

HOUSE OF REPRESENTATIVES
119TH CONGRESS—*1st Session*

THE 2025 JOINT ECONOMIC REPORT

R E P O R T

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

2025 ECONOMIC REPORT OF
THE PRESIDENT

CHAPTER 1 OF THE
CHAIRMAN'S VIEWS

The U.S. Must Address its
Growing Spending



MARCH 3, 2025
CHAIRMAN DAVID SCHWEIKERT

CHAPTER 1: THE U.S. MUST ADDRESS ITS GROWING SPENDING

The Republican Responses in the 2023 and 2024 *Joint Economic Reports (Responses)* have outlined the framework for putting the United States on a sustainable fiscal path based on research from Olivier Blanchard's presidential address to the American Economic Association.¹ In his research, Blanchard outlines a path to debt stabilization based on four macroeconomic variables:²

$$\frac{d}{dt} \left(\frac{Debt_t}{GDP_t} \right) = (i - g - \pi) \frac{Debt_t}{GDP_t} + \frac{p_t}{GDP_t}$$

As this equation implies, if the growth of the economy is larger than its budget deficit, the U.S. can stabilize the debt-to-GDP ratio at current levels. The fiscal situation continues to deteriorate. Policymakers must be pragmatic about growth expectations and address the primary driver of our deficit, which is demographic-driven spending. Alternatively, we can express this equation as:

$$\frac{d}{dt} \left(\frac{Debt_t}{GDP_t} \right) = (\Delta_t - g - \pi) \frac{Debt_t}{GDP_t}$$

Where Δ_t is the rate of growth of the debt. This means that the debt-to-GDP ratio grows at the rate at which the public debt grows minus the rate of nominal GDP growth.³ Figure 1-1 shows high

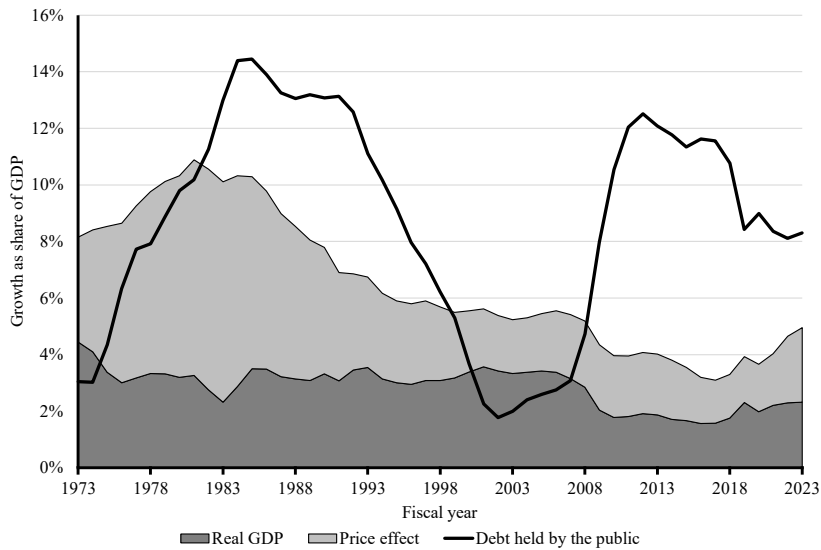
¹ Olivier Blanchard, "Public Debt and Low Interest Rates," *American Economic Review* 109, no. 4 (2019): 1197–1229, <https://doi.org/10.1257/aer.109.4.1197>.

² Where i is the nominal interest rate, g is the real GDP growth rate, π is the change in prices and p_t is the primary deficit. This is derived from the equation on page 1205 of "Public Debt and Low Interest Rates."

³ Note that this equation requires making some simplifying assumptions. For example, the inclusion of crowding out effects would make g endogenous.

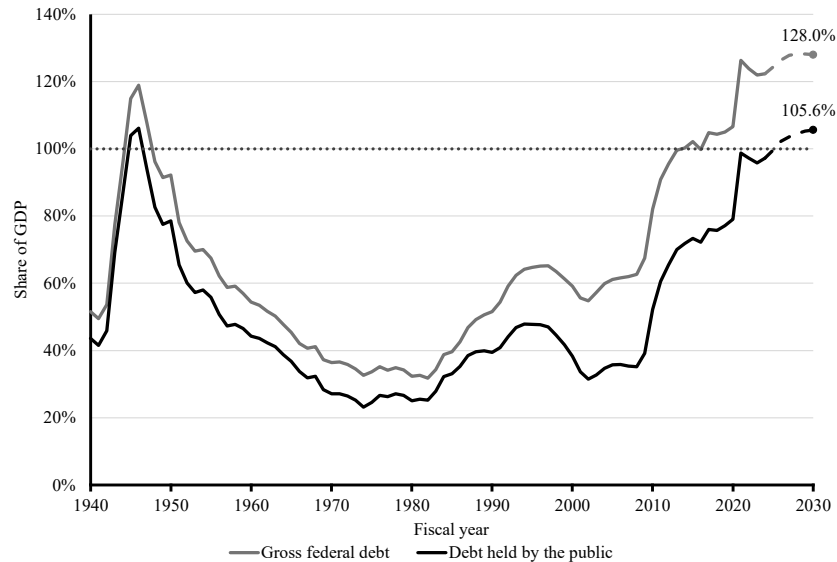
inflation rates, not real GDP growth, have been responsible for slowing the growth of debt relative to GDP.

Figure 1-1: Comparing Economic Growth and Public Debt Growth as a Share of GDP



Source: Office of Management and Budget;⁴ JEC Republicans calculations

⁴ All variables are shown as a 10-year moving average. Office of Management and Budget, “Table 7.1—Federal Debt at the End of Year: 1940–2029,” Historical Tables, https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/03/hist07z1_fy2025.xlsx; Office of Management and Budget, “Table 10.1—Gross Domestic Product and Deflators Used in the Historical Tables: 1940–2029,” Historical Tables, https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/03/hist10z1_fy2025.xlsx.

Figure 1-2: Federal Debt as a Share of GDP

Source: Office of Management and Budget⁵

The last time the ratio of debt held by the public to GDP exceeded 100 percent was at the end of World War II, when the U.S. borrowed heavily to finance the war. Eighty years later, the U.S. is expected to pass this same threshold during a time of peace and relative economic stability.⁶

Figure 1-3 shows the leading cause of the increase in the projected deficit is not declining revenues, but a dramatic increase in outlays. While the dollar value of discretionary spending has

⁵ Projections start in 2024. Office of Management and Budget, “Table 7.1.”

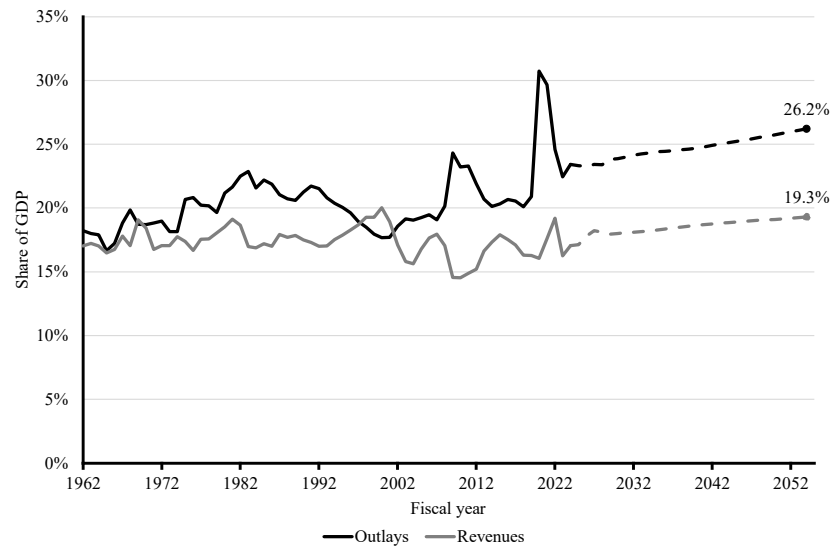
⁶ A large debt-to-GDP ratio slows down the economy through the crowd-out effect and leads to increased inflation expectations. For more on this, see: Joint Economic Committee Republicans, *2023 Joint Economic Report, Republican Response* (U.S. Congress Joint Economic Committee, 2023), <https://sen.gov/LVQYY>; Congressional Budget Office, “How the Expiring Individual Income Tax Provisions in the 2017 Tax Act Affect CBO’s Economic Forecast,” CBO presentation (December 2024), <https://www.cbo.gov/publication/60986>.

increased over the past decades,⁷ it has steadily declined relative to mandatory spending. Most of the increase in outlays arose from automatic increases to existing entitlement programs, most having an outdated design from an era with much different demographics. America is getting older.⁸ Social Security and Medicare are the most significant contributors to the increase in spending, which rose from 27 percent of all outlays in 1965 to 60 percent in 2024.⁹

⁷ Sometimes disguised as emergency spending when there is no real “emergency.” Romina Boccia and Dominik Lett, “Curbing Federal Emergency Spending,” Cato Institute Policy Analysis no. 966 (January 9, 2024), <https://www.cato.org/policy-analysis/curbing-federal-emergency-spending-government-spending-grows-excessive-wasteful>.

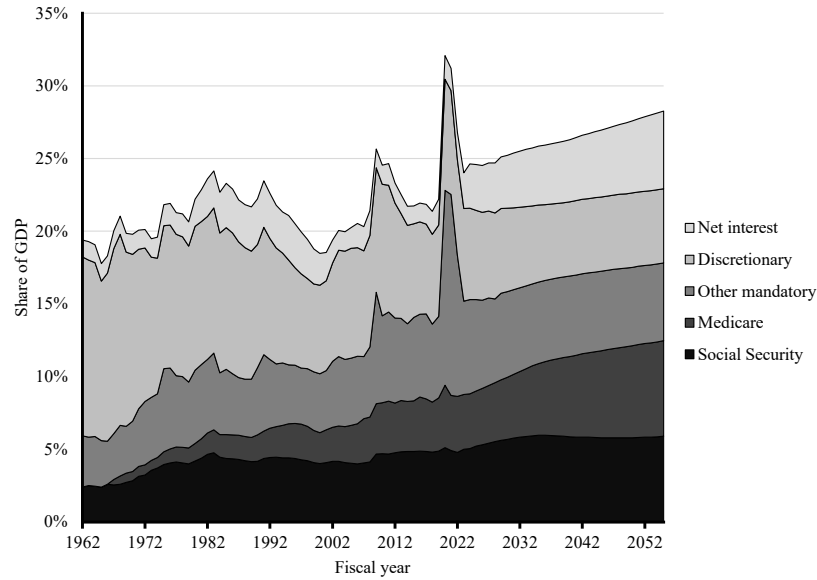
⁸ For more on this, see: Joint Economic Committee Republicans, “Chapter 2: Demographics and the Deficit,” in *The 2024 Joint Economic Report, Republican Response* (U.S. Congress Joint Economic Committee, 2024), https://www.jec.senate.gov/public/vendor/_accounts/JEC-R/jer-chapters/2024JERChapter2.pdf.

⁹ Outlays are net of offsetting receipts. Congressional Budget Office, “Historical Data and Economic Projections,” Budget and Economic Data, January 2025, <https://www.cbo.gov/system/files/2025-01/51134-2025-01-Historical-Budget-Data.xlsx>; Congressional Budget Office, “10-Year Budget Projections,” Budget and Economic Data, January 2025, <https://www.cbo.gov/system/files/2025-01/51118-2025-01-Budget-Projections.xlsx>.

Figure 1-3: Revenues and Outlays as a Share of GDP

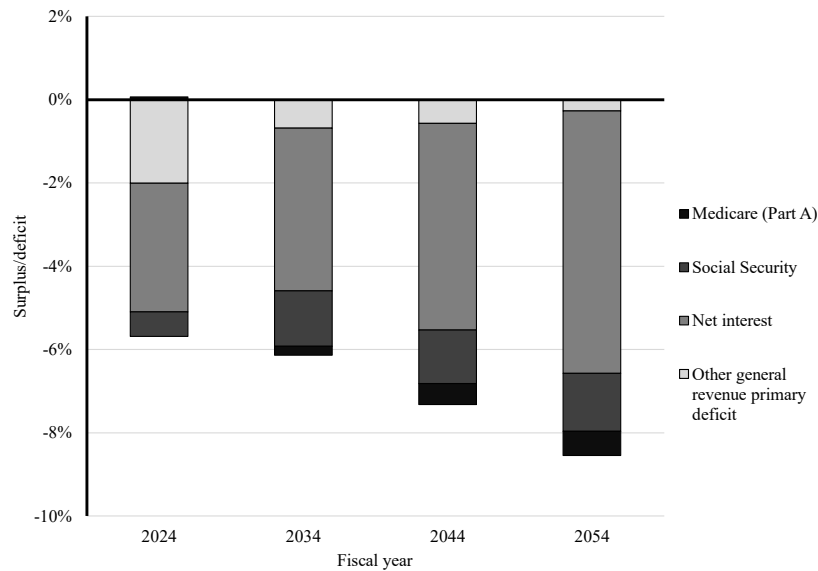
Source: Congressional Budget Office¹⁰

¹⁰ Projections start in 2024. Congressional Budget Office, “Historical Data and Economic Projections,” January 2025; Congressional Budget Office, “Long-Term Budget Projections,” Budget and Economic Data, January 2025, <https://www.cbo.gov/system/files/2025-01/51119-2025-01-LTBO-budget.xlsx>.

Figure 1-4: Composition of Federal Spending as a Share of GDP

Source: Congressional Budget Office¹¹

¹¹ Projections begin in FY2025. “Other mandatory” and “Medicare” do not include offsetting receipts. Congressional Budget Office, “Historical Data and Economic Projections,” January 2025; Congressional Budget Office, “10-Year Budget Projections,” January 2025; Congressional Budget Office, “Long-Term Budget Projections,” Budget and Economic Data, January 2025, <https://www.cbo.gov/system/files/2025-01/51119-2025-01-LTBO-budget.xlsx>.

Figure 1-5: Key Drivers of Deficit Growth

Source: Congressional Budget Office¹²

The largest federal program is Social Security, which represents more than one in five dollars spent by the federal government.¹³ It is a pay-as-you-go system; the Social Security taxes of current workers pay for the benefits of current retirees, and future workers will pay for current workers' benefits when they retire.¹⁴ In 1960, there were 5.1 workers per beneficiary. That number has dropped

¹² Medicare only includes Part A. All data are projections from March 2024.

Congressional Budget Office, "Long-Term Budget Projections," Budget and Economic Data, March 2024, <https://www.cbo.gov/system/files/2024-03/51119-2024-03-LTBO-budget.xlsx>.

¹³ Fiscal Data, "How much has the U.S. government spent this year?" U.S. Department of the Treasury, accessed February 16, 2025, <https://fiscaldata.treasury.gov/america's-finance-guide/federal-spending/>.

¹⁴ Payroll tax is not the only source of revenue for the program. A smaller part comes from taxes on benefits and net interest. Social Security Administration, "Table III.A1—Operations of the OASI Trust Fund, Calendar Year 2023," *The 2024 OASDI Trustees Report* (2024), https://www.ssa.gov/oact/tr/2024/III_A_cyoper.html.

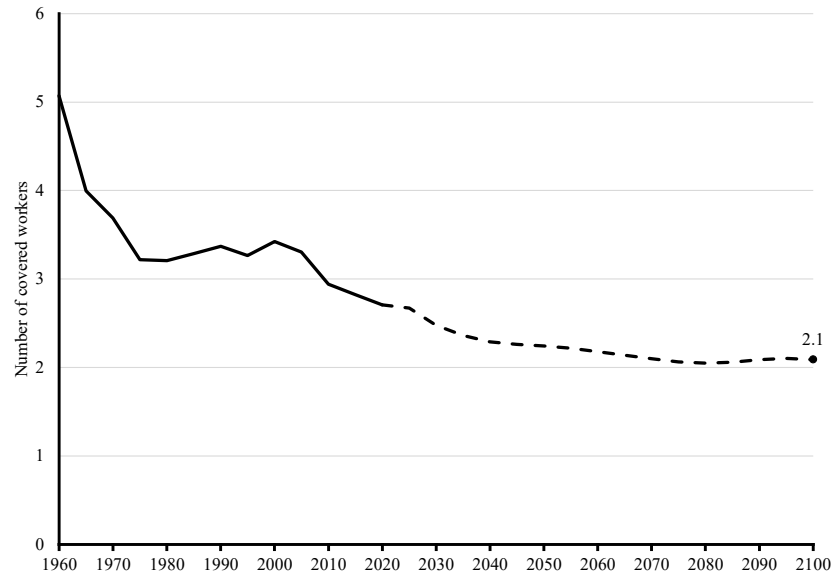
to 2.7 and is projected to reach 2.1 in the second half of this century.¹⁵ This change is driven in part by longer life expectancies. The Office of the Chief Actuary at the Social Security Administration (SSA) projects that by the year 2100, more than 70 percent of the population will reach the age of 80 and more than 40 percent will pass the age of 90.¹⁶ Over the past 43 years, the average age of Old Age recipients grew from 63.9 for men and 63.5 for women in 1980 to 65.2 for both genders in 2023.¹⁷ In addition to longer lifespans, declining labor force participation and fertility rates also contribute to Social Security’s deteriorating finances.¹⁸

¹⁵ Social Security Administration, “Table IV.B3—Covered Workers and Beneficiaries, Calendar Years 1945-2100,” *The 2024 OASDI Trustees Report* (2024), https://www.ssa.gov/oact/tr/2024/IV_B_LRest.html.

¹⁶ Office of the Chief Actuary, “Period Life Tables” (Social Security Administration, 2024), <https://www.ssa.gov/oact/HistEst/PerLifeTables/2024/PerLifeTables2024.html>.

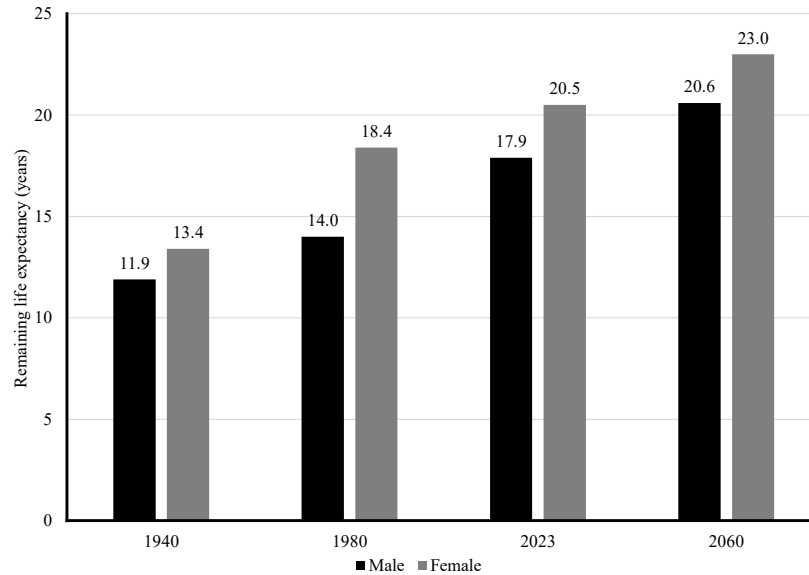
¹⁷ Social Security Administration, “Table 6.B5—Number and average age of retired-worker awardees, and percentage distribution by age: By sex and year of award action, selected years 1940–2023,” *Annual Statistical Supplement to the Social Security Bulletin, 2024*, SAA Publication no. 13-11700 (December 2024), <https://www.ssa.gov/policy/docs/statcomps/supplement/2024/6b.pdf>.

¹⁸ The program’s finances deteriorated despite its tax rate increasing. In 1960, Social Security tax rate was 4.5 percent and now it is 12.4 percent. Joint Economic Committee Republicans, “Chapter 2: Demographics and the Deficit;” Social Security Administration, “Table V.A1—Fertility and Mortality Assumptions, Calendar Years 1940–2100,” *The 2024 OASDI Trustees Report* (2024), https://www.ssa.gov/oact/tr/2024/V_A_demo.html; Office of the Chief Actuary, “Social Security & Medicare Tax Rates,” Office of the Chief Actuary, <https://www.ssa.gov/oact/progdata/taxRates.html>.

Figure 1-6: Covered Workers per OASDI Beneficiary

Source: Social Security Administration¹⁹

¹⁹ Data is reported in 5-year intervals. Projections begin in 2025. Social Security Administration, "Table IV.B3."

Figure 1-7: Remaining Life Expectancy at Age 65Source: Social Security Administration²⁰

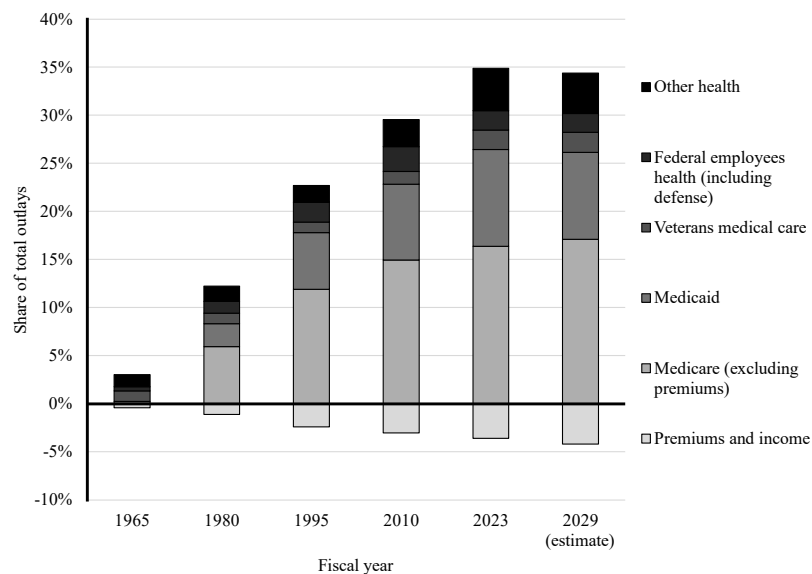
Government spending on healthcare is positively correlated with age and has also risen significantly, rising from 12 percent of all government expenditures in 1980 to almost 35 percent in 2023.²¹ The rise in healthcare outlays is associated with a general increase in healthcare spending as a share of GDP, rising from

²⁰ Using intermediate projections. Social Security Administration, “Table V.A4—Period Life Expectancy,” *The 2024 OASDI Trustees Report* (2024), https://www.ssa.gov/oact/tr/2024/V_A_demo.html.

²¹ These are gross values, not offsetting for premiums and other receipts. Note that premiums are “hidden” taxes on the elderly and would reach 1.4 percent of GDP by 2054, higher than the projected corporate tax collections. Office of Management and Budget, “Table 15.1—Outlays for Health Programs: 1962–2029,” Historical Tables, https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/03/hist15z1_fy2025.xlsx; Congressional Budget Office, “Long-Term Budget Projections,” Budget and Economic Data, January 2025, <https://www.cbo.gov/system/files/2025-01/51119-2025-01-LTBO-budget.xlsx>.

approximately 6 percent in 1969 to 18 percent in 2023.²² As almost half of all healthcare expenditures are sponsored by a government program, such as Medicare and Medicaid, and close to one in three Americans is covered by at least one type of government insurance,²³ the federal government has borne much of the increase in healthcare costs.

Figure 1-8: Health Program Outlays as a Share of Total Outlays

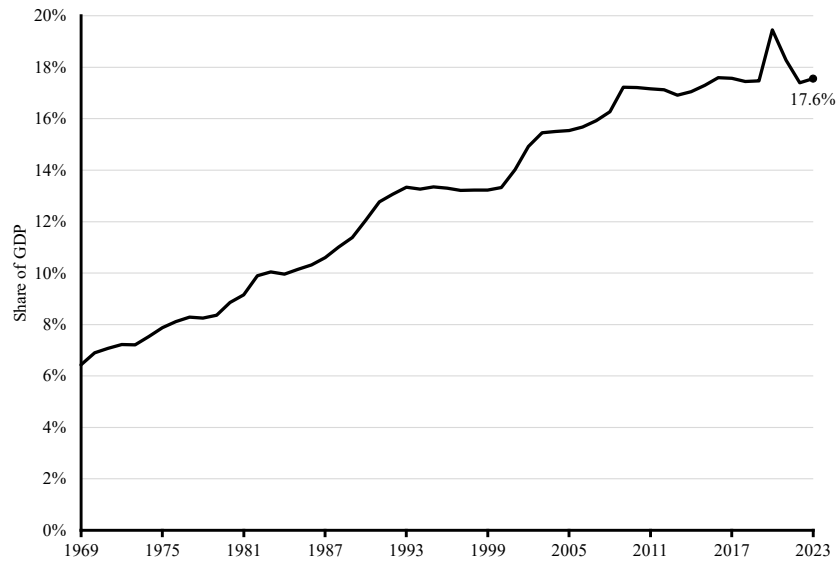


Source: Office of Management and Budget;²⁴ JEC Republicans calculations

²² U.S. Centers for Medicare & Medicaid Services, “Table 01: National Health Expenditures; Aggregate and Per Capita Amounts,” National Health Expenditure Tables, <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/historical>.

²³ U.S. Centers for Medicare & Medicaid Services, “Table 17: Durable Medical Equipment Expenditures,” National Health Expenditure Tables, <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/historical>.

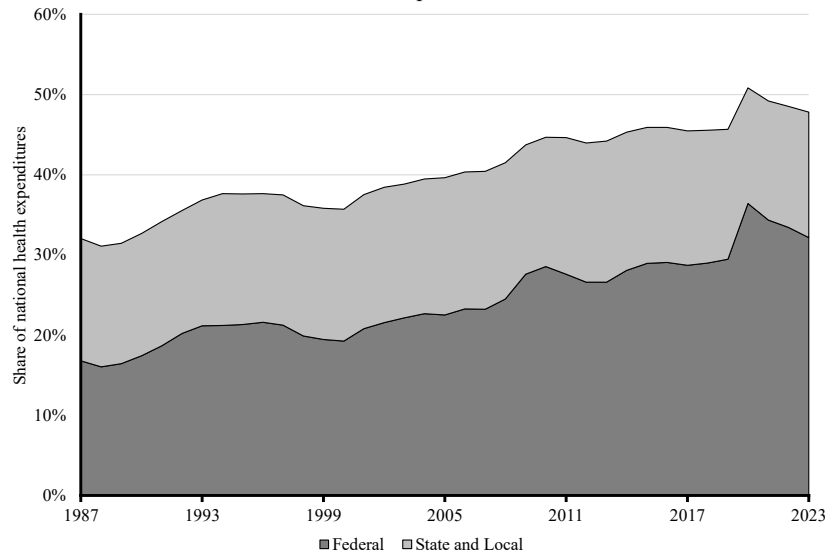
²⁴ Office of Management and Budget, “Table 15.1.”

Figure 1-9: National Health Expenditures as a Share of GDP

Source: U.S. Centers for Medicare & Medicaid Services²⁵

²⁵ National health expenditures include personal expenditures, government expenditures, and investment. U.S. Centers for Medicare & Medicaid Services, "Table 01."

Figure 1-10: Government Health Expenditures as a Share of National Health Expenditures



Source: U.S. Centers for Medicare & Medicaid Services²⁶

These trends have transformed the federal government from a government primarily focused on national defense—which constituted more than half of on-budget outlays in 1962²⁷—to one whose primary function is making payments to individuals, as shown in Figure 1-11.²⁸ Since 1960, payments to individuals have risen from slightly below 30 percent of primary spending to almost

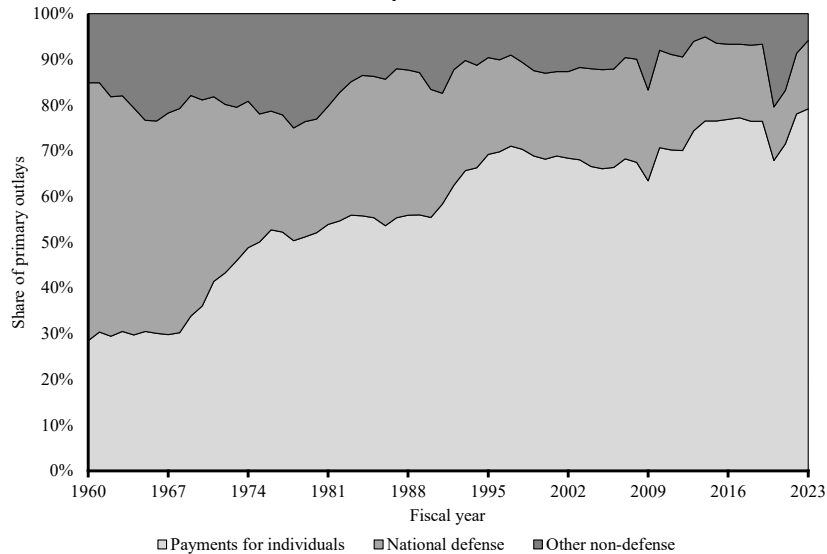
²⁶ U.S. Centers for Medicare & Medicaid Services, “Table 05: National Health Expenditures by Type of Sponsor,” National Health Expenditure Tables, <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/historical>.

²⁷ Office of Management and Budget, “Table 3.2.”

²⁸ An increasing proportion of these payments are going toward older people, reaching, on average, nearly \$35,000 per retiree by the time they reach 85. Chris Pope, “The Overextended Retirement State,” Manhattan Institute report (August 15, 2024), <https://manhattan.institute/article/the-overextended-retirement-state>.

80 percent.²⁹ The country finances these payments with borrowing, robbing future generations to pay for current excess.

Figure 1-11: Composition of Distributed Primary Outlays for Payments

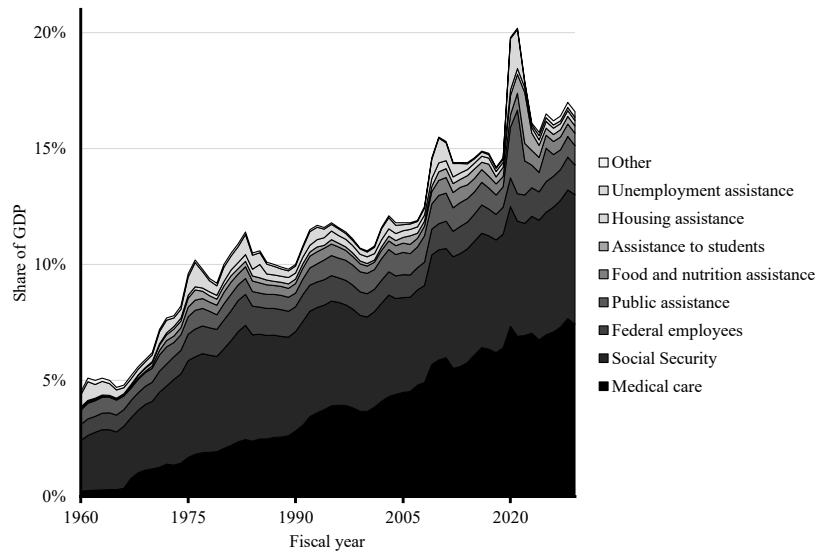


Source: Office of Management and Budget³⁰

²⁹ Office of Management and Budget, “Table 6.1—Composition of Outlays: 1940–2029,” Historical Tables, https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/03/hist06z1_fy2025.xlsx.

³⁰ National defense includes a small amount of grants to state and local governments and direct payments to individuals. Office of Management and Budget, “Table 6.1.”

Figure 1-12: Outlays for Payments for Individuals by Category as a Share of GDP



Source: Office of Management and Budget³¹

Options to reduce the deficit

Outlays

Modest reforms to Social Security could provide significant long-run deficit reduction. Social Security was originally designed to protect elderly individuals from poverty.³² However, according to

³¹ Outlays in the legend are sorted smallest-to-largest by their 2024 values. Office of Management and Budget, “Table 11.3—Outlays for Payments for Individuals by Category and Major Program, 1940–2029,” Historical Tables, https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/03/hist11z3_fy2025.xlsx.

³² “We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.” Social Security Administration, “Presidential Statement Signing the Social Security Act,” August 14, 1935, <https://www.ssa.gov/history/fdrsignstate.html>.

the Internal Revenue Service (IRS), about one in three tax returns filed by individuals reporting taxable Social Security benefits has overall earnings of \$100,000 or more, and almost 2.5 million of those filings report an adjusted gross income above \$200,000.³³ Brian Riedl has proposed canceling the Cost-of-Living Adjustment (COLA) or phasing out benefits for high-income retirees to help stabilize the program's finances.³⁴ Riedl conservatively estimates that canceling upper-income COLAs could save at least \$100 billion over a decade.³⁵ Policymakers should evaluate whether the country should deficit-finance payments to wealthy Americans with future generations paying the bill.³⁶

³³ This is in line with survey reports showing that a large portion of seniors report most of their income as coming from sources other than Social Security paychecks. Internal Revenue Service, "Table 1—Individual Income Tax Returns: Selected Income and Tax Items," SOI tax stats - Individual income tax returns (2022), <https://www.irs.gov/pub/irs-soi/22in01pl.xls>; Mark J. Warshawsky, "Better Measurement of Income of the Elderly and Its Broader Implications," American Enterprise Institute AEIdeas, November 25, 2024, <https://www.aei.org/economics/better-measurement-of-income-of-the-elderly-and-its-broader-implications/>.

³⁴ Attempting to reduce Social Security's deficit by removing the taxable income cap might be counterproductive. Also note that the taxable earnings cap activates at a similar income where the personal income tax jumps from 24 to 32 percent. Since both taxes have a similar base, when also adding the state taxes, some households' marginal tax rate would increase to above 50 percent. U.S. Census Bureau, "2023 ACS 1-Year PUMS," <https://data.census.gov/app/mdat/ACSPUMS1Y2023>; Brian Riedl, "Cut Spending For The Rich Before Raising Their Taxes," Manhattan Institute report (May 20, 2021), <https://manhattan.institute/article/cut-spending-for-the-rich-before-raising-their-taxes>; Brian Riedl, "A Comprehensive Federal Budget Plan to Avert a Debt Crisis," Manhattan Institute report (June 27, 2024), <https://manhattan.institute/article/a-comprehensive-federal-budget-plan-to-avert-a-debt-crisis-2024>.

³⁵ Riedl, "Cut Spending For The Rich Before Raising Their Taxes."

³⁶ Elderly poverty can be partially explained for reasons foreign to the program. For more on this, see: Andrew G. Biggs, "Social Security and the Poverty Line," American Enterprise Institute AEIdeas, September 26, 2022,

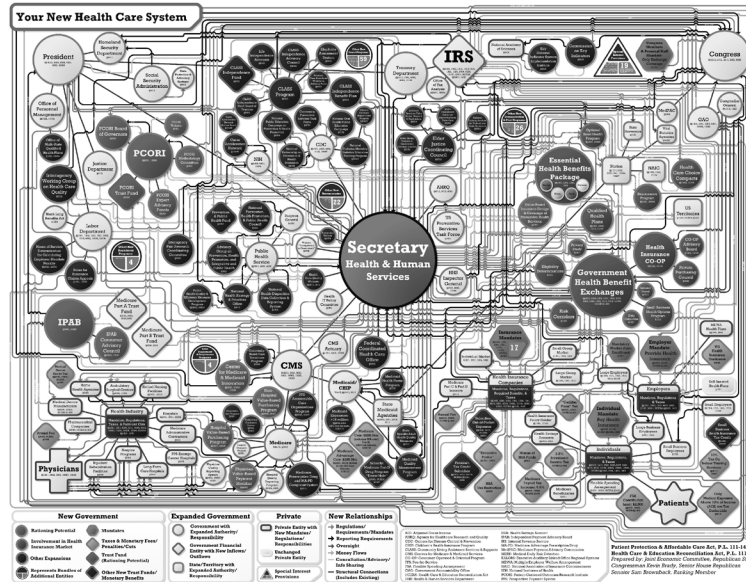
Relatively minor changes to the nation's healthcare entitlement programs, too, could help reduce deficits. The costs of Medicare and Medicaid are influenced by the overall costs of healthcare. A full analysis of cost-reducing reforms to healthcare markets is beyond the scope of this report. However, excessive bureaucracy and administrative overhead consume far too much of every dollar spent.³⁷ A 2017 report calculated that complying with regulations had cost almost \$39 billion per year—an estimated \$1,200 for each patient admitted.³⁸ Figure 1-13, first published by Joint Economic Committee Republicans in the 111th Congress, shows the complexity of the resulting healthcare system after the passage of the *Affordable Care Act*. Regulatory changes that increase competition and incentivize cost-saving medical technologies could reduce public healthcare costs.

<https://www.aei.org/economics/social-security-and-the-poverty-line/>;
Romina Boccia, "Social Security Pays Excessive Benefits to the Highest-Income Earners: A UK Comparison," *Cato at Liberty*, February 15, 2024,
<https://www.cato.org/blog/social-security-pays-excessive-benefits-highest-income-earners-uk-comparison>.

³⁷ James C. Capretta, "National Health Expenditures in 2023 and the Implications for Further Reform," American Enterprise Institute AEIdeas, January 10, 2025,
<https://www.aei.org/health-care/national-health-expenditures-in-2023-and-the-implications-for-further-reform/>.

³⁸ A poorly designed regulatory framework is a significant reason why the U.S. government spends more per covered individual than any other industrialized nation. Robert E. Moffit, "How to End the Overregulation of Medical Care," The Heritage Foundation commentary, August 4, 2020,
<https://www.heritage.org/health-care-reform/commentary/how-end-the-overregulation-medical-care>; Organisation for Economic Co-operation and Development, "Health Spending Projections to 2030," OECD Health Working Paper no. 110 (May 24, 2019), <https://doi.org/10.1787/5667f23d-en>.

Figure 1-13: The Complexity of the Affordable Care Act



The federal government can also reduce outlays by operating more efficiently. The Government Accountability Office (GAO) has estimated that the federal government loses between \$233 billion and \$521 billion annually due to fraud.³⁹ Improper payments accounted for at least \$160 billion lost in 2024.⁴⁰ Developments in quantitative methods and statistical algorithms could help provide

³⁹ U.S. Government Accountability Office, “Fraud Risk Management: 2018–2022 Data Show Federal Government Loses an Estimated \$233 Billion to \$251 Billion Annually to Fraud, Based on Various Risk Environments,” GAO-24-105833 (April 16, 2024), <https://www.gao.gov/products/gao-24-105833>.

⁴⁰ This number excludes fraud, uncaught errors, and programs that do not track improper payment. Rachel Greszler, “How Congress Can Help DOGE Reduce Improper Payments: Hundreds of Billions of Taxpayer Dollars Wasted on Improper Payments,” Economic Policy Innovation Center report (February 3, 2025), <https://epicforamerica.org/social-programs/how-congress-can-help-doge-reduce-improper-payments/>; U.S. Government Accountability Office, “Improper Payments and Fraud: How They Are Related but Different,” GAO-24-106608 (December 7, 2023), <https://www.gao.gov/products/gao-24-106608>.

significant savings by processing more data and in more depth than can human analysts.⁴¹ Akoglu, Leder-Luis, and Shekhar designed an unsupervised machine-learning algorithm to detect Medicare hospitalization fraud, including red flags for fraudulent overpayments.⁴² The same mechanism can also be used for other areas of Medicare, Medicaid, and other agencies.⁴³

Box 1-1: The Federal Government is in Dire Need of Better Data Management

Waste and fraud in federal programs are partially caused by a deficient data architecture, particularly because the data is siloed across different offices, which is a vulnerability easy to exploit. GAO has repeatedly recommended inter-agency data collaboration to reduce the amount of fraud and improper payments.⁴⁴ Access to IRS and SSA data could have prevented the Small Business Administration from transferring pandemic relief funds to fraudulent recipients. GAO estimates around 3.7 million

⁴² Shubhramshu Shekhar, Jetson Leder-Luis, and Leman Akoglu, “Can Machine Learning Target Health Care Fraud? Evidence from Medicare Hospitalizations” (April 9, 2024), https://sites.bu.edu/jetson/files/2024/09/Anomaly_JPAM.pdf.

⁴³ During the pandemic, the unemployment insurance fraud ranged between \$100 billion and \$135 billion; Yanlei Ma, Jessica Phelan, Kathleen Yoojin Jeong, et al., “Medicare Advantage Plans With High Numbers Of Veterans: Enrollment, Utilization, And Potential Wasteful Spending,” *Health Affairs* 43, no. 11 (November 2024), <https://doi.org/10.1377/hlthaff.2024.00302>; U.S. Government Accountability Office, “Unemployment Insurance: Estimated Amount of Fraud During Pandemic Likely Between \$100 Billion and \$135 Billion,” GAO-23-106696 (September 12, 2023), <https://www.gao.gov/products/gao-23-106696>.

⁴⁴ U.S. Government Accountability Office, “Countering Illicit Finance and Trade: Better Information Sharing and Collaboration Needed to Combat Trade-Based Money Laundering,” GAO-22-447 (December 13, 2021), <https://www.gao.gov/products/gao-22-447>.

recipients had shown warning signs.⁴⁵ Moreover, partially due to poor data management, the federal government has disbursed almost \$3 trillion in improper payments since 2003, consisting of overpayments and unknown payments, either by error or fraud.⁴⁶

Furthermore, at the federal level, more than 100 anti-poverty programs across several agencies disburse more than \$1.1 trillion annually.⁴⁷ Measuring the effectiveness of these programs in fighting poverty has been difficult, but it can now be accomplished more easily with modern data and statistical methods. With the appropriate data architecture,⁴⁸ effective welfare programs can be consolidated and streamlined.⁴⁹ Simplification will result not only in efficiency, reduced administrative costs, and better fraud detection, but also reduced complexity for beneficiaries.⁵⁰

⁴⁵ U.S. Government Accountability Office, “COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs,” GAO-23-105331 (May 18, 2023), <https://www.gao.gov/products/gao-23-105331>.

⁴⁶ U.S. Government Accountability Office, “Improper Payments: Information on Agencies’ Fiscal Year 2023 Estimates,” GAO-24-106927 (March 26, 2024), <https://www.gao.gov/products/gao-24-106927>.

⁴⁷ Michael D. Tanner, “Poverty and Welfare,” *Cato Handbook for Policy Makers* 9, no. 77 (2022), <https://www.cato.org/sites/cato.org/files/2022-12/cato-handbook-9th-edition-77.pdf>.

⁴⁸ Including merging longitudinal data across several agencies.

⁴⁹ About 20 percent of transfers go to households who pay the same amount in taxes. Judge Glock, “Robbing Peter to Pay Peter: Netting Taxes and Transfers to U.S. Households,” Manhattan Institute report (January 18, 2024), <https://manhattan.institute/article/netting-taxes-and-transfers-to-u-s-households>.

⁵⁰ Many people are unaware of many of these programs. For example, according to the FCC only 22 percent of eligible families for their Lifeline program were enrolled in September 2024. Universal Service Administrative Company, “Lifeline Participation Rate,” September 2024, https://www.usac.org/wp-content/uploads/lifeline/documents/Data/20241119_SEP2024.xlsx; Elias Ilin and Alvaro Sanchez, “Mitigating Benefits Cliffs for Low-Income Families: District of Columbia Career Mobility Action Plan as a Case Study,” Federal Reserve Bank of Atlanta Community and Economic Development

Adopting these quantitative and algorithmic developments is not without challenges. One challenge is setting the same data standards across agencies so that information can be shared seamlessly.⁵¹ Another prevalent issue is privacy concerns, as the increase in the number of offices accessing the same personal information increases the risk of leakage. However, data can be analyzed without transferring it to accessible storage.⁵² For example, the algorithm could access and process the data, keeping the output but deleting its cache memory after the process ends.

Modernizing the state's information management to address waste and fraud will not fully resolve the fiscal problem, but it is moral to take steps to reduce the burdens the country will impose on its future generations. In Chapters 4 and 5, we examine how a healthier society and high-skilled immigration provide additional solutions to the fiscal problem.

Receipts

In the *2023* and *2024 Responses*, JEC Republicans extensively analyzed the Biden Administration's tax proposals, debunking

Discussion Paper no. 23-1 (September 2023), <https://www.atlantafed.org/-/media/documents/community-development/publications/discussion-papers/2023/01-a-case-study-mitigating-benefits-cliffs-in-the-district-of-columbia.pdf>.

⁵¹ For instance, consistency in the formatting of data, meaning of variable names, etc. Natalie R. Ortiz, "Federal Data Management: Issues and Challenges in the Use of Data Standards," Congressional Research Service no. R48053 (April 29, 2024), <https://crsreports.congress.gov/product/pdf/R/R48053/2>.

⁵² There are several ways to preserve privacy, especially when individual information is not important but microdata analysis. The example described in the text is a simple idea. For other techniques, see: P. Ram Mohan Rao, S. Murali Krishna, and A.P. Siva Kumar, "Privacy Preservation Techniques in Big Data Analytics: A Survey," *Journal of Big Data* 5, no. 33 (2018): <https://doi.org/10.1186/s40537-018-0141-8>.

claims that the American tax system is not progressive enough.⁵³ There are potential changes to tax policy that would improve the U.S.' fiscal trajectory as measured by changes in debt-to-GDP, but several popular proposals should be taken with caution.

Policymakers should evaluate tax expenditures, such as credits, exclusions, and deductions.⁵⁴ There are about 170 tax expenditures,⁵⁵ amounting to 7.6 percent of GDP.⁵⁶ This is equivalent to almost all personal income tax collections. Reducing tax expenditures would not increase marginal rates and would increase economic efficiency by eliminating distortions.⁵⁷ Part of

⁵³ Joint Economic Committee Republicans, *The 2024 Joint Economic Report, Republican Response* (U.S. Congress Joint Economic Committee, 2024), <https://sen.gov/LVQNL>; Joint Economic Committee Republicans, *2023 Republican Response*.

⁵⁴ Tax expenditures are defined as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” *Congressional Budget and Impoundment Control Act of 1974*, Public Law 93–344, § 3, <https://www.govinfo.gov/content/pkg/COMPS-10356/pdf/COMPS-10356.pdf>.

⁵⁵ William McBride, “Cleaning Up the Tax Code Could Raise Trillions for Tax Reform,” Tax Foundation blog, February 6, 2025, <https://taxfoundation.org/blog/tax-credits-expenditures-spending-offset-tax-cuts/>; Office of Tax Analysis, “Tax Expenditures,” U.S. Department of the Treasury (March 11, 2024), <https://home.treasury.gov/system/files/131/Tax-Expenditures-FY2025.pdf>.

⁵⁶ Note that, in practice, combining provisions might not equal the sum of their values. Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), <https://www.cbo.gov/publication/60870>.

⁵⁷ Martin Feldstein, “The ‘Tax Expenditure’ Solution for Our National Debt,” *The Wall Street Journal*, July 20, 2010, <https://scholar.harvard.edu/feldstein/publications/tax-expenditure-solution-our-national-debt>.

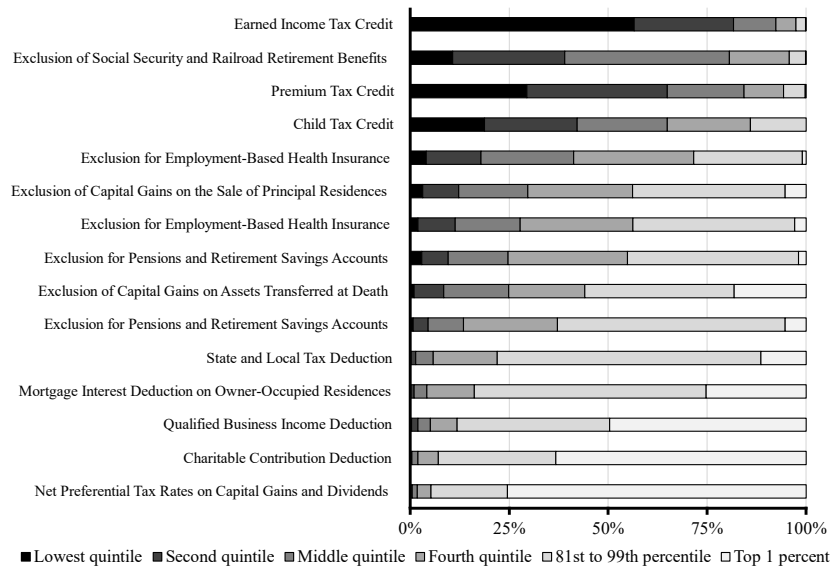
President Reagan’s tax cuts included slashing tax expenditures by about 3 percent of GDP.⁵⁸

In addition to tax expenditures, there are also loopholes that can be exploited by complex tax schemes. For example, Cooper et al. were unable to link all income of more than 20,000 “circular” partnerships to non-partnership owners.⁵⁹ These partnerships represented less than 1 percent of all partnerships but issued about 40 percent of all K-1s, and their effective tax rate was half of that for the remaining partnerships. Eliminating such provisions would close some of these loopholes.⁶⁰

⁵⁸ According to Yale’s Budget Lab, eliminating the provisions contributing to this gap between statutory and effective rates, particularly for those at the highest end of the income spectrum, could raise \$560 billion in 2026. The Budget Lab, “Who Is Paying Their Fair Share of Taxes? A New Analysis and Interactive Tool” (Yale University, September 30, 2024), <https://budgetlab.yale.edu/research/who-paying-their-fair-share-taxes-new-analysis-and-interactive-tool>; Feldstein, “The ‘Tax Expenditure’ Solution for Our National Debt.”

⁵⁹ Michael Cooper, John McClelland, James Pearce, et al., “Business in the United States: Who Owns it and How Much Tax Do They Pay?” NBER Working Paper no. 21651 (October 2015), <https://doi.org/10.3386/w21651>.

⁶⁰ Chris Edwards, Romina Boccia, and Tom Schatz, “Cut Corporate Taxes and Corporate Welfare,” Cato Institute commentary, February 3, 2017, <https://www.cato.org/commentary/cut-corporate-taxes-corporate-welfare>.

Figure 1-14: Share of Major Tax Expenditures by Income

Source: Congressional Budget Office⁶¹

Eliminating special interest tax credits and loopholes provide one solution to paying for a pro-growth tax code.⁶² While the *2023* and *2024 Responses* analyzed the negative effects of the tax proposals made by the White House, JEC Republicans have not yet examined two proposals that have been part of public tax policy discussions over the past few years. These are the Value-Added Tax (VAT) and the Border Adjustment Tax (BAT).

In a VAT system, each step of the supply chain pays the tax on the added value of the product, but the consumer ultimately pays the

⁶¹ Congressional Budget Office, *The Distribution of Major Tax Expenditures in 2019*, CBO report (October 27, 2021), Table 2, <https://www.cbo.gov/publication/57413>.

⁶² Adam N. Michel, "Slashing Tax Rates and Cutting Loopholes," Cato Institute Policy Analysis no. 975 (June 17, 2024), <https://www.cato.org/policy-analysis/slashing-tax-rates-cutting-loopholes>.

full tax.⁶³ The main argument of its proponents is its potential as a source of revenue. It is the largest source of revenue for European countries.⁶⁴ According to CBO, a 5 percent VAT can reduce the deficit by 1.1 percent of GDP.⁶⁵ Yale’s Budget Lab estimated that a 10 percent VAT would raise slightly less than 3 percent of GDP. However, they also estimated that it would result in a loss of income of 4 to 6 percent across all quintiles.⁶⁶ The VAT is also a regressive tax that represents a tax increase on all households.⁶⁷ Additionally, there are high administrative costs associated with the tax, requiring record keeping in every stage of the supply chain.⁶⁸ Finally, its effects would be uncertain since it would compound with the existing sales tax.

⁶³ Donald J. Marples, “Consumption Taxes: An Overview,” Congressional Research Service no. R44342 (January 24, 2023), <https://crsreports.congress.gov/product/pdf/R/R44342>.

⁶⁴ Tax Foundation, “Value-Added Tax (VAT),” <https://taxfoundation.org/taxedu/glossary/value-added-tax-vat/>.

⁶⁵ Most European countries have rates above 20 percent. Congressional Budget Office, “Impose a 5 Percent Value-Added Tax,” in *Options for Reducing the Deficit: 2025 to 2034*, CBO report (December 12, 2024), <https://www.cbo.gov/budget-options/60961>.

⁶⁶ The Budget Lab, “Modeling the Revenue and Distributional Implications of a Value Added Tax” (Yale University, June 25, 2024), <https://budgetlab.yale.edu/research/modeling-revenue-and-distributional-implications-value-added-tax>.

⁶⁷ Thomas Blanchet, Lucas Chancel, and Amory Gethin, “Why Is Europe More Equal than the United States?” *American Economic Journal: Applied Economics* 14, no. 4 (2022): 480–518, p. 504, <https://doi.org/10.1257/app.20200703>.

⁶⁸ Fraud is not a small issue in several countries using VAT. Also, estimates suggest that administrative and compliance costs could amount to 0.44 percent of GDP. Stephen C. Smith and Michael Keen, “VAT Fraud and Evasion: What Do We Know, and What Can be Done?” IMF Working Paper no. 2007/031 (February 1, 2007), <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/VAT-Fraud-and-Evasion-What-Do-We-Know-and-What-Can-be-Done-20215>; Randall G. Holcombe, “The Value Added Tax: Too Costly For The United States,” Mercatus Center (September 2010), https://www.mercatus.org/sites/default/files/d7/publication/vat.special_study_holcombe.pdf.

Since this form of tax would likely be an effective source of revenue, the ease of raising receipts by a large amount from small increases in the tax rate would provide a temptation for policymakers.⁶⁹ In 2009, President Obama proposed cap-and-trade fees on greenhouse gas emissions to reduce the deficit, a tax similar to a VAT. Before even being implemented, the proposed revenue was allocated to new spending programs.⁷⁰ Because of the broad-based income loss and distributional effects, a VAT should be avoided.

Another proposed form of tax that should be approached with caution is the Border Adjustment Tax (BAT), which is a destination-based cash-flow tax, as opposed to the current system, which is origin-based.⁷¹ Under a BAT, all goods and services sold domestically are taxed, while exports and profits overseas are not,⁷² meaning that multinational companies lose the ability to shift their profits abroad.⁷³ This would result in either American corporations repatriating some of their subsidiaries or eliminating

⁶⁹ Daniel J. Mitchell, “No to the Value-Added Tax,” Cato Institute commentary, November 13, 2015, <https://www.cato.org/commentary/no-value-added-tax>.

⁷⁰ Veronique de Rugy, “The Wrong Policy at the Wrong Time,” *Reason*, March 4, 2010, <https://reason.com/2010/03/04/vat/>.

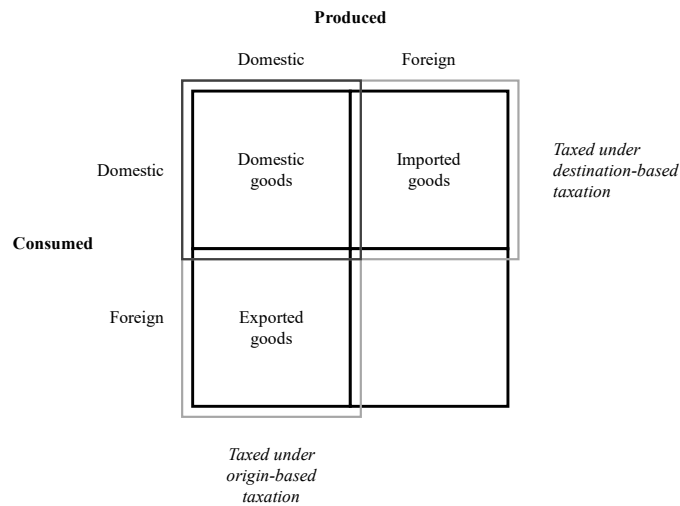
⁷¹ There is no unique way to apply this tax. In 2016, a BAT on corporate income was proposed.

⁷² Kyle Pomerleau, “Understanding the House GOP’s Border Adjustment,” Tax Foundation (February 15, 2017), <https://taxfoundation.org/research/all/federal/understanding-house-gop-border-adjustment/>.

⁷³ Some believe that because of this, BAT would increase progressivity. For a more thorough description of profit shifting and the possible consequences of its elimination to investment, see the *2023* and *2024 Responses*. Kyle Pomerleau, “What is the Distributional Impact of a Destination-Based Cash-Flow Tax?” Tax Foundation blog, January 18, 2017, <https://taxfoundation.org/blog/what-distributional-impact-destination-based-cash-flow-tax/>.

the practice of transfer-price manipulation.⁷⁴ Since imports are subject to the tax, the BAT offers an alternative approach to tariffs, with some of the same effects.

Figure 1-15: Incidence of a Border Adjustment Tax



There are several downsides to the BAT. There is limited empirical evidence on the consequences of a BAT, and there are disagreements on whether it would increase or decrease tax

⁷⁴ For example, a company exports to a foreign subsidiary in a low-tax country for a smaller (transfer) price and imports from that subsidiary at an inflated (transfer) price. Gary Clyde Hufbauer and Zhiyao (Lucy) Lu, "Border Tax Adjustments: Assessing Risks and Rewards," Peterson Institute for International Economics Policy Brief no. PB 17-3 (January 2017), <https://www.piie.com/sites/default/files/documents/pb17-3.pdf>; Alan J. Auerbach and Douglas Holtz-Eakin, "The Role of Border Adjustments in International Taxation," American Action Forum (November 30, 2016), <https://www.americanactionforum.org/research/14344/>.

revenue.⁷⁵ Economic theory predicts that the exchange rate should adjust to compensate for the change in relative prices, making this tax trade-neutral. However, a significant number of economists are skeptical that the exchange rate would adjust fully, or at least do so immediately.⁷⁶ The corporate BAT is only trade-neutral under very special circumstances and otherwise would lead to a drop in both exports and imports.⁷⁷ This is because of two reasons. First, exchange rate markets are dominated by vast portfolio flows that outweigh trade flows.⁷⁸ Second, only half of the world's GDP employs floating exchange rates, including the U.S.' 15 percent, which limits the degree of dollar appreciation in real terms.⁷⁹ Sectors with high levels of imports are particularly exposed to imperfect appreciations of the dollar, which will create an

⁷⁵ Grant A. Driessen and Mark P. Keightley, "Border-Adjusted Consumption Taxes and Exchange Rate Movements: Theory and Evidence," Congressional Research Service no. R44821 (April 18, 2017), <https://crsreports.congress.gov/product/pdf/R/R44821>.

⁷⁶ Adam N. Michel, "Reviewing the Case Against a Border-Adjusted Corporate Income Tax," *Cato at Liberty*, October 17, 2024, <https://www.cato.org/blog/reviewing-case-against-border-adjusted-corporate-income-tax>; Jason J. Fichtner, Veronique de Rugy, and Adam N. Michel, "Border Adjustment Tax: What We Know (Not Much) and What We Don't (All the Rest)," Mercatus Center Policy Brief (February 23, 2017), <https://www.mercatus.org/research/policy-briefs/border-adjustment-tax>.

⁷⁷ Omar Barbiero, Emmanuel Farhi, Gita Gopinath, and Oleg Itskhoki, "The Macroeconomics of Border Taxes," *NBER Macroeconomics Annual* 33 (2018): 395–457, <https://www.jstor.org/stable/26860124>.

⁷⁸ Jason Furman, "Destination Basis with Border Adjustment as Tax Policy and as Macroeconomic Policy," Peterson Institute for International Economics commentary (April 2017), <https://www.piie.com/commentary/speeches-papers/destination-basis-border-adjustment-tax-policy-and-macroeconomic-policy>.

⁷⁹ Michael Cembalest, "A mercifully brief note on destination based taxation," J.P. Morgan Eye on the Market (December 20, 2016), <https://privatebank.jpmorgan.com/content/dam/jpm-wm-aem/global/pb/en/insights/eye-on-the-market/eotm-dbtcf.pdf>.

incentive for rent-seeking.⁸⁰ Moreover, appreciation of the dollar can have very negative consequences for some individuals. About 85 percent of U.S. foreign liabilities are dollar-denominated, but only 30 percent of U.S. foreign assets are. The net loss would amount to about \$2.5 trillion, or almost \$8,000 per American.⁸¹ The possible negative consequences associated with implementing the BAT are not limited to the ones listed above.⁸²

Nevertheless, focusing on taxes to fix the spending problem is the incorrect approach. It is outlays that have been growing, while receipts have remained fairly stable.⁸³ Moreover, as discussed in the *2024 Response*, there is ample evidence that fiscal consolidation through spending cuts is more effective and will

⁸⁰ Furman, “Destination Basis with Border Adjustment as Tax Policy and as Macroeconomic Policy;” Fichtner, de Rugy, and Michel, “Border Adjustment Tax.”

⁸¹ Stan A. Veuger, “Adjusting to the Border Adjustment Tax: Imperfections and Unintended Consequences,” Mercatus on Policy (March 2017), <https://www.mercatus.org/system/files/veuger-bat-consequences-mop-v1.pdf>; Stan Veuger, “How Border Adjustment Reduces the Value of Your Scottish Golf Course,” American Enterprise Institute AEIdeas, January 10, 2017, <https://www.aei.org/economics/how-border-adjustment-reduces-the-value-of-your-scottish-golf-course/>; Emmanuel Farhi, Gita Gopinath, and Oleg Itskhoki, “Trump’s Tax Plan and the Dollar,” *Project Syndicate*, January 3, 2017, <https://www.project-syndicate.org/commentary/trump-tax-plan-hurts-competitiveness-by-emmanuel-farhi-et-al-2017-01>.

⁸² It could lead to an increase in prices, difficulties in implementing credits to exporters, and non-compliance with WTO, among others. For more on this, see: Institute on Taxation and Economic Policy, “Regressive and Loophole-Ridden: Issues with the House GOP Border Adjustment Tax Proposal,” ITEP report (February 22, 2017), <https://itep.org/regressive-and-loophole-ridden-issues-with-the-house-gop-border-adjustment-tax-proposal/>; William G. Gale, “A quick guide to the ‘border adjustments’ tax,” Brookings Institution commentary, February 7, 2017, <https://www.brookings.edu/articles/a-quick-guide-to-the-border-adjustments-tax/>; Pomerleau, “Understanding the House GOP’s Border Adjustment;” Hufbauer and Lu, “Border Tax Adjustments.”

⁸³ For a short literature review regarding the benefits of spending side fiscal consolidation, see the *2024 Response*.

lead to higher long-term growth than through tax increases.⁸⁴ Chapter 2 of the *2025 Response* evaluates the shortcomings of trying to direct the business sector through public spending.

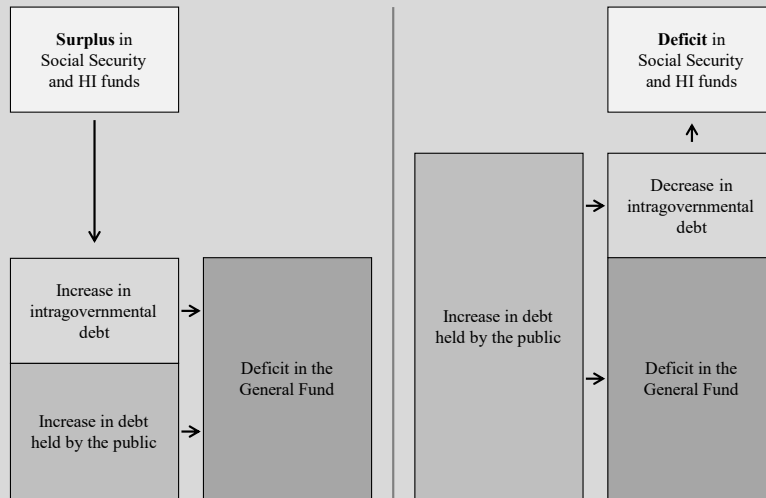
Box 1-2: The Social Security Trust Fund is Commonly Misperceived

Over the past decades, Social Security and Medicare Part A have been accumulating surpluses in their respective trust funds. These trust funds are not stored in a vault or invested in high-yield markets, rather in non-marketable government bonds that were used to finance past deficits for the rest of the federal government.⁸⁵ Therefore, debt held by the public grew at a slower pace than the deficit accumulation over the same period would have predicted. Now, as these mandatory programs are also in a deficit, a reduction of their trust funds, part of intragovernmental debt, results in additional debt held by the public.

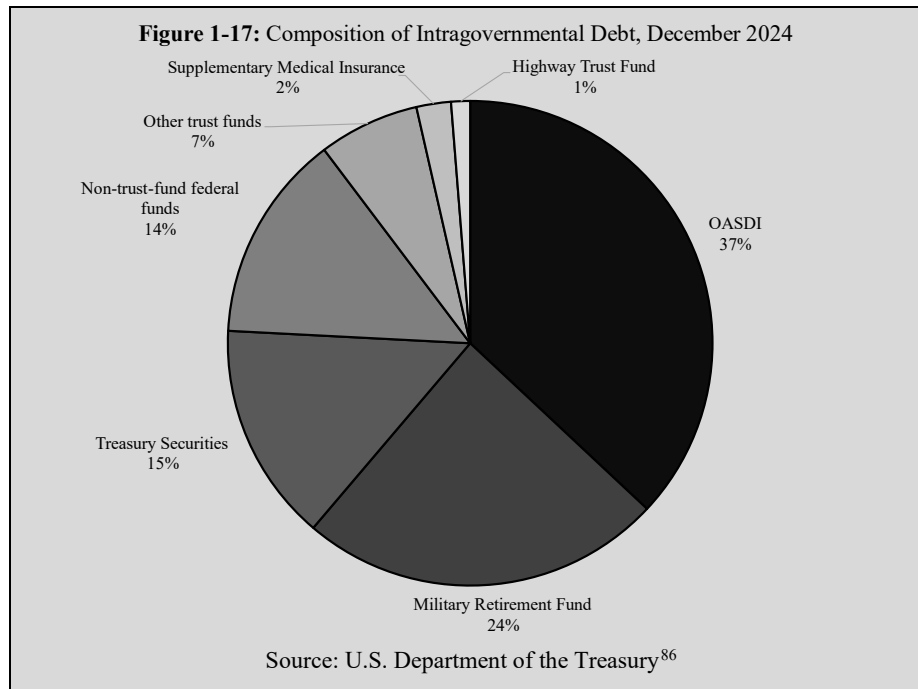
⁸⁴ Veronique de Rugy and Jack Salmon, “Flattening the Debt Curve: Empirical Lessons for Fiscal Consolidation,” Mercatus Center (July 22, 2020), <https://www.mercatus.org/research/research-papers/flattening-debt-curve-empirical-lessons-fiscal-consolidation>.

⁸⁵ It is important to remember that programs like Social Security are a pay-as-you-go system, closer to a Ponzi scheme than a retirement savings program. Romina Boccia, “Social Security Is a Legal Ponzi Scheme,” *Cato at Liberty*, October 23, 2024, <https://www.cato.org/blog/truth-about-social-security-legal-ponzi-scheme>.

Figure 1-16: Relationship of Growth in Debt Held by the Public and Trust Funds



As of the end of 2024, there was \$7.3 trillion of intragovernmental debt, of which about 40 percent was held by Social Security and Medicare Part A. Therefore, these programs will add almost \$3 trillion to debt held by the public before their trust funds are exhausted.



⁸⁶ Bureau of the Fiscal Service, “Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, December 2024 and Other Periods,” *Monthly Treasury Statement* (U.S. Department of the Treasury, December 2024), https://fiscaldata.treasury.gov/static-data/published-reports/mts/MonthlyTreasuryStatement_202412.pdf.