The Role of Policy Analysts in Addressing the US Fiscal Challenge
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Good afternoon, everyone. I am grateful to Ben Lockwood and Adam Looney for inviting me to speak with you today. It is a true honor to address the National Tax Association's (NTA's) annual conference.

The NTA states on its website that: "The enormous public benefit that can come from sound tax policy and wise administration of public finances is a prime reason for the work of NTA." This is a worthy mission. There is indeed great benefit to be gained from the effective design and delivery of tax policy. You, and all of the legislators, tax administrators, lawyers, economists, and others who have made up the NTA for 118 years have provided an "enormous public benefit." As a citizen of the country, I am very appreciative of what you have done and do now, and I thank you.

I will begin my remarks by reminding you about the unsustainable financial position of the US government. Then I will turn to four recommendations for policy analysts that can help us to address the US fiscal challenge. My comments will draw in part on recent joint research with Karen Dynan, Glenn Hubbard, Zach Liscow, and Heidi Williams, in various combinations.[1] I have learned a great deal from working with them.

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As you know, US government debt is on a path that is almost surely unsustainable without significant changes in policy. Debt held by the public is now roughly equal to annual gross domestic product (GDP), a level that has been exceeded in the country's history for only a few years near the end of the Second World War. Moreover, under current policies, annual deficits are running at about 6 percent of GDP, an amount of borrowing the country has never experienced apart from wars and economic downturns. Thus, the gap between federal spending and revenue is unprecedented.

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[1] See Karen Dynan and Douglas Elmendorf, "Putting US Fiscal Policy on a Sustainable Path," NBER Working Paper 33751, May 2025, and forthcoming in the *Journal of Economic Perspectives*; Douglas Elmendorf, Glenn Hubbard, and Heidi Williams, "Dynamic Scoring: A Progress Report on Why, When, and How," *Brookings Papers on Economic Activity*, Fall 2024; and Douglas Elmendorf, Glenn Hubbard, and Zachary Liscow, "Policies to Reduce Federal Budget Deficits by Increasing Economic Growth." NBER Working Paper 33834, May 2025, and forthcoming in *Entrepreneurship and Innovation Policy and the Economy*.

Some causes of this gap are very well known. I remember sitting in conferences like this 40 years ago hearing about the looming budget imbalance due to the aging of the population and the rising relative cost of health care. Indeed, given those early warnings, one might wonder how we have come this far without facing a fiscal reckoning. I think there are three reasons we have done as well as we have.

The first is that we have benefited from a huge peace dividend. The role of the peace dividend in improving budget outcomes received a lot of attention in the 1990s, as the Soviet Union dissolved and the federal budget moved into surplus. But the effect goes well beyond what we saw in the 1990s. If you look back to 1964, just before Medicare and Medicaid were created, defense spending was 8.3 percent of GDP; last year, in 2024, defense spending was 2.9 percent of GDP.[2] The drop of 5.4 percent of GDP equals nearly two-thirds of the increase in federal spending on Social Security and the major health care programs over those 60 years.[3] In other words, about two-thirds of the remarkable growth in federal spending on the largest benefit programs has been financed by a drop in spending that people did not experience directly—and therefore had no political cost. By contrast, of course, people do experience cuts in domestic spending or increases in taxes.

A second reason we have avoided a fiscal reckoning thus far is that policymakers enacted a succession of laws in the 1980s and 1990s to deal with widening budget deficits.[4] Some of you here will remember the Deficit Reduction Act of 1984, the budget agreement of 1990, the Omnibus Budget Reconciliation Act of 1993, and a number of other measures. Those difficult, and often unpopular, decisions by Congresses and presidents made a difference.

A third reason we have avoided a fiscal reckoning is that interest rates have dropped significantly. Yes, yields on government debt have increased somewhat over the past few years. But even so, yields on ten-year Treasury notes and ten-year inflation-indexed Treasury securities are only about the same now as they were in 2007, when the debt-to-GDP ratio was roughly one-third what it is today. Empirical evidence suggests that the

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[2] Government budget data used in these remarks are from the Congressional Budget Office and apply to fiscal years.

[3] Spending for the major health care programs comprises outlays for Medicare (net of premiums), Medicaid, the Children's Health Insurance Program, and subsidies in the marketplaces established under the Affordable Care Act.

[4] See Alan Auerbach and Danny Yagan, "Robust Fiscal Stabilization," *Brookings Papers on Economic Activity*, Fall 2024.

increase in debt taken by itself would have pushed up interest rates by 1½ percentage points or more, so other factors have been pushing down rates to a considerable degree.[5]

In sum, the combination of a large peace dividend, policy changes that reduced deficits, and a net decline in interest rates have held off a reckoning with the burgeoning cost of the largest benefit programs.

However, those three factors have run their course. Defense spending has been close to 3 percent of GDP for most of the past few decades, and there is no reason to think that ratio will decline going forward. Policymakers have stopped responding to rising debt; no laws enacted in the past few decades have reduced deficits much. And interest rates are not likely to fall persistently much below their current levels. So, we cannot count on further improvements in the budget from those sources.

Moreover, we have seen in recent years that the US economy, and thus the government budget, are vulnerable to large negative shocks. Following a period of fairly stable macroeconomic conditions that became known as the "Great Moderation," we have experienced two major recessions—one resulting from the global financial crisis, and one from the COVID pandemic. In both downturns, the automatic fiscal stabilizers and discretionary countercyclical policies pushed up government borrowing sharply. During just seven years—2008 through 2012, and 2020 through 2021—the ratio of debt to GDP jumped by more than 60 percentage points. During the other thirteen years of the past two decades, debt increased just slightly faster than GDP.

The net result of all these forces is the situation you know: The federal government faces a fiscal challenge that is unprecedented in our history.[6]

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So, what can policy analysts do to address this fiscal challenge?

You might worry that we cannot do much because policy analysis often has limited influence on policy decisions and may have even less influence today than in the past. I understand those concerns, but I think that view is too pessimistic.

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[5] For evidence on the sensitivity of interest rates to the amount of government debt, see, among others, Christopher Gust and Arsenios Skaperdas, "Government Debt, Limited Foresight, and Longer-Term Interest Rates," Federal Reserve Board Finance and Economics Discussion Series Working Paper 2024-027.

[6] Many state and local governments face substantial fiscal challenges as well, and the recommendations I offer in these remarks can help analysts address those challenges too.

It is true that expert analysis always has to strive for its place at the policymaking table, that what experts view as technically ideal policies are rarely the ones enacted, and that much expert analysis involves laying the groundwork for future decisions rather than changing policy today. Analysts need to be patient, persistent, accepting of the second- or tenth-best policy from a technical perspective, and willing to do work that may not be sought by policymakers until later.

It is true as well that the current era presents additional obstacles to the influence of policy analysis. We are living in an era of intense populism, during which people who are part of established, elite groups, like this one, and who have advanced degrees, like many of us here, are viewed with suspicion by many other people. Populists worry that experts like us are more inclined to advance the interests of the elites than the interests of the broader public. And one consequence of the surge in populism is that not only are current *policies* markedly different in some ways from previous policies, so also the *process* of policy design and delivery seems different from what occurred previously.

All that said, though, I am confident that policy analysis has been an important influence on policy and will continue to be so. Despite the crowd jostling for seats at the policymaking table, I have seen the key role played at that table by expert analysis—including both analysis done just for a specific debate and analysis done years earlier that had a delayed policy impact. And for all of the recent changes in Washington, DC, I think that people who see no continuity in the policy process are misreading the situation. I know that my former colleagues at the Congressional Budget Office (CBO) are busy doing analysis requested by Congress, that economists at the Council of Economic Advisers are busy analyzing public issues and potential policy responses, and that staff at the Internal Revenue Service and the Office of Tax Analysis at the Treasury Department are busy implementing this year's changes in tax law. Policy analysis continues to matter.

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So, I ask again, what can policy analysts do to help address the federal government's fiscal challenge? Let me offer four recommendations.

First, we need to keep improving our analysis of the effects of policy changes.

Because the gap between federal spending and revenue is large, the policy changes needed to put the budget on a sustainable path will be large as well. CBO projects that maintaining the current debt-to-GDP ratio for the next 30 years would require increases in revenue and reductions in spending relative to current law totaling 1.6 percent of GDP on average. That is nearly $500 billion per year today, which is, for example, nearly one-fifth of revenue from the personal income tax. Maintaining the current ratio of debt to GDP for much longer, or lowering the ratio to its traditional range, would require much larger tax increases and spending cuts.

With policy changes of this magnitude ahead, it will be especially important for policymakers to be able to evaluate different potential changes based on the criteria they choose. This means that policy analysts will need to provide quantitative estimates of the effects of different policies not only on the federal budget but also on the overall size of the economy, the distribution of economic well-being among different stakeholders, and other measures of interest.

This mission is not new, of course. Over time, analysts have developed considerable evidence and built many tools to predict the effects of policy changes on various measures. As just one example, CBO estimated that last summer's reconciliation bill would have a small positive impact on total factor productivity, which the agency described as the net outcome of, on one hand, positive effects related to "domestic oil and gas production, physical infrastructure investment, investment in research and development, permitting requirements, and spectrum auctions," and, on the other hand, negative effects related to "changes in educational attainment and a reduction in the number of individuals working in [STEM]."[7] Think how much evidence-gathering and modelbuilding lies behind each element on those lists.

Still, much more can be done to provide future policymakers with better information. Glenn Hubbard, Zach Liscow, and I recently reviewed the evidence in seven areas of economic policy and concluded: "For all of the policy areas we examined, the evidence needed to quantify the likely effects of potential policy changes is less abundant than one would like or is missing altogether—and policymakers depend on the quantification of likely effects to make informed choices."

We concluded our review with the hope that analysts will build a larger evidence base in the years ahead. But more complex policy analysis requires more resources, and federal agencies face tight resource constraints, so engagement by external analysts will be crucial. Analysts in universities, think tanks, and the private sector will need to work with analysts in the federal government. We should all be grateful to the nonprofit and private-sector organizations that are supporting analysis the government does not.

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[7] See Congressional Budget Office, "H.R. 1, One Big Beautiful Bill Act (Dynamic Estimate)," June 2025.

My second recommendation for policy analysts is to communicate more effectively to policymakers and policy implementers.

This means, in part, staying away from technical language and detail. When Alice Rivlin started to build CBO 50 years ago, she wrote a memo to her colleagues that said: “Our reports should be lucidly written and comprehensible to noneconomists. … We should assume that the reader is an intelligent, well-informed person without formal training. … We should not be patronizing or talk down to the audience, but we should avoid jargon and explain all the concepts as we go along.”

That guidance is both valid and feasible. In my time as director of CBO, I sometimes said to my colleagues that the test of our reports was not how much we wrote but how much the readers understood. I believe firmly that good policy ideas can almost always be explained concisely and in plain English if one takes the time and care to do so.

Communicating more effectively also means using formats that are shorter than many reports that analysts like and less focused on text. We need to remember that policymakers and their aides have limited time and face many distractions. When I was at CBO, an informal survey suggested that Capitol Hill staffers went to our website most often on their phones while sitting in meetings—so although we thought of our publications as appearing on 8½ x11-inch pages, our readers were viewing them on 3x5-inch screens while other things were going on. That changes the optimal presentation.

CBO also started to produce infographics and chartbooks along with more-traditional reports. In one early case, the author of a sophisticated report was unhappy about turning her analysis “into pictures.” But then someone watching C-SPAN spotted the Senator who received that infographic carrying it around the Senate floor to show to other Senators. That is successful communication.

I should mention as well that good communication of policy analysis helps in educating the next generation of policy analysts, policymakers, and policy implementers. Those of us who are teaching courses in public policy rely on materials from the policy community.

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My third recommendation for policy analysts is to be open with policymakers about the limitations and uncertainty of our analyses.

I understand that stressing our shortcomings may not seem like an ideal strategy. As I have noted, experts need to keep striving for our place at the policymaking table, and since many others at that table understand policies less well than we do, emphasizing what we do not know may appear counterproductive. Indeed, a 2023 analysis of research articles from the journal *Science* found that the use of hedges expressing doubt and uncertainty had decreased significantly over the preceding 25 years—a finding that the authors attributed to researchers' desire to promote their work by sounding more confident about it.[8]

Moreover, in my time at CBO, I found that conveying the uncertainty of our estimates was quite difficult. The difficulty arose in part because quantifying uncertainty often required a lot of additional modeling beyond what was needed to generate the basic estimate, and the additional modeling depended on confidence intervals of parameters for which there was little evidence. The difficulty arose also because policymakers often found the additional information confusing—a problem that was exacerbated by people who distorted the information for their advantage. When we explained that our estimate of some effect was X, but the actual outcome could be from half-X to twice-X, people who hoped for a small effect would point to the half-X figure, people who hoped for a large effect would point to the twice-X figure, and others would be puzzled or simply focus on X despite all of our further work. In addition, policymakers who took the uncertainty of CBO's estimates seriously were sometimes frustrated that we did not offer many ideas for how they might respond to that uncertainty.

So, I fully understand that admitting the limitations and uncertainty of our analyses has disadvantages. But it also has crucial advantages. For one, the more open we are about our limitations, the more receptive we will probably be to learning new perspectives that help us overcome those limitations. For another, the more open we are about our limitations, the less surprising it may be to policymakers when we turn out to be wrong—and I think that experts can be more persuasive ultimately about what we do know by acknowledging what we do not. And lastly, in an era of populist skepticism about experts, demonstrating an appropriate degree of humility might help us to make more friends.

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My fourth and final recommendation for policy analysts is to do our best to separate our personal policy preferences from our analytic expertise.

[8] See Mingxin Yao, Ying Wei, and Huiyu Wang, "Promoting Research by Reducing Uncertainty in Academic Writing: A Large-Scale Diachronic Case Study on Hedging in *Science* Research Articles across 25 Years," *Scientometrics*, May 2023.

As you know, CBO never makes policy recommendations. That stance has always seemed appropriate to me because policy choices depend *both* on the likely outcomes of different potential policies *and* on value judgments about which outcomes are preferable. CBO's analysts have significant expertise about the likely outcomes of different policies, and I am pleased that Congress makes use of that expertise. But CBO's analysts have no expertise about value judgments, and their personal preferences on outcomes deserve no special weight, so policy choices are appropriately left to elected leaders.

I had the same reaction to a cartoon in *The New Yorker* magazine several years ago. The cartoon showed a man standing up in the passenger section of an airliner and saying, as best I recall: "Who thinks the pilot has lost touch with those of us here in the back of the plane, and I should go up and fly the plane instead?" Well, of course, that would be absurd; planes need to be flown by expert pilots. But pilots do not decide where and when planes fly. Those choices should be made by passengers and others who are affected by plane flights, and that is what happens, with people's preferences collected and mediated through private markets and government regulations.

A similar logic applies to public policy. We policy analysts make a crucial contribution by using our expertise to understand and explain the consequences of different policy approaches. We have not been empowered, and should not be empowered, to choose among consequences on behalf of our fellow citizens. Therefore, it is important for us to distinguish as clearly as possible between the use of our technocratic skills as analysts on one hand and the exercise of our rights and responsibilities as citizens on the other.

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Let me close with a more general thought about public policy.

This year has been difficult for many people who have devoted their careers to policy analysis. Many analysts have lost their jobs in the federal government, at nonprofit organizations supported by government funds, and in private firms doing government projects. Many others fear losing their jobs with little warning. And many analysts have watched their expert work over many years be casually cast aside. My heart goes out to the people who have been affected.

But I am *not* discouraged about the future of public policy. I see in this room, and throughout the National Tax Association, dedicated and knowledgeable individuals. You are truly "advancing the theory and practice of public finance," as the NTA describes its role. Your expertise, integrity, and hard work are making a positive difference, and I am confident you will continue to make a positive difference.

I also gain confidence in the future by teaching the next generation of policy analysts, policymakers, and policy implementers, and I am grateful for that opportunity. The students I know at Harvard's Kennedy School of Government are talented, energetic, eager to learn, seeking role models like you, and committed to helping make this country and the world better for all of us. So, I presume, are students at other policy schools and law schools and people who are joining the policy community without those degrees.

Through the work we do, and the work of principled and effective colleagues who will join us over time, public policy has a bright future. Thank you very much.