve's quarterly "Financial Accounts of the United States." We adjust the Fed's nominal wealth data for population growth and inflation. See Board of Governors of the Federal Reserve System, Financial Accounts Guide - Display Table, https://www.federalreserve.gov/releases/z1/default.htm.

[9] Congressional Budget Office, "The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget," May 21, 2024, https://www.cbo.gov/publication/60169. See CBO's backup tables for the data underlying its charts.

over time, the after-tax levels of inflation-adjusted income and wealth will also continue to grow. And the investments supported by that revenue will themselves improve well-being.

In short, we can afford to raise revenue and invest in people, communities, and the economy to strengthen the country and create a more broadly shared prosperity.

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Maintaining Retirement and Health Care Commitments to Seniors

Social Security provides retirement, disability, and survivor benefits, and its costs are heavily dependent on the number of seniors; Medicare provides health care to retirees and some people with disabilities. These commitments to seniors have been in place for generations and are essential to their well-being.

The costs of these programs relative to the economy were always slated to grow after 2005 as the baby boom generation began to retire. (See Figure 4.) In addition to the effect of demographics, the cost of medical care — in both the public and private sectors — generally rises faster than the economy as new medical technology and prescription drugs are developed. These advances result in better health care and improved quality and length of life but are more costly.[10] And while it has long been understood that the costs of Social Security and Medicare would rise as the baby boom generation aged, the current cost of each program is lower than was projected in 2010; most importantly, health care cost growth has moderated relative to prior estimates.

CBO projects that, from 2024 through 2034, the combined costs of Social Security and Medicare will grow from 8.3 to 10.1 percent of GDP.[11]

For Social Security, the projected cost growth is fundamentally demographic, traceable to more beneficiaries rather than more generous benefits. The average Social Security retired worker benefit is about $1,910 a month in 2024, or $22,900 a year — hardly an excessive amount, and most beneficiaries rely on Social Security for at least half of their income. Moreover, future retirees face lower benefits than current retirees, relative to their past earnings.[12]

The aging of the population will also raise Medicare costs, for three reasons. More people will turn 65 and become eligible for Medicare; the share of the population that is very old (and hence in greater need of costly care) is projected to increase even more rapidly than the elderly population as a whole; and, as noted, the cost of medical care generally rises faster than the economy (even with the slowdown in cost growth over the last decade or so). Over the next ten years, the portion of the population that is 85 or over — a group with the highest health care costs — will grow from 1.9 percent to 2.8 percent, and it will continue to grow in succeeding decades.[13]

(Medicaid, which serves those with limited incomes, is also important to seniors' well-being, and some factors noted above will raise its costs as well. For example, Medicaid provides assistance with Medicare premiums and cost sharing for seniors with low incomes and also covers long-term care, while Medicare does not.)

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[10] The cost growth of Medicare is not due to significant design flaws; per-person *private-sector* health care costs have grown faster than the equivalent Medicare costs.

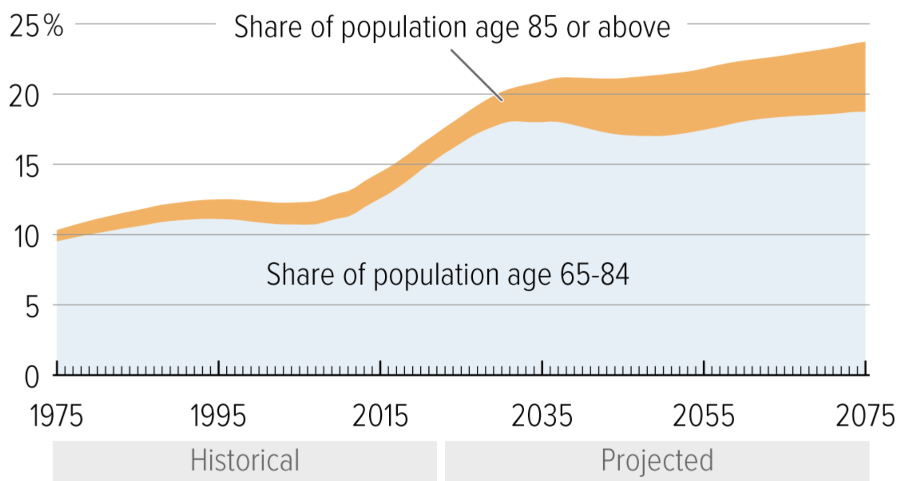
[11] These estimates exclude administrative costs, which are appropriated annually.

[12] Paul N. Van de Water and Kathleen Romig, "Social Security Benefits Are Modest," CBPP, December 7, 2023, https://www.cbpp.org/research/social-security/social-security-benefits-are-modest. For 2024 benefit amounts, see Social Security Administration, Benefits Paid by Type of Beneficiary, https://www.ssa.gov/OACT/ProgData/icp.html.

[13] Projections are from the 2024 report of the Social Security Trustees and show the share of the population age 85 or older growing to 5.0 percent by 2075. See Social Security Program Data, https://www.ssa.gov/OACT/HistEst/Population/2024/Population2024.html.

FIGURE 4

An Aging Population Results in Higher Costs for Social Security and Medicaid



Source: Social Security Administration

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As with Social Security, the benefits provided by these health programs are not overly generous. Medicare's benefits are in some respects less comprehensive than a typical employer-sponsored health plan. Medicare households spend on average about $6,600 a year on out-of-pocket health care costs, which is about 15 percent of their budgets — over twice the average for non-Medicare households.[14]

Some savings in health care costs can be achieved without reducing eligibility or benefits, such as by using the government's negotiating power to reduce prescription drug costs beyond the early steps taken in the 2022 Inflation Reduction Act. We can also cut down on overly generous payments to Medicare Advantage plans.

Even if health care cost growth moderates, there is no doubt that demographic changes in the U.S. population will increase the costs of Social Security and Medicare — and that more revenue will be needed to meet our commitments to seniors.

Making High-Value Investments

The United States underinvests in people, communities, and the building blocks of the economy in ways that shortchange opportunity, exacerbate inequality, widen racial and ethnic inequities, and limit the nation's potential. A key reason to raise revenue is to address this investment deficit.

[14] Nancy Ochieng, Juliette Cubanski, and Anthony Damico, "Medicare Households Spend More on Health Care Than Other Households," KFF, March 14, 2024, https://www.kff.org/medicare/issue-brief/medicare-households-spend-more-on-health-care-than-other-households/.

The nation can well afford to make high-value investments that broaden opportunity and promote more widely shared prosperity. Yet federal spending outside of Social Security and Medicare has *declined* as a percent of GDP over the last 40 years and is projected to keep falling.[15] This part of the budget encompasses everything from the armed forces and veterans' benefits to education, infrastructure, agriculture, environmental protection, science and medical research, and economic security programs. It is the part of the budget where the nation can invest in its future.

Areas in need of additional investment include:

Children. Some 1 in 8 children in the U.S. live in families with incomes below the U.S. poverty line,[16] and there are glaring differences in poverty rates by race and ethnicity. Child poverty in the U.S. is higher than in most similarly wealthy nations as measured by conventional international standards, driven by our relatively weak public supports for families with children.[17] Making policy choices that keep child poverty high shortchanges children's futures and the country as a whole.

Research shows that investing in children in families with low incomes has enormous payoffs in longer-term educational, health, and employment outcomes. (See Figure 5.) In a 2019 report by the National Academy of Sciences, for example, stronger income assistance for children with low incomes — through policies such as the Child Tax Credit and food assistance through SNAP — was linked with healthier birthweights, better childhood nutrition, higher school enrollment, higher reading and math test scores, higher high school graduation rates, less use of drugs and alcohol, and higher rates of college entry.[18]

Other wealthy nations have broad-based child allowances akin to the expanded Child Tax Credit created by the 2021 American Rescue Plan. They also invest in child care and education, both to make care affordable for families and to improve developmental outcomes for children.

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[15] Spending outside Social Security and Medicare has shrunk from 12.9 percent of GDP in 1984 to 11.8 percent in 2024 and is projected to be 10.3 percent by 2034.

[16] The figure is 12.4 percent, using the supplemental poverty measure, with data for 2022, the most recent available. See U.S. Census Bureau, Poverty in the United States: 2022, Table B-2, https://www.census.gov/library/publications/2023/demo/p60-280.html.

[17] Before the pandemic, 20 percent of U.S. children lived in families with incomes below half the national median, the poverty measure most commonly used for international comparisons. This is a much higher share than in any of the world's 18 other similarly wealthy nations, where between 3 and 15 percent of children are poor. See Arloc Sherman *et al.*, "Widespread Economic Insecurity Pre-Pandemic Shows Need for Strong Recovery Package," CBPP, July 14, 2021, https://www.cbpp.org/research/poverty-and-inequality/widespread-economic-insecurity-pre-pandemic-shows-need-for-strong. U.S. child poverty rates would stand out less among peer nations if poverty were defined as one-half of U.S. median income rather than half of each nation's own median income. That is because average and median incomes in the U.S. are particularly high. Its relatively high overall income also means that the U.S. has relatively high capacity to further reduce child poverty, should it choose to do so. For a recent analysis of child poverty rates across countries using multiple measures, see Zachary Parolin and Stefano Filauro, "The United States' Record-Low Child Poverty Rate in International and Historical Perspective: A Research Note," *Demography,* Vol. 60, Issue 6, December 2023, https://doi.org/10.1215/00703370-11064017. Note that their analysis also includes some nations that are less comparable to the U.S. in terms of income levels.

[18] National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty,* National Academies Press, 2019, https://www.nap.edu/read/25246.

We know how to reduce poverty and hardship and improve families' economic security. During the pandemic, we saw that the Child Tax Credit expansion — which, critically, made the full credit available to children in families with low earnings or who lacked earnings in a year — reduced child poverty to historically low levels. Unfortunately, this progress was reversed when the expansion ended.[19] We also saw that investing in child care could expand access to care and help child care providers raise very low wage levels and stay in business.[20]

Workers and their families. Child care is not the only challenge facing workers. All too often, workers who lose a job due to a layoff or the need to care for a family member face deep financial hardship for themselves and their families.

The United States is alone among wealthy countries in lacking a national paid leave program, relying instead on a patchwork of federal, state, and local policies. The vast majority of employers do not voluntarily offer paid family and medical leave.[21]

FIGURE 5

Child Tax Credit Expansion Projected to Provide Important Gains for Children and Society

- Lower neo-natal mortality
- Greater health and longevity for children and parents
- Higher future earnings of child beneficiaries
- Lower costs of protecting children from abuse & neglect
- Greater safety from reductions in crime
- Increased future tax payments by child beneficiaries
- Reduced expenditures on children's and parents' health care costs

Source: Irwin Garfinkel et al., "The Benefits and Costs of a U.S. Child Allowance," NBER Working Paper No. 29854, 2022

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The benefits of paid leave are well established. Paid medical and caregiving leave lets workers care for themselves and loved ones when ill or injured and reduces financial insecurity and stress during those times. Paid leave also benefits businesses by improving worker retention and productivity and boosting labor force participation.[22]

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[19] Sharon Parrott, "Record Rise in Poverty Highlights Importance of Child Tax Credit; Health Coverage Marks a High Point Before Pandemic Safeguards Ended," CBPP, September 12, 2023, https://www.cbpp.org/press/statements/record-rise-in-poverty-highlights-importance-of-child-tax-credit-health-coverage; Danilo Trisi, "Expiration of Pandemic Relief Led to Record Increases in Poverty and Child Poverty in 2022," CBPP, June 10, 2024, https://www.cbpp.org/research/poverty-and-inequality/expiration-of-pandemic-relief-led-to-record-increases-in-poverty.

[20] Testimony of Sharon Parrott, "Robust COVID Relief Achieved Historic Gains Against Poverty and Hardship, Bolstered Economy," Before the House Committee on the Budget, June 14, 2022, https://www.cbpp.org/research/poverty-and-inequality/robust-covid-relief-achieved-historic-gains-against-poverty-and-0.

[21] Kathleen Romig and Kathleen Bryant, "A National Paid Leave Program Would Help Workers, Families," CBPP, April 27, 2021, https://www.cbpp.org/research/economy/a-national-paid-leave-program-would-help-workers-families.

[22] *Ibid.*

The U.S. lacks not only a comprehensive paid leave program but also an adequate unemployment insurance (UI) system. The current UI system, a federal-state partnership, fails to provide any help to most unemployed workers, often provides benefits that are too low to ensure households can make ends meet when a worker does qualify, and, in some states, fails to provide enough weeks of help to allow workers to find new employment that best matches their skills. For example, the share of unemployed workers receiving any UI benefits has fallen in recent decades from roughly 50 percent to under 30 percent in 2023.

During the pandemic, the U.S. expanded eligibility and increased benefit levels, providing critical financial protection to workers who lost their jobs. While there were implementation issues and crime rings that targeted inadequate systems, expanded jobless benefits kept millions of households afloat. But those expansions ended, and workers who lose their jobs today once again face a severely inadequate UI system.[23]

Housing and food security. Millions of households face unaffordable rent burdens, and homelessness is rising.[24] More than 80 percent of renter households earning less than $30,000 per year pay over 30 percent of their income for housing, which leaves less available for food, medicine, clothing, school supplies, or other necessities.[25] As unmet needs pile up, families often find themselves one setback — a cut in their work hours or an unexpected bill — away from eviction or homelessness.

The housing crisis stems partly from inadequate supply of housing in some communities, but many people do not have enough income to afford housing even in areas where supply is sufficient. Rental assistance is the most effective way to help people bridge the gap between what they can afford and the cost of housing, but it reaches just 1 in 4 households needing assistance due to inadequate funding.[26] (See Figure 6.) The nation must also invest in retaining the current stock of affordable housing and adding to it.

[23] Nick Gwyn and Jenna Gerry, "Unemployment Insurance System Unprepared for Another Recession," CBPP, April 18, 2023, https://www.cbpp.org/research/economy/unemployment-insurance-system-unprepared-for-another-recession.

[24] See Testimony of Peggy Bailey, "Examining Proposals to Address Housing Affordability, Availability, and Other Community Needs," Before the Senate Banking, Housing, and Urban Affairs Committee, March 12, 2024, https://www.cbpp.org/research/housing/examining-proposals-to-address-housing-affordability-availability-and-other.

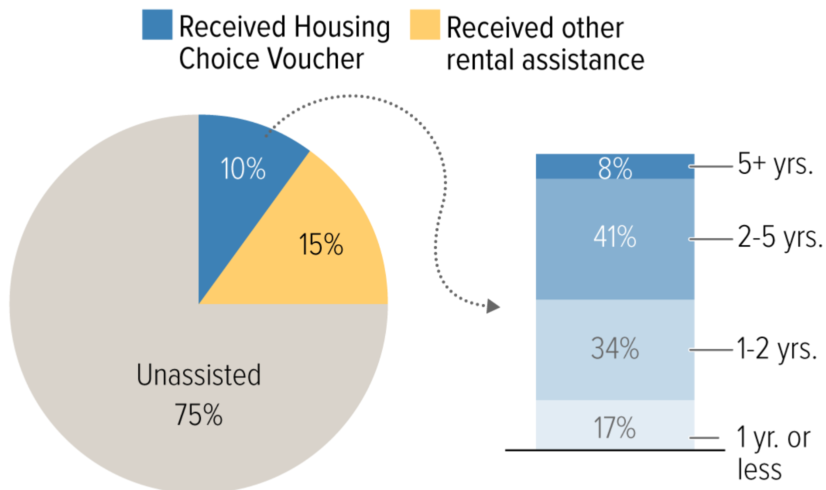
[25] Joint Center for Housing Studies of Harvard University, "America's Rental Housing 2024," January 25, 2024 https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf.

[26] CBPP, "Families With Children and Non-Elderly Adults Without Children Have the Greatest Unmet Need for Rental Assistance," https://www.cbpp.org/research/housing/three-out-of-four-low-income-at-risk-renters-do-not-receive-federal-rental-assistance.

FIGURE 6

Small Share of Eligible Households Receive Vouchers and Typically After Long Wait

Share of eligible households receiving rental assistance and agency's average wait time for voucher recipients



Source: HUD custom tabulations of the 2019 American Housing Survey; 2018 HUD administrative data; FY2020 McKinney-Vento Permanent Supportive Housing bed counts; 2019-2020 Housing Opportunities for Persons with AIDS grantee performance profiles; and the USDA FY2020 Multi-Family Fair Housing Occupancy Report; HUD 2020 Picture of Subsidized Households

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Food insecurity is another hardship far too prevalent in our wealthy nation — faced by 44 million people in 2022.[27] Rates of food insecurity are substantially higher among households identifying as American Indian or Alaska Native, Black, Hispanic, or multiracial, as well as households with children. (See Figure 7.) These inequities reflect the impact of systemic racism and discrimination in areas such as housing, health care, education, and employment, which make it more difficult for those affected to afford food.[28]

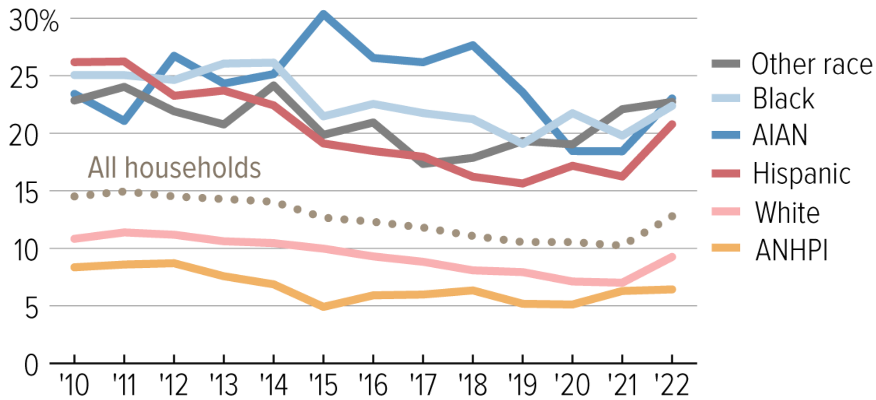
[27] Matthew P. Rabbitt *et al.*, "Household Food Security in the United States in 2022," USDA Economic Research Service, October 2023, https://www.ers.usda.gov/publications/pub-details/?pubid=107702.

[28] Lauren Hall, "Food Insecurity Increased in 2022, With Severe Impact on Households With Children and Ongoing Racial Inequities," CBPP, October 26, 2023, https://www.cbpp.org/blog/food-insecurity-increased-in-2022-with-severe-impact-on-households-with-children-and-ongoing.

FIGURE 7

Food Insecurity by Race and Ethnicity Reveals Stark Disparities

Households that lacked access to adequate food at some point in the year



Note: Other race = people who are more than one race. AIAN = people who are American Indian or Alaska Native. ANHPI = people who are Asian, Native Hawaiian, or Pacific Islander. Hispanic households may be of any race. Race and ethnicity for the household are based on that of the household reference person (in whose name the housing unit is owned or rented).

Source: U.S. Department of Agriculture, Current Population Survey Food Security Supplement 2010-2022

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Health care. Because of the Affordable Care Act (ACA), the nation has made enormous progress in reducing the number of uninsured people as well as the differences in uninsured rates among racial and ethnic groups. But 26 million individuals remain uninsured and uninsured rates vary widely among racial and ethnic groups, indicating persistent inequities.[29] And even for people with coverage, challenges with affording and accessing care remain.[30]

Additionally, more than 1.6 million people are in the Medicaid coverage gap, meaning their incomes are too low to be eligible for premium tax credits in the health insurance marketplaces, but they are ineligible for Medicaid because they live in the ten states that haven't adopted the ACA's Medicaid expansion.[31]

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[29] Breanna Sharer and Gideon Lukens, "Health Coverage Rates Vary Widely Across — and Within — Racial and Ethnic Groups," CBPP, May 9, 2024, https://www.cbpp.org/research/health/health-coverage-rates-vary-widely-across-and-within-racial-and-ethnic-groups.

[30] People with little financial margin to cover unexpected health costs face challenges affording deductibles and other out-of-pocket charges under marketplace plans and other private health insurance coverage. CBPP, "Building on the Affordable Care Act: Strategies to Address Marketplace Enrollees' Cost Challenges," findings of the Marketplace Affordability Project, April 10, 2024, https://www.cbpp.org/research/health/building-on-the-affordable-care-act-strategies-to-address-marketplace-enrollees.

[31] Jennifer Sullivan, Allison Orris, and Gideon Lukens, "Entering Their Second Decade, Affordable Care Act Coverage Expansions Have Helped Millions, Provide the Basis for Further Progress," CBPP, updated March 25, 2024, https://www.cbpp.org/research/health/entering-their-second-decade-affordable-care-act-coverage-expansions-have-helped.

Policymakers can expand health coverage and care and improve affordability by closing the Medicaid coverage gap, reducing immigration-related barriers to coverage, and making recent improvements to marketplace premium tax credits permanent.

Post-secondary education. Accessible, high-quality post-secondary education is a crucial contributor to a strong economy and thriving communities. However, since the Great Recession of 2007-09, rising education costs have made it less accessible. The burden is especially great for families of color, who pay a greater share of their income for college due to long-standing employment and wage discrimination.

Increasing aid for college boosts both attendance and completion, numerous studies indicate.[32] Pell Grants — the nation's largest source of need-based grant aid, assisting more than 6 million students — are well targeted to students with high financial need, but they fall far short of the cost of attending college, and the gap has grown over the last four decades. In the 2023-24 school year, the maximum grant covered just 31 percent of the cost of attending a state university, including tuition, fees, and room and board.[33]

Low-income seniors and people with disabilities. The Supplemental Security Income (SSI) program for low-income elderly and disabled people is woefully inadequate, excluding many people in need entirely and leaving many recipients without enough resources to meet basic needs. Its maximum benefit is only three-fourths of the poverty line, and 4 in 10 SSI recipients have incomes below the poverty line even with their SSI benefits. SSI's income and asset limits have not been updated for decades and allow recipients to keep only a meager amount of their earnings, other benefits, and savings. SSI also excludes most immigrants (until they become U.S. citizens) and residents of U.S. Territories, most of whom are people of color.[34]

Furthermore, many seniors, people with disabilities, and their families struggle to afford and access needed long-term services and supports, including home- and community-based care. Additional investments, for example in Medicaid, are necessary to ensure both that there is an adequate workforce to provide services, given growing demand, and that these supports and services are in reach for recipients.

Other areas. In addition to the areas noted above, the nation has investment deficits in other areas that matter for the economy and people's well-being — ensuring access to clean water, addressing the threat of climate change, repairing and modernizing infrastructure, and increasing scientific and medical research, to cite just a few examples. Investments in areas such as these are also investments in the future that will, if designed well and funded adequately, make future generations better off. Conversely, failure to make these investments will leave future generations worse off.

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[32] Arloc Sherman *et al.,* "Recovery Proposals Adopt Proven Approaches to Reducing Poverty, Increasing Social Mobility," CBPP, August 5, 2021, https://www.cbpp.org/research/poverty-and-inequality/recovery-proposals-adopt-proven-approaches-to-reducing-poverty.

[33] College Board, "Trends in College Pricing and Student Aid 2023," https://research.collegeboard.org/media/pdf/Trends%20Report%202023%20Updated.pdf.

[34] Kathleen Romig and Sam Washington, "Policymakers Should Expand and Simplify Supplemental Security Income," CBPP, updated May 4, 2022, https://www.cbpp.org/research/social-security/policymakers-should-expand-and-simplify-supplemental-security-income.

Managing Risks Associated With a Higher Debt Ratio

Continued growth in the federal debt ratio poses potential future risks to the economy and fiscal policy. Some are more political in nature, such as the risk that policymakers will adopt misguided policies or fail to make high-value investments in light of a rising debt ratio. Managing those risks by limiting the growth in the debt ratio is another key reason to raise revenue.

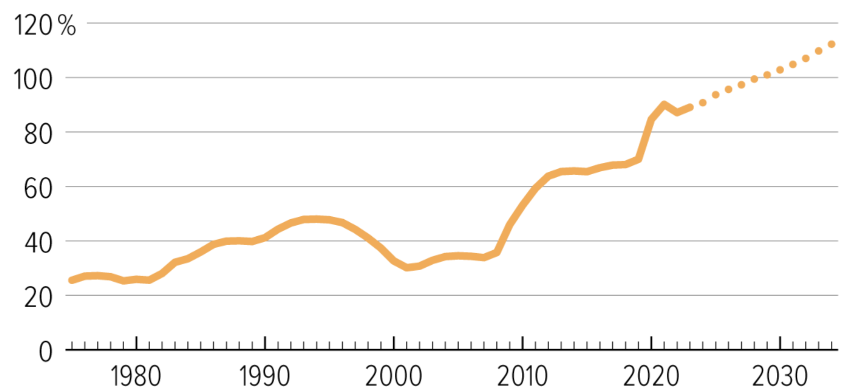
When the federal government collects less revenue than it spends, it takes on debt,[35] which the government must then pay to service. Those interest-related costs are the annual budgetary cost of taking on debt. On our current trajectory, both the nation's debt and the cost of servicing it are projected to rise relative to the size of the economy.

The debt as a percent of the economy is approaching historically high levels (see Figure 8) and is projected to reach 112 percent by 2034, according to CBPP estimates.[36] (For a discussion of the debt ratio, see the box, "What Causes the Debt Ratio to Rise?")

FIGURE 8

The Federal Government's Debt Ratio Has Grown and Is Projected to Continue Growing

Debt as a percentage of GDP



Note: Debt refers to "net debt," which is the government's total debt net of its financial assets.

Source: CBPP calculations based on Office of Management and Budget data through 2023 and Congressional Budget Office projections thereafter

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Interest costs as a percent of the economy are higher than they have been since the 1990s and are expected to keep growing. (See Figure 9.)

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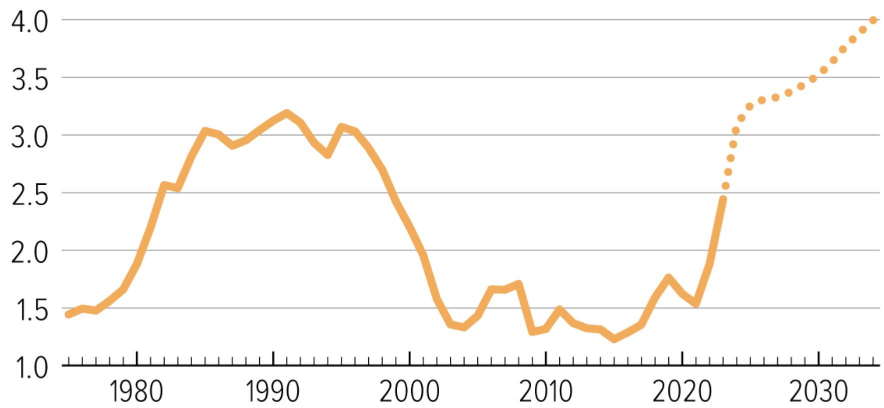
[35] In this paper, "debt" refers to "net debt," which is the government's total debt net of its financial assets, such as cash, gold, Treasury securities held by U.S. government agencies, and the value of student loans held by the government. Net debt is a better measure of the federal government's financial position at any point in time than gross debt or debt held by the public because it includes all the financial assets and liabilities of the government. And because it does, it is the only measure of debt that equals the sum of annual deficits (and surpluses) while excluding financial transactions to the extent they do not affect deficits.

[36] See the Appendix for a discussion of the ten-year budget projections in this report. Like the CBO estimates, the CBPP estimates assume the expiring 2017 tax cuts expire on schedule.

FIGURE 9

Federal Debt Service Costs Have Grown and Are Projected to Continue Growing

Debt service costs as a percentage of GDP



Source: Congressional Budget Office (CBO) for data through 2023 and CBPP calculations based on CBO projections thereafter

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There is considerable uncertainty in these projections; over the next decade and even more over longer periods, the levels of revenue, program costs, interest costs, deficits, and debt could be higher or lower than projected. For instance, long-term budget projections made in 2010 showed a considerably *higher* debt ratio in 2050 than is projected today, even with additional costs stemming from unexpected events such as the pandemic, because projections now reflect much slower health care cost growth and lower interest rates than were assumed in 2010.

Standard economic theory suggests that, all else being equal, a high and rising debt ratio will, over time, put upward pressure on interest rates and reduce private investment, slowing overall growth in income and wealth to some extent. The magnitude of that effect is highly uncertain, with most analysts predicting a small effect. And of course, not all else is equal, so the effect can be hard to distinguish from other economic and demographic changes. Indeed, over the last 45 years, the debt ratio has grown, but real Treasury interest rates have generally trended *down*, and GDP growth has trended down only slightly. All this suggests that the macroeconomic effects of a rising debt ratio are likely small.

CBO's most recent long-term projections show modest effects, with the average real (i.e., inflation-adjusted) income per person increasing by 46 percent over the next three decades if the growing debt ratio slows economic growth as CBO assumes, but by 56 percent if the growing debt ratio does not slow economic growth.[37] Under either scenario, per capita income is projected to grow substantially. (Reducing deficits simply by cutting investments would not necessarily improve the well-being of typical families if those cuts were in high-value investments that support income growth and broaden prosperity.)

[37] Congressional Budget Office, "The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget." See CBO's backup tables for the data underlying its charts.

Some are concerned that a high and rising debt ratio could, at some point, help trigger a sudden crisis where investors lose confidence in the U.S. government's ability to meet its debt service obligations, causing interest rates to spike.[38] But CBO views the risk of this kind of crisis to be low in the near term, and concludes that gauging the likelihood of such an event in the future with any confidence is nearly impossible. As CBO states:

> CBO cannot reliably quantify the probability of a fiscal crisis. In the agency's assessment, no tipping point can be identified at which the debt-to-GDP ratio would become so high that it would make a crisis likely or imminent, nor is there a fixed point at which interest costs would become so high in relation to GDP that they were unsustainable.[39]

Some policymakers have used the increase in debt as an excuse to push for deep and harmful budget cuts, even though economists do not agree on the levels of debt or debt service that pose a significant risk to the economy and a fiscal crisis is not imminent. But whereas the effects of higher debt levels are uncertain, the effects of such spending cuts would be both clear and damaging. They include higher poverty and the attendant long-term impacts on children and the economy, more people without access to health coverage, and less investment in public infrastructure and medical research (which would also hurt economic growth). Also, in a future recession or disaster, debt concerns could dissuade policymakers from responding with robust measures to bolster the economy and mitigate harm; this failure could prolong the downturn and slow the recovery — and, ironically, harm long-term economic growth.

A different example of such counter-productive behavior is that a rising debt ratio encourages some in Congress to demand policy concessions in return for raising the debt limit, an irresponsible strategy that risks defaulting on the nation's obligations. For example, the debt limit imbroglio in the spring of 2023 led Fitch Ratings to downgrade the reliability of Treasury securities, citing "the erosion of governance."[40]

The most responsible approach to fiscal policy would be to recognize both the future risks associated with higher levels of debt and the consequences of failing to address current underinvestment, which is hurting both near-term and long-term well-being. President Biden's 2025 budget, for example, calls for raising substantial revenue and using it for a combination of

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[38] Ernie Tedeschi, "Political Risks to the U.S. Safe Harbor Premium," Budget Lab at Yale, May 2024, https://budgetlab.yale.edu/sites/default/files/2024-05/The%20Budget%20Lab%20Safe%20Harbor%20Analysis%202024_0.pdf.

[39] Congressional Budget Office, "The Long-Term Budget Outlook: 2024 to 2054," March 2024, https://www.cbo.gov/publication/59711.

[40] On August 1, 2023, Fitch Ratings downgraded U.S. long-term Treasury securities from their long-standing AAA rating. Among a number of reasons, Fitch cited "the erosion of governance" and wrote, "The repeated debt-limit political standoffs and last-minute resolutions have eroded confidence in fiscal management." See Fitch Ratings, "Fitch Downgrades the United States' Long-Term Ratings to 'AA+' from 'AAA'; Outlook Stable," August 1, 2023, https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023.

investments and deficit reduction.[41] This is a prudent approach, which weighs the uncertain consequences of a rising debt ratio against the more certain consequences of underinvesting or, worse, disinvesting in people, communities, and the economy.

What Causes the Debt Ratio to Rise?

The dollar level of the debt grows from one year to the next whenever the government runs a deficit. Whether this causes the debt ratio to rise depends on two factors.

The first factor is the size of the primary deficit, or the mismatch between revenue and program costs. ("Program costs" are all expenditures other than the interest costs of net debt.) The second factor is the difference between the GDP growth rate and the Treasury interest rate. If the two rates are equal — if, for example, GDP is growing at a nominal 3.5 percent per year and the interest rate on Treasury securities is also 3.5 percent — then the debt ratio will be stable as long as the primary deficit is zero.

Fortunately, in most years throughout U.S. history, the GDP growth rate has been a bit *higher* than the Treasury interest rate, and CBO projects that it will be half a percentage point higher over the coming decade. As a result, even if the budget runs a small primary deficit, the debt ratio will not rise because the faster GDP growth will cancel the effect of the small primary deficit.[a] But the existing and projected primary deficits are large enough that the leeway afforded by a faster GDP growth rate is insufficient to stop the debt ratio from rising.

Importantly, primary deficits are projected to hold steady over the coming decade at about 2.4 percent of GDP. Primary deficits of this size produce a rising debt ratio. Put differently, the debt ratio is rising not because spending on programs is "rising too fast" or "revenue is rising too slowly," but because the mismatch between them is too big.

Primary deficits were also large in the past. This means that past levels of revenue are not only insufficient to cover *future* needs, they were also insufficient to cover *past* needs.

Finally, it is necessary to view the trends in debt and deficits over long periods rather than a single business cycle. When the economy is weak, and especially during recessions, policymakers can significantly shorten both the duration and depth of the downturn — as well as the hardship caused — by allowing deficits and debt to rise automatically and by providing additional temporary stimulus. This approach also results in higher economic growth over time than if policymakers failed to respond aggressively to periodic recessions.

a See Richard Kogan *et al.*, "Difference Between Economic Growth Rates and Treasury Interest Rates Significantly Affects Long-Term Budget Outlook," CBPP, February 27, 2015, https://www.cbpp.org/sites/default/files/atoms/files/2-27-15bud.pdf.

Arguments Against Higher Revenues Are Flawed

Opponents of raising more revenue typically make three related arguments: that higher revenues are bad for economic growth, that overspending is the cause of rising debt and thus cutting

41 Sharon Parrott, "President's Budget Lays Out Sound Architecture for Key Policy Decisions That Will Shape the Nation's Future," CBPP, March 11, 2024, https://www.cbpp.org/press/statements/presidents-budget-lays-out-sound-architecture-for-key-policy-decisions-that-will.

programs is the only logical solution, and that revenue as a share of the economy should hew closely to the average level over the past several decades. None of these is a sound prescription for fiscal policy.

The Effect of Higher Revenue on Economic Growth

The weight of the empirical evidence does not support claims that raising revenue harms economic growth. Studies addressing this topic have generally found contradictory or inconclusive results. An analysis by tax economist Jon Bakija that reviewed a range of cross-country data and major economic studies concluded:

> [T]here is no convincing evidence that the countries choosing larger government [and the taxes that go with it] suffered any significant loss of GDP per person as a result. Healthy skepticism is in order regarding claims that growth of government, at least within the range we've seen in countries comparable to the United States, is bad for the economy in the long run.[42]

Another recent study, by four University of Michigan economists, concluded that analyses comparing taxes and growth across countries "do not credibly support" claims that tax rate changes have a strong effect on economic growth over time.[43] And a study by Brookings Institution economists found no consistent link between the amount of revenue a state collects (or its top marginal income tax rate) and the state's economic growth, either over time or in comparison to other states.[44]

There remains uncertainty about how taxes impact economic activity, in part because the impact can depend on context. A previous CBPP analysis of more than two dozen economic studies concluded that "the effect of tax increases on growth depends on many different factors, such as the type of tax, the country, the state of the economy, monetary policy, the time frame studied, and what the revenue is used for."[45] How the revenue is used can be critical in assessing the effects of tax policy, the analysis explained. It noted studies that found tax increases used to finance deficit reduction and education are associated with increased economic growth.

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[42] Jon Bakija, "Would Bigger Government Hurt the Economy?" chapter 3 of *How Big Should Our Government Be?* University of California Press, 2016, https://muse.jhu.edu/book/45735/.

[43] Laura Kawano, Johns S. Olson, Joel Slemrod, and Meng Hsuan Hsieh, "A Transparent Look at How Taxes Affect Growth: Evidence from Cross-Country Panel Data," November 2023, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4669075.

[44] William Gale, Aaron Krupkin, and Kim Reuben, "The relationship between taxes and growth at the state level: New evidence," Brookings Institution, April 29, 2015, https://www.brookings.edu/articles/the-relationship-between-taxes-and-growth-at-the-state-level-new-evidence/. See also William Gale and Andrew A. Samwick, "Effects of Income Tax Changes on Economic Growth," Economic Studies at Brookings, September 2014, https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf.

[45] Chye-Ching Huang and Nathaniel Frentz, "What Really Is the Evidence on Taxes and Growth?" CBPP, February 18, 2014, https://www.cbpp.org/research/what-really-is-the-evidence-on-taxes-and-growth.

It is also important to understand that the effect on economic growth is only one dimension of an appropriate cost-benefit analysis of a tax policy.[46] The benefits of past economic growth have not been shared equitably, and focusing on the overall growth rate masks these differences.[47] Improvements in well-being and opportunity — such as income growth among people with incomes in the bottom half or three-quarters of the income distribution, longer and healthier lives, safer communities, and a healthier environment — may not always show up in aggregate economic statistics. And some policies may provide large benefits to those who have shared less in the economic growth of recent decades and may improve overall well-being even if they don't grow the overall economy.

Perhaps for all these reasons, one recent review of the data concluded that "the main effects of tax changes are to increase or decrease inequality and government revenue" rather than to affect economic growth.[48]

The Mismatch Between Revenue and Program Spending

Some opponents of raising revenue claim that because total spending (that is, program costs plus interest costs) is rising faster than revenue as a percent of GDP, this means spending is the source of our long-term fiscal challenges. This argument confuses cause and effect. Excluding interest costs, spending and revenue as a percent of GDP are projected to rise at much the same rate over the coming decade. Total spending as traditionally measured is projected to rise faster than revenue almost exclusively because of rising interest costs. Those rising interest costs are the result of the rising debt ratio, not its cause.[49]

And the projected increase in interest costs as a percent of GDP is itself mostly the product of tax cuts, because tax cuts enacted over the last 25 years are the major cause of the gap or mismatch between the level of revenue and the level of program costs. Rising interest costs associated with tax cuts should be thought of not as "higher spending" but as the additional fiscal cost of enacting those tax cuts.

The underlying cause of the rising debt ratio is that revenue is not sufficient to cover program costs, which exclude interest. In other words, the gap or mismatch between revenue and program spending is too large. These non-interest deficits can be addressed by raising projected revenue, cutting projected program costs, or some combination of both. Fundamentally, these are policy choices. And they have enormous implications for whether we close the investment deficit, who gets invested in, and who gets left behind.

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46 The inadequacy of GDP as a measure of national well-being is the theme of *Mismeasuring Our Lives: Why GDP Doesn't Add Up,* by Amartya Sen, Jean Paul Fitoussi, and Joseph Stiglitz, New Press, 2010, https://wcfia.harvard.edu/publications/mismeasuring-our-lives-why-gdp-doesnt-add.

47 Austen Clemens, "GDP 2.0: Measuring who prospers when the U.S. economy grows," Washington Center for Equitable Growth, July 11, 2023, https://equitablegrowth.org/gdp-2-0-measuring-who-prospers-when-the-u-s-economy-grows/. The analysis points out that growth has increasingly been tilted toward the rich, making aggregate GDP growth a misleading statistic for guiding public policy.

48 Corey Husak, "The relationship between taxation and U.S. economic growth," Washington Center for Equitable Growth, June 30, 2021, https://equitablegrowth.org/the-relationship-between-taxation-and-u-s-economic-growth/.

49 See box, "What Causes the Debt Ratio to Rise?" The box explains the basic relationship between non-interest (or "primary") deficits, interest rates, and the rate of economic growth.

Moreover, those who claim that spending is the problem have been unable or unwilling to show how the budget can be cut to achieve their fiscal goals. Republicans have championed relying solely on program cuts to address our nation's fiscal challenges; they have resisted raising revenue since the 1990 bipartisan budget agreement, which the first President Bush signed into law and which included bipartisan revenue increases. But their spending-cut-only budget plans have increasingly eschewed details of exactly which programs should be cut — and the cuts they do detail would be unworkable, highly undesirable, and highly unpopular.

The most recent House Republican budget resolution, for instance, called for $9.3 trillion of program cuts over ten years, but almost half were not specified in any way.[50] The cuts that were specified would result in millions losing health coverage and a sharp increase in poverty and hardship. The unspecified cuts would require, among other cuts, massive disinvestment from the part of the budget that funds a broad range of public services, such as national parks, child care, education, scientific and medical research, and veterans' health care.[51] Proponents of such plans often claim when asked about a particular popular program area that it could be spared, but this would only deepen the cuts elsewhere.

Some conservative groups have provided more details in their budget plans, and those plans would be extremely unpopular for good reason, as they too would result in millions losing health care, massive increases in poverty and hardship, and deep disinvestment.

Some proponents of large spending cuts say they would shield Social Security, Medicare, defense, and veterans' programs from reductions, but these programs account for about two-thirds of all program spending. To stabilize the debt ratio at its current level (a less extreme target than the budget balancing that conservatives often espouse) would require cutting the remaining third of the budget, which includes programs such as Medicaid, the Earned Income Tax Credit, and law enforcement, by 33 percent.[52] (See box, "Exempting Large Spending Programs Would Mean Massive Cuts Elsewhere.") Even larger cuts would be needed if such a budget plan included new tax cuts or tried to reach balance.

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[50] U.S. House of Representatives, Concurrent Resolution on the Budget for Fiscal Year 2025, ordered reported by the House Budget Committee on a party-line vote on March 7, 2024, https://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=116938. These figures are relative to the baseline explained in this paper's Appendix.

[51] Sharon Parrott, X, March 7, 2024, https://x.com/ParrottCBPP/status/1765754151705690264.

[52] The ten-year baseline described in the Appendix has net debt rising from 91 percent of GDP in 2024 to 112 percent of GDP in 2034. To limit the 2034 debt ratio to 91 percent of GDP would require raising revenue, cutting program costs, or some combination of both. If all the deficit reduction were achieved by cutting programs — if tax law were left untouched — then budget programs would need to be cut 11 percent over the decade. But if Congress chose to leave Social Security, Medicare, defense, and veterans' programs untouched, the needed cuts in all *other* programs would rise to 33 percent. And if the goal were a deficit of zero by 2034, rather than a 2034 debt ratio equal to the current debt ratio, the needed program cuts would rise to 52 percent.

Exempting Large Spending Programs Would Mean Massive Cuts Elsewhere

If programs were cut by enough to limit the debt ratio to its current level, with no contribution from higher revenue, then protecting Social Security, Medicare, defense, and veterans' programs from cuts would subject all other programs to cuts of 33 percent.

The programs at risk from such cuts include:

- Mandatory programs such as Medicaid, ACA marketplace coverage, SNAP, SSI, the refundable portions of the Earned Income Tax Credit and the Child Tax Credit, unemployment benefits, child nutrition, civil service retirement, and farm price supports.
- Discretionary programs including medical and scientific research (such as by the National Cancer Institute) and support for health clinics; aid to public schools, pre-K, Head Start, and child care; assisted housing; highways and mass transit; natural resources such as parks, forests, rivers, and aid to states for clean drinking water and clean air; relief from natural disasters; law enforcement; the Treasury and State Departments; and the administrative expenses of the mandatory programs, including Social Security, Medicare, and veterans' compensation.

Past Revenue Levels Are a Poor Guide to Future Policy

Federal revenue averaged 17.2 percent of GDP over the past 40 years. Some point to this historical average as the key metric for setting future revenue levels. There are numerous problems with this argument.

First, the historical average for revenue is entirely backward looking. It offers little guidance for appropriate policy to address ongoing and future demographic changes and to meet current and future policy needs.

Second, those historical revenue levels supported budgets that failed to fund key investments, which is why the nation's current list of unmet needs is lengthy. The historical average also reflects the effects of the Bush and Trump tax cuts, which have suppressed revenue and led the debt ratio to rise substantially even as the budget under-invested in critical areas. Partly for this reason, the debt ratio more than doubled over the past four decades, even before the pandemic.

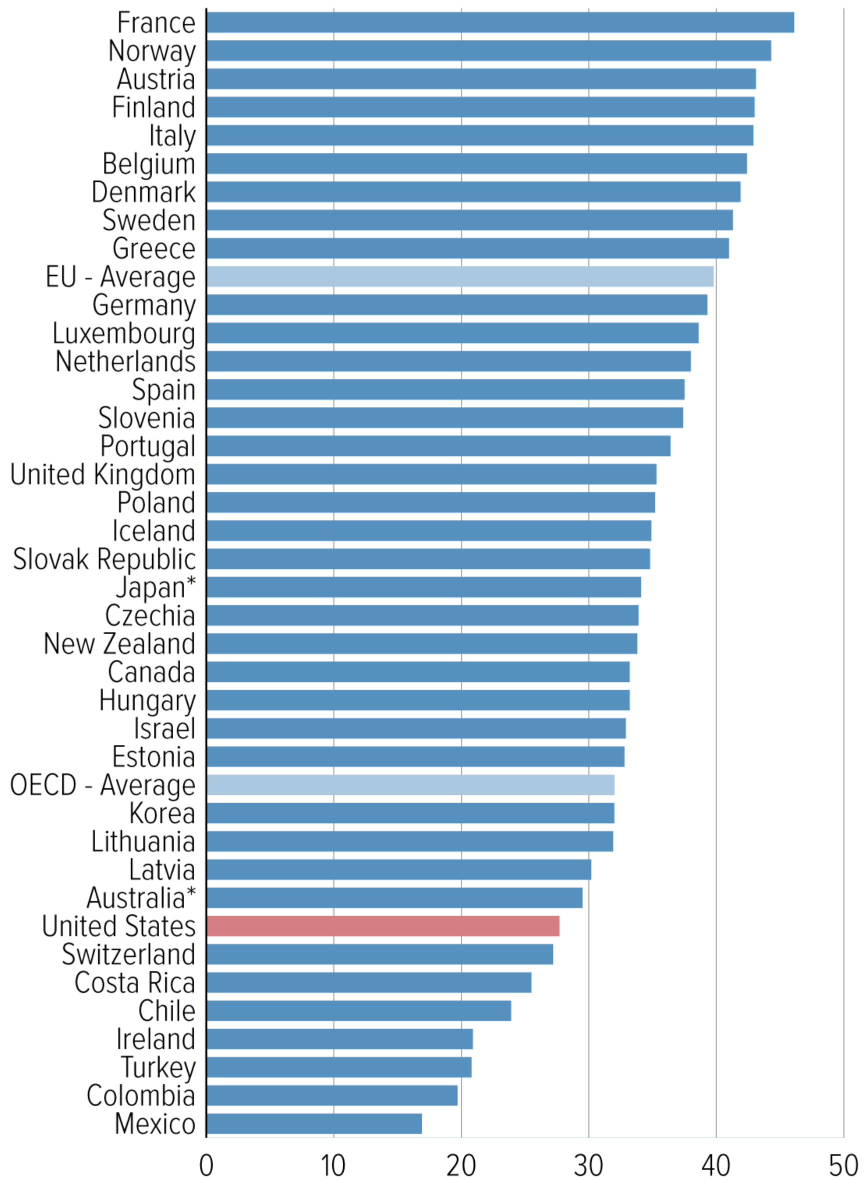
Third, it's clear that the United States can sustain a higher level of revenue in the future than it has on average over the last 40 years. Indeed, revenue was significantly higher in the late 1990s. The U.S. collects less in total government tax revenue (considering all levels of government) than nearly any other wealthy country: 27.7 percent of GDP, compared with 32.0 percent for all OECD countries and a 39.8 percent average for those that are part of the European Union.[53] Total government receipts in the United States are not only well below other wealthy, industrialized countries; they're also lower than in many countries that are far less wealthy than the United States. (See Figure 10.)

[53] These figures, from the Organization for Economic Cooperation and Development (OECD), include tax collections by all levels of government; in the United States, that means federal, state, and local governments. They exclude charges for public services and other items that the OECD classifies as non-tax receipts. The data are from https://www.oecd.org/tax/revenue-statistics-2522770x.htm.

FIGURE 10

Government Tax Revenue Is Smaller in the United States Than in Nearly All OECD Countries

Federal, state, and local tax revenues as a percent of GDP, 2022



Note: Asterisk indicates 2021 data because 2022 data are unavailable; OECD average excludes these countries. Government tax revenues include all levels of government.

CBPP calculation of the EU average includes only the countries listed above that are in the EU. Both EU and OECD averages are weighted by GDP.

Source: Organisation for Economic Cooperation and Development (OECD) Revenue Statistics.

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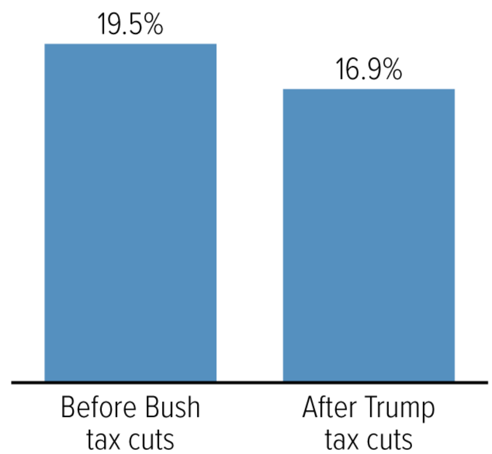
The 2025 Tax Debate Provides an Opportunity for a Course Correction

Current revenue levels are suppressed because of the major tax cuts enacted during the George W. Bush Administration (most of which were made permanent on a bipartisan basis during the Obama Administration) and further tax cuts enacted during the Trump Administration. Absent these tax cuts, revenue would be close to 20 percent of GDP rather than roughly 17 percent. (See Figure 11.)

FIGURE 11

Bush and Trump Tax Cuts Severely Eroded Revenue Base

Revenue as a percentage of GDP



Note: "Before Bush Tax Cuts" is an average of 1998-2000 and "After Trump Tax Cuts" is an average of nonpandemic years 2018-2026.

Sources: CBPP calculations using data from the Bureau of Economic Analysis and Treasury Department

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The individual and estate tax provisions of the 2017 Trump tax cuts are scheduled to expire in December 2025. CBO's February 2024 projections assume that they will expire on schedule, and that revenue will rise to 17.9 percent of GDP by 2034. Extending these tax cuts, which disproportionately benefit high-income households, would cost $3.9 trillion over ten years (2026-2035), further raising the debt ratio.[54] (The $3.9 trillion figure does not include associated debt service costs.)

While an important first step, simply allowing the 2017 tax cuts to end on schedule or paying for any extension will be insufficient. We will need to raise more revenue to secure the resources required to address our investment deficit, meet our commitments to seniors, and reduce future risks associate with a higher debt ratio. Policymakers should use the tax legislation expected in 2025 to raise revenues *beyond* those needed to offset any tax cuts that are extended. Given the nation's wide inequality in income and wealth, revenue raisers should focus on high-income and high-wealth households and profitable corporations, all of whom gain tremendously from public investments that create the conditions for economic growth.[55]

In short, we need more revenue, the nation can afford it, and it should come from those who can most easily afford it. We should use the added revenue to manage the risks of a rising debt ratio, to

[54] CBPP estimates based on CBO estimates. See Congressional Budget Office, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues," May 8, 2024, https://www.cbo.gov/publication/60114. We use the ten-year period 2026-2035 because extending the Trump tax cuts would reduce tax liability starting in 2026. And in 2025, when Congress will debate how to handle the scheduled expirations, it will be looking at the 2026-2035 ten-year budget window.

[55] Testimony of Chye-Ching Huang, "Funding Our Nation's Priorities: Reforming the Tax Code's Advantageous Treatment of the Wealthy," Tax Law Center, Before the House Ways and Means Subcommittee on Select Revenue Measures, May 12, 2021, https://www.congress.gov/117/meeting/house/112604/witnesses/HHRG-117-WM05-Wstate-HuangC-20210512.pdf.

meet our long-standing commitments to seniors, and, vitally, to invest in the many national needs that have been shortchanged, holding back people and the country as a whole.

Appendix:

Difference Between CBPP and CBO Ten-Year Budget Projections

CBO's February 2024 ten-year baseline shows net debt rising from 89 percent of GDP at the end of 2023 to 109 percent by the end of 2034. Its projections assume that the expiring 2017 tax provisions will expire on schedule. We have modified CBO's budget projections modestly, leading to a debt ratio that rises a bit more, reaching 112 percent by 2034, while still assuming that the expiring tax provisions either expire or any extensions are paid for.

Because 2024 appropriations were not enacted at the time CBO made its projections, CBO chose to assume that appropriations in 2024 and 2025 would adhere to the statutory caps on defense and non-defense discretionary (NDD) funding established in the Fiscal Responsibility Act of 2023 (FRA)[56] or to the continuing resolution in effect in February, whichever was lower. In addition, CBO did not take into account the spending adjustments that were negotiated alongside the FRA that allowed for additional non-defense funding under the caps.[57] As a result, CBO's baseline was below the enacted levels of both defense and non-defense funding in 2024. For the same reason, it was also below the intended levels in 2025, and CBO projected those low levels to grow only with inflation over the reminder of the decade.

Since CBO released its February baseline, Congress has enacted 2024 appropriations that conform to the 2024 defense and NDD caps and the negotiated adjustments. We modify CBO's February baseline in three ways.

- We assume Congress will also adhere to the FRA caps that apply to 2025, including the negotiated adjustments for 2025 that are analogous to those implemented in 2024. This raises the level of defense and NDD funding in all ten years of the projection, although both will still decline as a percent of GDP every year from 2023 on.
- One of the adjustments rescinded a portion of the mandatory funding for the Internal Revenue Service that was enacted in the Inflation Reduction Act. We reflect that rescission and also the consequent loss of revenue; CBO estimates that IRS funding cuts lose more revenue than the amount of the spending reduction and so increase the deficit.[58]
- We modify CBO's projected funding to respond to natural disasters such as hurricanes, tornadoes, floods, and earthquakes. Such funding is outside the FRA's caps, so CBO's baseline follows the standard rule of assuming that it grows with inflation from year to year,

[56] The Fiscal Responsibility Act suspended the statutory debt limit until January 2025 and imposed separate dollar limits on defense and non-defense discretionary funding for 2024 and 2025.

[57] For an initial discussion of the FRA caps and adjustments, see David Reich, "Debt Ceiling Deal Squeezes Non-Defense Appropriations, Even with Agreed-Upon Adjustments," CBPP, June 21, 2023, https://www.cbpp.org/research/federal-budget/debt-ceiling-deal-squeezes-non-defense-appropriations-even-with-agreed-upon. With respect to the adjustments, see Bobby Kogan and Jean Ross, "The Schumer-Johnson Budget Deal, Explained," Center for American Progress, February 6, 2024, https://www.americanprogress.org/article/the-schumer-johnson-budget-deal-explained/.

[58] For a discussion of the merits of adequate IRS funding, see Chuck Marr *et al.,* "Rebuilding IRS Would Reduce Tax Gap, Help Replenish Depleted Revenue Base," CBPP, December 16, 2022, https://www.cbpp.org/research/federal-tax/rebuilding-irs-would-reduce-tax-gap-help-replenish-depleted-revenue-base.

starting from the amount provided so far in 2024. Experience teaches us that in most years, disaster needs are below average, as they are so far in 2024. But in a minority of years, disaster funding is far above the average, as when a major destructive hurricane cuts a swath across heavily populated areas.[59] For this reason, over the course of a decade the historical average — the statistically likely level — is frequently greater than a simple projection of what occurred in the most recent year. We therefore modify CBO's baseline to assume a slightly higher level of disaster funding, consistent with the statistically likely level, over the coming decade, 2025-2034.

Together, these three modifications directly increase deficits and therefore accumulated net debt; the higher net debt, in turn, leads to increased interest costs through 2034.

In total, our baseline differs from CBO's over the 2024-2034 period by including $937 billion more expenditures for discretionary programs (for defense, non-defense, and disaster relief), $40 billion less mandatory expenditures, $118 billion less revenue, and $174 billion more interest costs.

[59] We have gathered data on federal funding enacted in response to, or in anticipation of, natural disasters. Chief among them is the Disaster Relief Fund of the Federal Emergency Management Agency, but other agencies and programs may receive substantial funding when especially damaging disasters hit. From 1989 through 2008, we have relied primarily on data gathered by J. David Cummins, Michael Suher, and George H. Zanjani, in "Federal Financial Exposure to Natural Catastrophe Risk," December 7, 2007, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1071065. Our figures show that over the period 1989-2023, such funding has averaged 0.15 percent of GDP. In 25 of those 35 years, the funding level was lower, but it was far higher in 2005 and 2006, 2013, and 2018, stemming from hurricanes Katrina, Sandy, Harvey, Irma, and Maria. Our estimates are conservative in that we project the average level since 1989 but there is also an upward trend, which we have not built into our projections.