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Issue Brief

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The House Budget Committee's Blueprint to Tackle America's Growing Debt

Introduction

As Congress once again approaches a government shutdown, the need to fund the government is at the forefront of legislators' minds. Yet too often the solution to funding an out-of-control budget has been to build up the balance on the taxpayer's credit card.. Decades of overspending by the federal government since the mid-20th century has amassed $33 trillion in debt. Without a course correction, the debt is only expected to rise further: the Congressional Budget Office's (CBO) most recent budget outlook sees an additional $20.3 trillion added to the debt over the next decade. Rising interest rates will only add to the burden being kicked down the road.

This is why House Budget Committee Chair Jodey Arrington (R-TX) has introduced his "Reverse the Curse" budget resolution, a reference to James Madison's 1790 quote that "a public debt is a public curse." His blueprint, passed by the Committee in late September, lays out a 10 year plan to achieve $4.6 trillion in savings.

Key Facts:

- **The federal budget is on an unsustainable path. Overspending has run up the federal debt to $33 trillion and CBO predicts an additional $20 trillion added to that over the next decade under current law.**
- **Rep. Jodey Arrington's "Reverse the Curse" budget resolution outlines a 10-year strategy to save $4.6 trillion and aims to balance the budget.**
- **The plan would retain the Tax Cuts and Jobs Act of 2017's income tax reductions and full-expensing for business investments, and implement important reforms for budget scorekeeping at CBO and budget enforcement in Congress.**

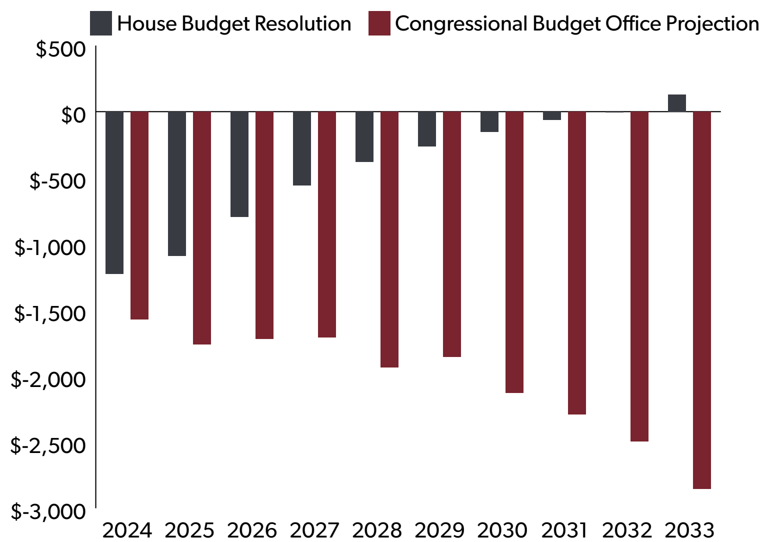
Deficit

The Department of the Treasury reports that the federal government finished up Fiscal Year (FY) 2023 with a deficit of [$1.7 trillion](). The deficit exceeded $3.1 trillion in 2020 and receded over the next two years as pandemic spending wound down, but it was on the rise again in 2023, up by $320 billion over the previous year. Federal debt held by the public rose to $26.3 trillion, comprising 98 percent of Gross Domestic Product (GDP). Looking ahead, the government's fiscal hole will only deepen as debt growth outpaces the economy. Under CBO's most recent budget outlook, federal debt held by the public will rise to $46.7 trillion by 2033, 118.9 percent of GDP.

The federal government has spent more than it raised in tax revenues for the past 23 consecutive years and has run a surplus just four times in the past 50 years. This is a dubious track record that has added a net of $23.5 trillion to the federal debt over that time span.

Rep. Arrington's "Reverse the Curse" blueprint would take immediate steps to tackle the deficit and set the path for a balanced budget. Figure 1, below, reflects the annual deficits or surpluses in the House budget plan versus the track that CBO forecasts if spending continues based on current laws.

Figure 1. Annual Deficits/Surpluses in the House Budget Resolution vs. CBO's Current Law Projection



In the CBO projection, deficits would swell over the decade by an additional $20.3 trillion. This path is unsustainable, but as Rep. Arrington notes, it's "not unfixable." If achieved, Rep. Arrington's plan would steadily reduce the deficit, and see a $130 billion *surplus* in 2033.

Revenues

On the revenue side, Rep. Arrington's blueprint would lock in the individual income tax reductions passed in the Tax Cuts and Jobs Act (TCJA) of 2017, which are currently set to expire after 2025. The Joint Committee on Taxation estimates that extending the TCJA's individual provision will decrease revenues by nearly $2.5 trillion through 2033. According to CBO, this in turn would increase debt service costs by $278 billion. But another way of assessing this is that, if the tax cuts are not retained, Americans will face a tax hike of $2.5 trillion through 2033. As taxpayers' wallets and paychecks are already being squeezed by inflation, adding a tax hike on top of that could have severe repercussions.

The blueprint would also lock in full expensing for business expenses, one of the most pro-growth reforms included in the TCJA. The provisions replaced and simplified a complicated depreciation schedule, making it much easier for businesses to plan for needed investments in their operations. Full expensing allows businesses to deduct the full value of investments from their tax liability the year of the investment, in turn reducing the complexity of tax treatment for business assets and encouraging investments that can fuel economic growth. JCT and CBO estimate that this would reduce revenues by $325 billion and increase debt service costs by $59 billion — though this is largely a quirk of the budget math, as full expensing merely allows businesses to receive the full benefit of the deduction immediately instead of depreciating it over the course of decades.

The House Budget Committee estimates that its plan, which would also roll back the regulatory state and promote U.S. energy development, would see the economy grow faster than under CBO's latest budget and economic outlook. Economic growth could help offset a portion of the revenue reductions. For example, a new report from the Tax Foundation finds that making the TCJA permanent would boost GDP by 1.2 percent and add nearly 830,000 jobs. Under a static analysis, the Tax Foundation estimates that permanence would reduce revenues by $3.7 trillion and notes that under a "dynamic basis, the cost falls by 16 percent to $3.1 trillion as higher economic output raises some additional tax revenue." Providing for a deficit neutral tax reform will require additional spending reductions as offsets.

Spending

On the spending side, Rep. Arrington's blueprint would bring back budget caps that expired after FY 2021. FY 2024 discretionary base spending would be reset to FY 2022 levels. Starting in FY 2025, the discretionary spending would be limited to 1 percent annual increases. The plan would also target wasteful spending enacted in the Infrastructure and Investment Act and the inaccurately named Inflation Reduction Act, including the regressive "green energy tax credits" and the funding boost to the IRS, most of which was dedicated to enforcement efforts rather than taxpayer services.

The plan would also make reforms to mandatory spending, including:

- Stopping the Biden administration's plan to transfer $475 billion in student loan debt from the borrowers to taxpayers,
- Equalizing Medicare payment rates for similar services regardless of where they are provided, a reform that could save billions,
- Strengthening work requirements for able-bodied recipients of Medicaid and food stamps, and
- Reducing improper payments by increasing data sharing among federal agencies to help improve eligibility verification.

Budget Scorekeeping Reforms

The proposal also includes reforms for the budget process and scorekeeping:

- **Putting a check on long-term direct spending**: The blueprint would add a new point of order against any measure in the House of Representatives (excluding appropriations) if CBO determines that it would increase direct spending by more than $2.5 billion in any of the next 40 years after the current 10-year budget window. This would make permanent a point of order included in the House rules packages for the current 118th Congress to help ensure that new legislation doesn't pretend to balance the budget over the short term while bankrupting future generations of taxpayers down the road.
- **Restricting use of Changes in Mandatory Spending (CHIMPS) spending gimmick**: The blueprint would tighten budget enforcement of a gimmick whereby measures repeal previously enacted budget authority to use as an offset against new spending. These offsets generally exist only on paper since most of the money in CHIMPS that is repealed would never actually be spent. The blueprint would decrease the amount of CHIMPS

that could be used and would establish a new point of order so that lawmakers could challenge their use in legislation.

- **Accounting for debt service costs:** The blueprint would require CBO to include the projected debt service costs in its legislative cost estimates. It is an oversight that CBO is not already required to provide this data in its legislative analyses so that lawmakers can have an assessment of the full fiscal impact of proposals.

- **Accounting for the full cost of federal credit and loan programs:** The blueprint would require CBO to provide fair-value analyses of federal credit and loan activities. This method does a much better job than the method that CBO is required to use under current law. CBO does produce annual reports scoring programs using both methods and these reports often show that loan programs which appear to generate revenues expose taxpayers to great risk when the market risk of default is exposed through the lens of the fair-value method.

CBO plays a pivotal role in the legislative process as its analyses can help or hinder the passage of bills. These reforms would help increase the quality of CBO's estimates and provide lawmakers with additional budgetary enforcement tools.

Conclusion

The U.S. debt burden has ballooned to unprecedented levels. CBO's long-term projection sees that trajectory continuing on an unsustainable path for the foreseeable future. Without a correction, the costs to borrow more debt will rise and lawmakers will have fewer and fewer fiscal tools left to respond to emergencies. This August, Fitch Ratings, one of three major credit agencies, followed Standard & Poor's (S&P) in downgrading the U.S. debt from AAA to AA+. That should be a warning for lawmakers to take corrective action. The "Reverse the Curse" blueprint from House Budget Committee Chair Arrington provides a plan to tackle debts, cut wasteful spending, prevent harmful tax increases, and encourage economic growth driven by the private sector.

About the Author

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