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Testimony of Maya MacGuineas
Committee for a Responsible Federal Budget
Hearing before the Senate Finance Subcommittee on Fiscal Responsibility and Economic Growth

The Fiscal Outlook: 2027-2036
March 11, 2026

Chair Johnson, Ranking Member Smith, and Members of the subcommittee, thank you for inviting me here today to discuss our nation's fiscal outlook.

I am Maya MacGuineas, president of the Committee for a Responsible Federal Budget, a nonpartisan nonprofit dedicated to educating the public about and working with policymakers on fiscal policy issues. Our co-chairs are former Indiana Governor and OMB Director Mitch Daniels; former Secretary of Defense, OMB Director, and House Budget Committee Chair Leon Panetta; and former Congressman Tim Penny. Our board includes some of the nation's leading former Members of Congress, agency officials, and experts focused on budget issues.

This is a timely hearing as the Congressional Budget Office (CBO) has released its latest projections. CBO projects the national debt will exceed its record as a share of the economy by 2030 and rise to 120% of GDP by 2036 while deficits will average more than 6% of GDP annually and reach 6.7% by 2036. Interest payments on the debt – which already cost us $1 trillion a year or $7,800 per household – will more than double to above $2 trillion by 2036; in that year, interest will be the second largest line item in the budget, consuming 26% of revenue and 4.6% of GDP.

Thanks to the "Johnson Budget Window," a result of the Chair of this Subcommittee's efforts, CBO produces 30-year budget projections, which show debt growing to 175% of GDP by 2056.

The debt is growing faster than the economy. Interest payments on the debt are the fastest-growing item in the budget. And if there is an emergency—which there most surely will be – the situation will deteriorate even further. This is beyond just unsustainable; it is dangerous, shortsighted, and an abdication of responsibility.

My remarks will cover four key areas in more detail:

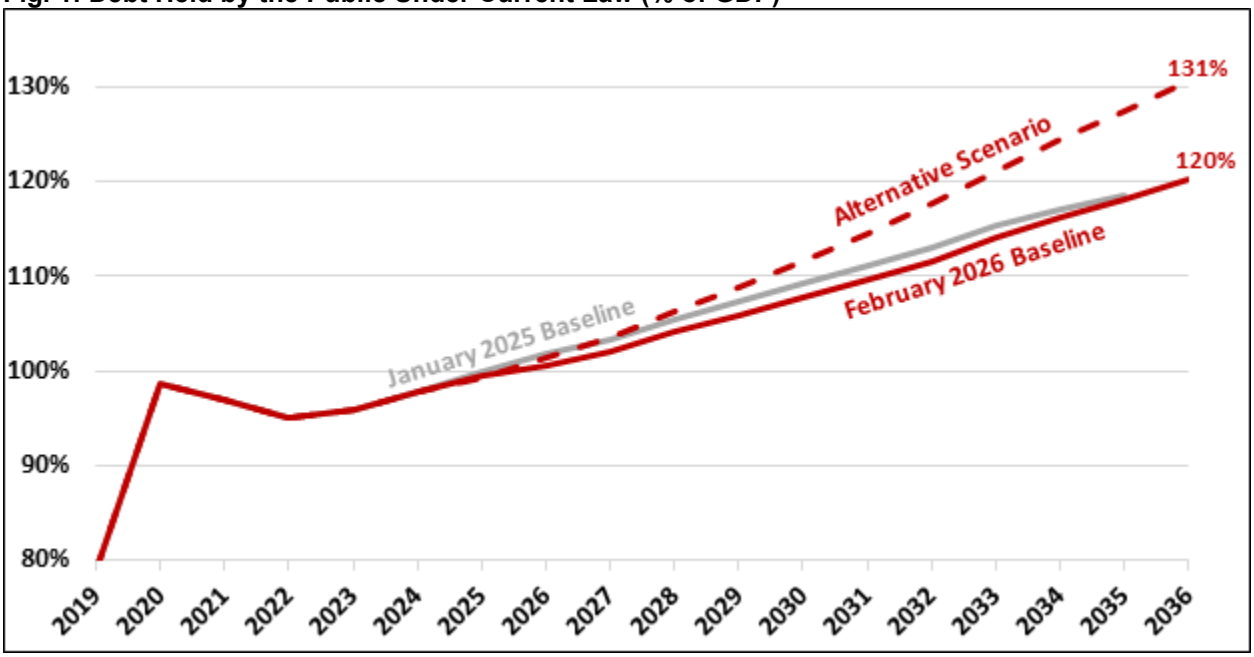
1. Our Nation's Fiscal Trajectory
2. The Drivers of the National Debt
3. Risks of Further Fiscal Deterioration
4. The Path Forward

Fiscal Trajectory

The national debt is at a near-record high as a share of the economy and rising unsustainably.

Debt held by the public is equal to roughly 100% of GDP today, and CBO projects it is on track to pass the post-World War II record high – 106% set in 1946 – in just four years. Debt will continue to grow thereafter, reaching a stunning 120% of GDP by 2036 before climbing to 175% after 30 years. This is an alarming outlook, whether one looks at the short, medium, or long term.

Fig. 1: Debt Held by the Public Under Current Law (% of GDP)

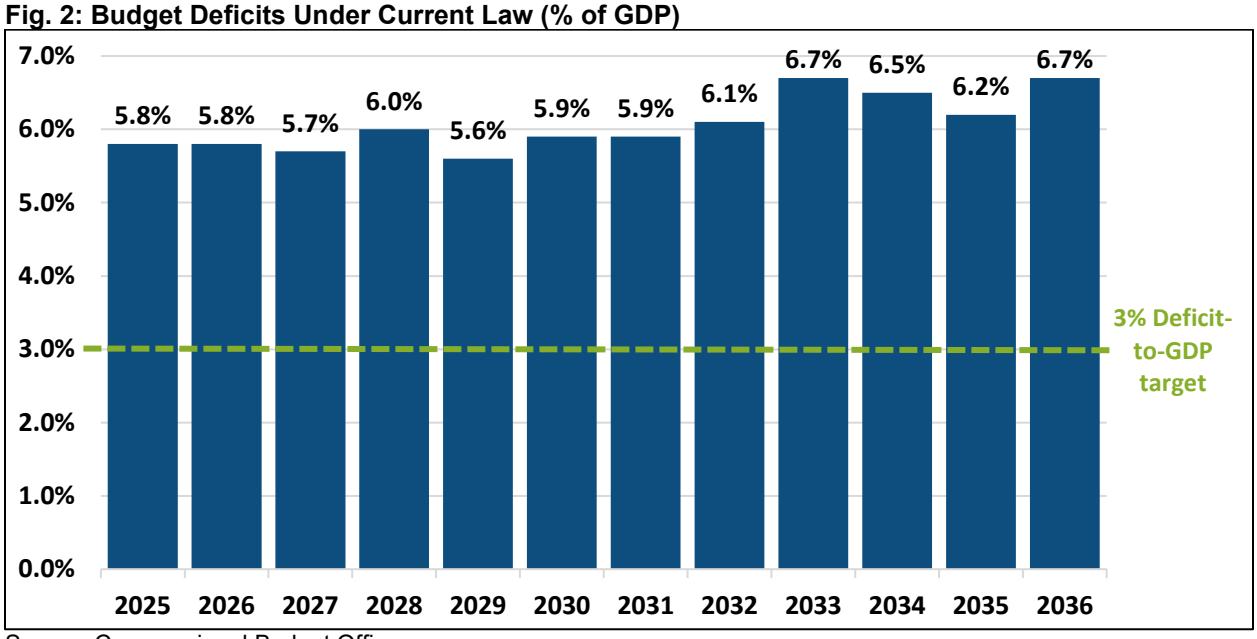


Source: Congressional Budget Office & Committee for a Responsible Federal Budget. Alternative Scenario assumes IEEPA tariffs are ruled illegal, temporary OBBBA provisions are extended, and enhanced ACA subsidies are revived.

Annual deficits under CBO's baseline will climb past $2 trillion and eclipse $3 trillion by 2036, averaging more than 6% of GDP over the decade and reaching 6.7% by 2036. That is more than double the 3% of GDP deficit that many economists and private sector experts say we should target for fiscal sustainability – a target that has been endorsed by the entire board of the Committee for a Responsible Federal Budget.

Additionally, several federal trust funds that facilitate important programs are in deep trouble. CBO projects the Highway Trust Fund will be exhausted in 2028, the Social Security retirement trust fund in 2032, and the Medicare Hospital Insurance trust fund will be exhausted in 2040. When trust fund insolvency happens, the law calls for deep, across-the-board cuts for each program, with CBO estimating that highway spending would see a 40% cut, Social Security benefits would see 26% cut, and Medicare hospital payments would see an 8% cut. CBO's debt projections assume those payments are made in full and added to borrowing. While Congress cannot and should not allow these important programs to face such cuts, nor should it allow their shortfalls to be added to federal borrowing.

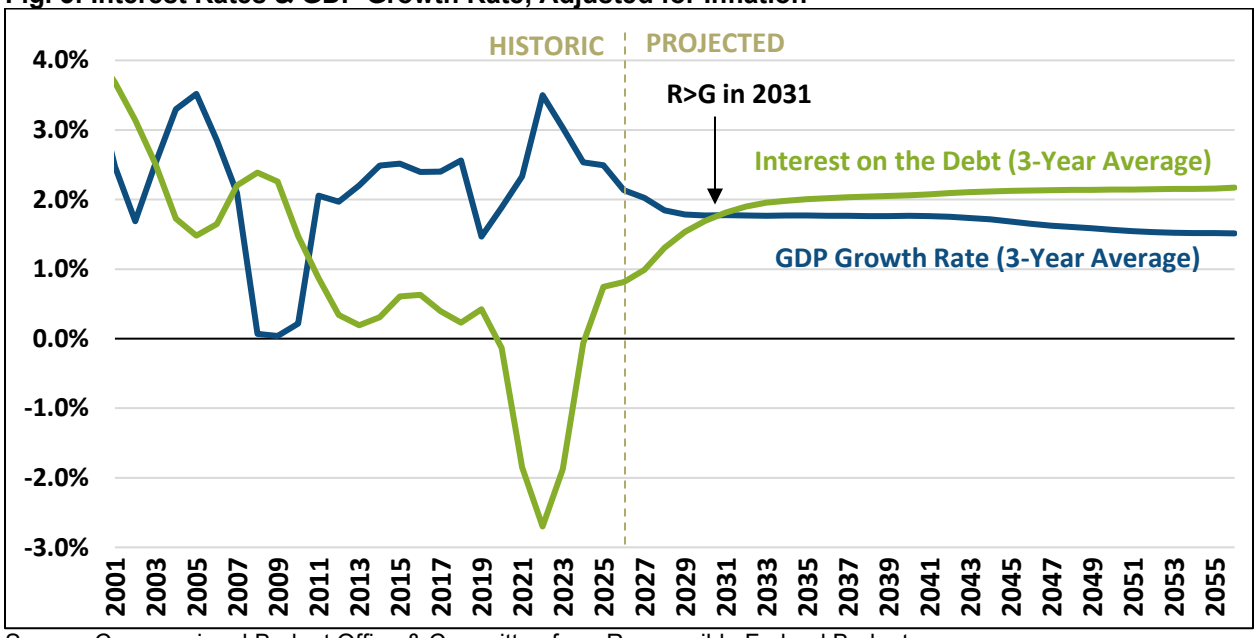
Fig. 2: Budget Deficits Under Current Law (% of GDP)



Source: Congressional Budget Office.

Worryingly, CBO projections suggest we may be approaching a point where debt could quickly spiral out of control. Many economists have pointed out that the United States cannot sustainably run primary (non-interest) deficits if the rate of economic growth (G) is lower than the average nominal rate of interest paid on the debt (R). Fortunately, the interest rate has been below the growth rate (R<G) for all of the last 15 years and most of the last 60 years, outside brief contractions during recessions.

Fig. 3: Interest Rates & GDP Growth Rate, Adjusted for Inflation



Source: Congressional Budget Office & Committee for a Responsible Federal Budget.

However, CBO projects the interest rate will exceed the growth rate (R>G) starting in 2031 and by increasing amounts thereafter. By 2056, CBO projects a 4.2% interest rate while nominal growth will fall to 3.5%, a 70 basis point gap. Once R exceeds G, a debt spiral can ensue. Higher national debt as a share of the economy can push up interest rates and slow economic growth by crowding out investment. Those higher interest rates and slower growth can further push up debt-to-GDP, setting off a vicious cycle that becomes increasingly hard to reverse and could ultimately spark a fiscal crisis.

Even short of such a crisis, high and rising debt and deficits result in a number of consequences for the economy and the American people. High deficits and debt can lead to more bouts of elevated inflation we've seen over the past few years. It can push up interest rates throughout the economy on everything from credit cards to mortgages to business loans. And it can slow income and wage growth as government debt "crowds out" private investment. For those worried about the issue of affordability, high and rising national debt is a huge concern.

High and rising debt also pushes up federal interest costs, which are on course to be the single largest line item in the budget by 2047. It leaves us with less fiscal space to respond to future recessions, wars, or other crises. It creates a generational imbalance – with younger generations having to pay the bills for older generations' refusal to do so – creating further tension. And it causes geopolitical vulnerabilities, with the U.S. having a weakened posture on the global stage, threatening our national security. There is a reason former Chairman of the Joint Chiefs of Staff Admiral Mike Mullen has called debt "the single, biggest threat to our national security."

Most severely, very high levels of debt could potentially spark a fiscal crisis. In a recent paper, we pointed to six possible types of fiscal crises, all of which become increasingly likely when the U.S. is too indebted. Quoting from our paper, these include:

- **Financial Crisis:** Reduced confidence in U.S. Treasury markets could lead to a spike in interest rates, panic among traders, devaluation of assets, freezing or slowing of credit, and failure of key financial institutions.
- **Inflation Crisis:** Attempts or fear of attempts to manage debt levels through monetization, artificially low interest rates, or financial repression could result in high and potentially spiraling inflation.
- **Austerity Crisis:** Sharp tax increases and spending cuts enacted to stave off a fiscal crisis could create undue hardship, undermine demand, and push the economy into recession.
- **Currency Crisis:** The U.S. dollar could face sudden and significant depreciation in response to fiscal stress and policy responses, resulting in destabilization of markets and the economy.
- **Default Crisis:** Policymakers could explicitly or implicitly default on debt, including by failing to make debt payments or by restructuring existing debt.
- **Gradual Crisis:** Living standards and fiscal and monetary flexibility could gradually erode in response to rising debt, potentially causing as much or more long-term damage than an acute crisis.

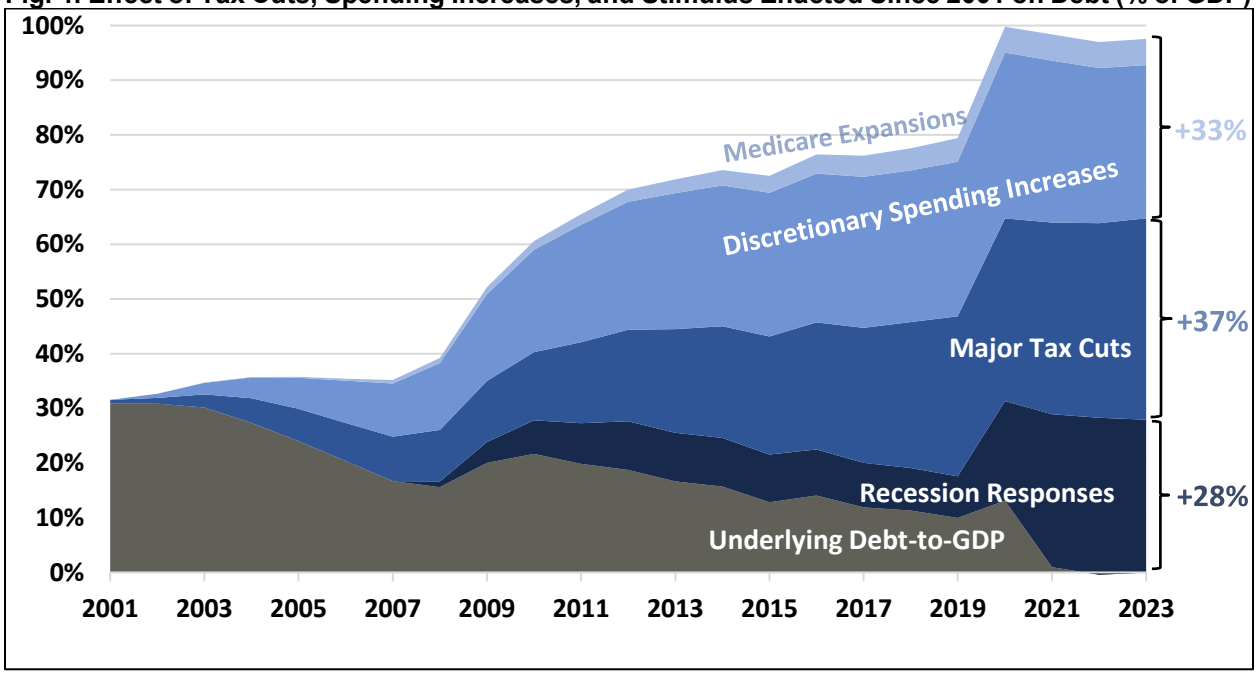
While we may not be on the brink of any of these crises, the risks they materialize rise with the level of our current and projected debt and growing perception that policymakers will be unable to correct our trajectory. And as explained above, the consequences of our fiscal situation are dangerous even without a visible crisis.

Simply put, there is no silver lining in this trajectory. We are in a period of alarmingly high debt levels despite a growing economy and several demographic challenges ahead.

Drivers of the High and Rising National Debt

Our massive borrowing is driven by a deep divide between spending and revenue. As recently as 2001, the federal government was running a budget surplus and on track to pay off our debt. Yet over the past 25 years, lawmakers have repeatedly cut taxes and increased spending without sufficient offsets while ignoring the underlying growth of our nation's health and retirement programs. In a 2024 analysis, we estimated that 37% of GDP of our current debt can be explained by major tax cuts, 33% of GDP by major spending increases, and 28% of GDP by recession responses. More than three-quarters of these policies were enacted on a bipartisan basis. Had these policies all been fully offset instead, our debt would be paid off.

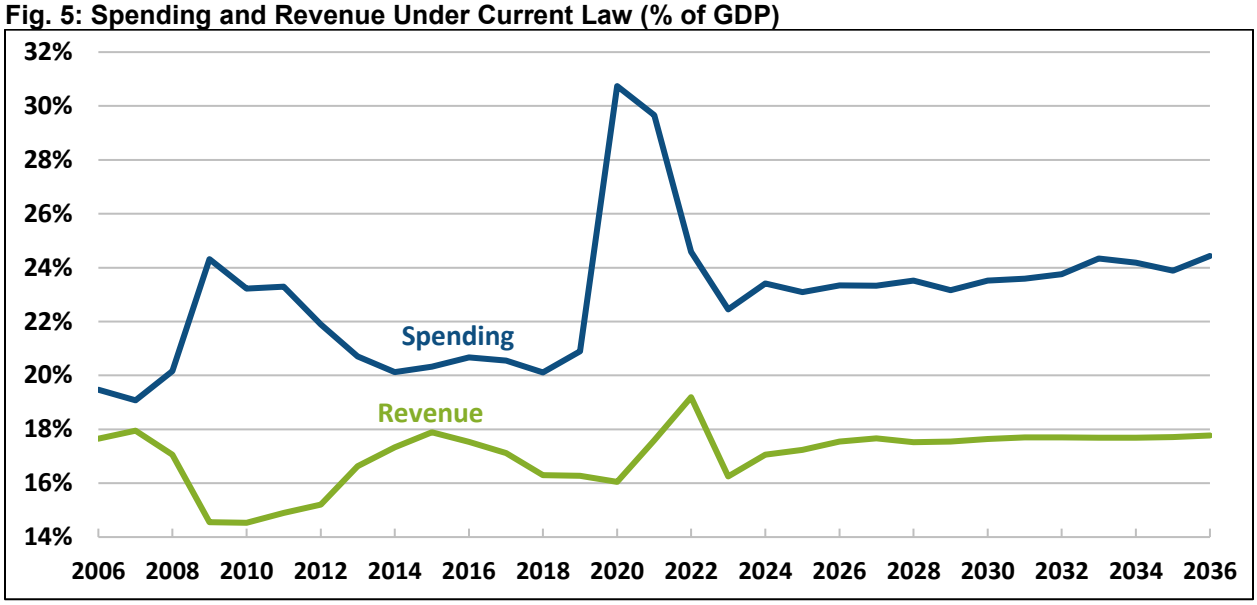
Fig. 4: Effect of Tax Cuts, Spending Increases, and Stimulus Enacted Since 2001 on Debt (% of GDP)



Sources: Congressional Budget Office & Committee for a Responsible Federal Budget.

Looking forward, the large and growing disconnect between spending and revenue will continue to worsen the fiscal outlook. CBO projects that spending over the next decade will rise from 23.1% of GDP in 2025 to 24.4% by 2036, compared to a historical 50-year average of 21.2% of GDP. Meanwhile, federal revenues will be higher than their historical average, but nonetheless fail to keep up, growing from 17.2% of GDP in 2025 to 17.8% by 2036, which is above the historical average of 17.3% but far below the level and growth of spending.

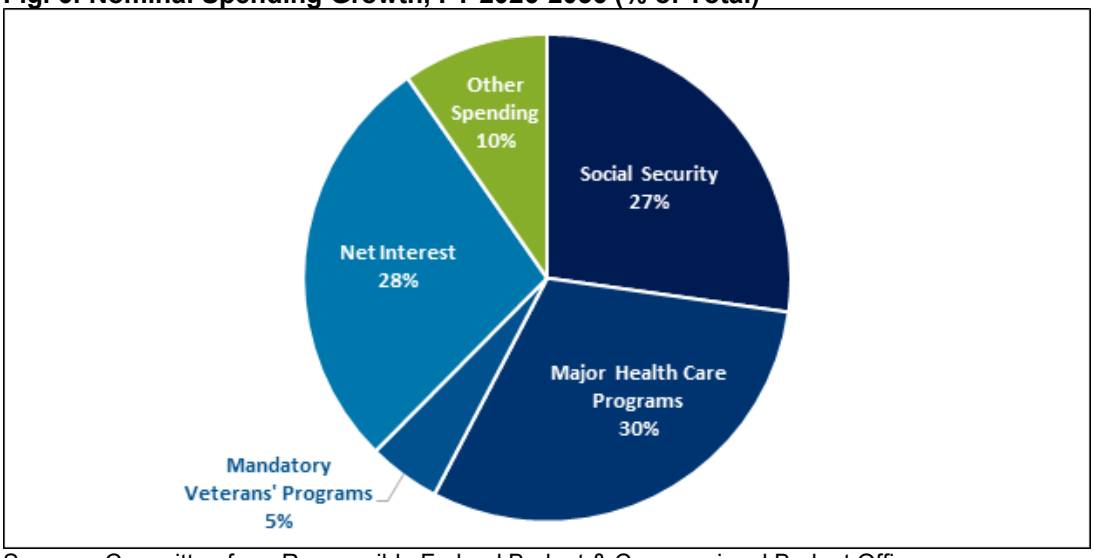
Fig. 5: Spending and Revenue Under Current Law (% of GDP)



Source: Congressional Budget Office.

A full 90% of nominal spending growth over the next decade will come from just four parts of the federal budget: Social Security, federal health care programs, mandatory veterans' programs, and interest on the national debt. These programs will grow by $3.6 trillion over a decade, or 2.8% of GDP. Meanwhile, all other spending – including defense, nondefense discretionary, and most income security programs – will grow by $385 billion and *shrink* by 1.7% of GDP.

Fig. 6: Nominal Spending Growth, FY 2026-2036 (% of Total)



Sources: Committee for a Responsible Federal Budget & Congressional Budget Office.

Perhaps most concerning is the high and rising cost of interest, which on its own can explain the entire increase in projected deficits as a share of GDP over the next decade. Interest costs have roughly *tripled* over the past five years, from $352 billion in 2021 to nearly $1 trillion today, and are projected to double from here to $2.1 trillion by 2036. Interest already costs a record 3.2% of GDP and will grow to 4.6% of GDP by 2036.

The federal government now spends more on interest than on national defense and far more on interest than on children. By 2029, interest will become the second largest government line item, exceeding the cost of Medicare. By 2047, interest costs will exceed Social Security and become the largest government expenditure. Meanwhile, interest already consumes one-fifth of all revenue and will consume a record one-quarter of all revenue by 2036. Two out of every three dollars borrowed over the decade will be purely to pay interest on the national debt.

As spending continues to grow, revenue will fail to keep up. The recently enacted reconciliation law substantially cut taxes and will reduce projected revenue collection by roughly $5 trillion over the next decade. The spending reductions in the law only offset about $1.5 trillion of these costs; after interest and dynamic effects, the law will add about $4.7 trillion to projected deficits.

Some of this revenue loss has been countered by the Trump Administration's tariff policies, which will reduce deficits by about $2.5 trillion under CBO's baseline. However, $1.4 trillion of those tariffs, collected under the International Emergency Economic Powers Act (IEEPA), have since been ruled illegal.

Despite these cuts, CBO projects revenue will rise modestly over time as incomes grow. But this projection counts on the Administration collecting all the tariff revenue it would have raised under the IEEPA tariffs, Congress offsetting or letting expire various temporary tax cuts such as "no tax on tips," and the Federal Reserve again becoming profitable and remitting gains to the Treasury. And even in this case, the U.S. faces rising deficits as far as the eye can see.

We face massive structural deficits, established by years of fiscal irresponsibility and bolstered by unfavorable demographic and economic factors. And we are not prepared for what's next.

Risk of Further Fiscal Deterioration

While CBO's outlook paints a dire picture under its baseline, debt in reality could grow far higher. Deficits under CBO's baseline are mitigated by substantial tariff revenue and by the fact that a number of tax and spending provisions are scheduled to expire under current law.

The Committee for a Responsible Federal Budget has constructed an alternative scenario that assumes the Administration does not replace the IEEPA tariffs, enhanced Affordable Care Act (ACA) subsidies are revived, and a number of temporary provisions in the reconciliation law are made permanent. Among other extensions, this includes: extensions of reduced taxes on tips, overtime, car loans, and senior income that expire after 2028; the higher State and Local Tax (SALT) deduction cap that expires after 2029; 100% bonus depreciation for factories that only applies to facilities constructed before 2029 and placed in service before 2031; and spending increases for border security and defense that are only available until the end of FY 2029.

Taken together, these changes would add another $5 trillion to the debt through 2036, boosting deficits to more than 8% of GDP by 2036 and boosting debt to 131% of GDP.

Fig. 7: Deficits Under an Alternative Scenario

	Deficit Impact, Fiscal Years			
	2026-2036 (Nominal)	2036 (Nominal)	2026-2036 (% of GDP)	2036 (% of GDP)
Current Law Deficits	**$26.3 trillion**	**$3.1 trillion**	**6.1%**	**6.7%**
IEEPA Tariffs Not Replaced	$1.9 trillion	$0.2 trillion	0.5%	0.4%
Reconciliation Provisions Made Permanent	$1.9 trillion	$0.3 trillion	0.4%	0.6%
ACA Health Subsidies Revived	$0.4 trillion	<$0.1 trillion	0.1%	0.1%
Interest	$0.8 trillion	$0.2 trillion	0.2%	0.4%
Deficit Increase From Alternative Scenario	**$5.0 trillion**	**$0.7 trillion**	**1.2%**	**1.5%**
Deficits Under Alternative Scenario	**$31.3 trillion**	**$3.8 trillion**	**7.3%**	**8.1%**
Debt Under Alternative Scenario	**n/a**	**$61 trillion**	**n/a**	**131%**

Sources: Congressional Budget Office and CRFB estimates. Note: Numbers may not sum due to rounding.

While this alternative scenario is merely hypothetical, past experience has shown that it may prove more realistic than CBO's baseline. For example, while the 2017 tax cuts were put in place temporarily by the Tax Cuts and Jobs Act, this body chose to assume they were permanent during the reconciliation debate by employing the "current policy" gimmick that assumed all tax policies in place last year would be in place permanently. That gimmick was an affront to fiscal responsibility because it allowed lawmakers to permanently enact the tax cuts without ever recognizing their full deficit impact. It remains to be seen what repercussions that action will have on future policymaking, but it gives all the more reason to take seriously the scenario I've posed.

A number of factors could worsen the debt outlook further. Some possibilities currently in the discussion include (with ten-year costs in parentheses):

- Supplemental funding related to the war in Iran (tens or hundreds of billions of dollars)
- A $1.5 trillion annual defense budget (more than $6 trillion when including interest)
- Repeal of the health care savings under the reconciliation law (more than $1.2 trillion)
- Indexation of capital gains for inflation (about $200 billion)
- Higher than expected interest rates ($3.2 trillion per percentage point increase)
- A major natural disaster (tens or hundreds of billions of dollars)
- A recession response (hundreds of billions or trillions of dollars)

Finally, while it is impossible to predict the future, it is almost certain that an unexpected challenge – whether it be an emergency, a war, an economic shock, or some other sort of disaster or pandemic – will arise. When that happens, we will likely enter that scenario more indebted than ever before, with less fiscal space to address it.

The Path Forward

Given our unsustainable fiscal outlook, policymakers should act swiftly to begin reducing deficits and stabilizing the debt.

As a first step, lawmakers should commit to No New Borrowing. Policymakers haven't reduced projected debt on net since 2023, when the Fiscal Responsibility Act put caps on discretionary spending. In 2024, we estimate that Congress and the President added $1.0 trillion in new borrowing over a decade from both legislation and executive actions. In 2025, Congress and the President added $3.2 trillion in net new borrowing over a decade, largely from OBBBA, but canceled out some by the President's tariff policies and regulatory savings. Debt increases have happened regardless of which party was in power. Lawmakers should do their part to ensure projected debt doesn't grow any worse.

Second, Congress and the President should adopt a credible fiscal goal or target. The board of the Committee for a Responsible Federal Budget has called for reducing deficits, over time, to 3% of GDP. Doing so would be sufficient to put debt on a slow downward path relative to the economy and is realistic enough to be achievable. The 3% of GDP deficit target has international precedent and bipartisan support, including from Treasury Secretary Scott Bessent and others in the Trump Administration, as well as from many in the Obama Administration, and it shares support in the private sector and economic community.

In the past, we have strongly supported PAYGO rules to ensure new spending and tax cuts are fully offset. Yet, with the fiscal situation so bad, we propose adopting Super PAYGO, where lawmakers would enact $2 of savings for every $1 of new spending or tax cuts. Super PAYGO would mean we would only adopt the most important new tax cuts or spending increases—which even when paid for, use up important offsets we should ideally be using for a larger debt deal—and that each time we did, we would also have some amount of fiscal improvement. We should also reinstitute discretionary spending caps and offset any increases in the level of discretionary spending through revenues or other spending cuts.

Beyond "Super PAYGO," the nation will need significant deficit reduction. It will require about $10 trillion of ten-year deficit reduction to reduce deficits to 3% of GDP by 2036 and a similar amount to stabilize debt at 100% of GDP.

Achieving these savings could start by addressing the beleaguered trust funds that are only a few years from insolvency. Simply restoring the Social Security, Medicare, and Highway trust funds to solvency would stabilize debt at about 110% of GDP – far too high, but a good start.

Fig. 8: Total Savings Needed to Meet Various Fiscal Goals

Fiscal Goal	FY 2027-2031	FY 2027-2036
Deficit Targets*		
4% of GDP	$2.5 trillion	$7.5 trillion
3% of GDP	**$3.5 trillion**	**$10.0 trillion**
2% of GDP	$4.5 trillion	$13.0 trillion
Primary Balance	$2.5 trillion	$7.0 trillion
On-Budget Balance	$6.0 trillion	$15.0 trillion
Full Budget Balance	$7.0 trillion	$18.5 trillion
Debt Targets		
110% of GDP	-	$5.0 trillion
100% of GDP	**$3.5 trillion**	**$9.5 trillion**
90% of GDP	$7.5 trillion	$14.0 trillion
80% of GDP	$11.5 trillion	$19.0 trillion

Sources: Congressional Budget Office and the Committee for a Responsible Federal Budget. *Actual deficit reduction would vary dependent on savings path. Estimates above assume savings path consistent with offsets from the One Big Beautiful Bill Act (OBBBA) through 2032, extrapolated with additional policy extensions and assumptions through 2036. Figures are rounded to the nearest $500 billion. Note: savings estimated prior to IEEPA tariff ruling.

As part of and beyond securing the trust funds, lawmakers should work together to lower health care costs. Health care represents the single largest source of waste, fraud, and abuse among government programs, and the greatest opportunity for win-wins that can lower costs for households and taxpayers alike. Ideas like adopting site-neutral payments in Medicare, reducing Medicare Advantage overpayments, and limiting Medicaid financing schemes have bipartisan support and should be enacted without delay.

Further reforms to reduce excessive spending, cut tax breaks, cap appropriations, and raise new sources of revenue should also be considered. Identifying $10 trillion in deficit reduction will require looking at all areas of the budget and taxes. That means putting everything on the table – there can be no sacred cows. Tradeoffs will be required that secure entitlements like Social Security and Medicare, reduce wasteful spending, raise revenue, and enact other efficiencies and reforms. Ideally, these policies will be pro-growth to help with the economic challenges we face.

A good way to tackle this seismic goal would be to set up a bipartisan fiscal commission – such a commission should be given the political space needed to negotiate these changes, keep everything on the table to achieve them, and communicate the need to enact them to the American public. The Fiscal Commission Act is one such approach. It would create a commission to provide Congress with recommendations to stabilize the debt-to-GDP ratio below 100% while also recommending ways to improve the solvency of federal trust funds.

All this said, we are becoming worried Congress is going to fail to act and that the country will face a crisis—either due to fiscal issues, or one where our response is constrained and less effective due to our poor fiscal condition. Therefore, we believe lawmakers need to have a "Break Glass" in case of emergency plan in hand and ready to go. We shouldn't need this, but I fear that the reality is that we do.

This week, we released a four-part "Break Glass" framework that would address the next economic shock *and* rising debt at the same time. Quoting from the paper, the plan would include:

1. A **Highly Targeted, Near-Term Policy Response** tailored to the specific nature of the shock, borrowing only if it is necessary to support a recovery.
2. A longer-term package of **Bipartisan Offsets** that would generate $2 of medium-term savings for every $1 of near-term deficit increase.
3. A **Default Deficit Reduction Mechanism** to freeze the indexing of most spending and tax parameters, hold appropriations levels flat, and phase in a "Deficit Reduction Surtax" to put the deficit on a glide path to 3% of GDP.
4. A **Bipartisan Fiscal Commission** charged with replacing the default deficit reduction mechanism with more carefully thought-out and tailored measures that achieve at least as much long-term deficit reduction.

This Break Glass Plan presents a way forward and can help to calm markets in the event of unforeseen circumstances that might otherwise further worsen our fiscal situation. We need to get a plan like this agreed to in Congress and on the shelf in case of an emergency.

Conclusion

Thank you to the Members of this subcommittee for their genuine interest in examining the drivers of the debt and leaving no stone unturned when searching for solutions. Our fiscal outlook presents an immense challenge to policymakers, and the longer we wait to address it, the harder the challenge will become. It is already going to be much more difficult than if we had phased in these changes gradually in past years. Thank you again for hosting this hearing and for the opportunity to appear before the subcommittee.