

Committee on Oversight and Accountability, U.S. House of Representatives
Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs

Testimony of E.J. Antoni

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Hearing on “Bidenomics: A Perfect Storm of Spending, Debt, and Inflation”

2247 Rayburn House Office Building

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Chairman Fallon, Ranking Member Bush, members of the subcommittee: thank you for the invitation to discuss with you today the impact of federal spending, debt, and inflation on the American people and various aspects of our economy. I am a public finance economist at the Heritage Foundation, where I research fiscal and monetary policy with a particular focus on the Federal Reserve. I am also a senior fellow at the Committee to Unleash Prosperity.

The last three years of public policy have had a major and demonstrable impact on both the federal budget and the average American family budget. Prior to President Joe Biden's inauguration, inflation was below the Federal Reserve's 2.0 percent target¹ and the economy was growing at a \$1.5 trillion annualized rate.² Just 18 months later, the policies of the Biden administration, the spending approved by Congress, and the extraordinary measures of the Federal Reserve resulted in the highest inflation rates in four decades,³ and two consecutive quarters of negative economic growth, as measured by both real (inflation-adjusted) gross domestic product (GDP) and real gross domestic output (average of GDP and gross domestic income).⁴ This has been followed by persistently high inflation and anemic economic growth.

First Link in the Chain: Government Spending

The large increases in government spending over the last three years far outpaced the growth in revenues, resulting in deficits of \$2.7 trillion, \$1.4 trillion, and \$1.6 trillion in fiscal years 2021, 2022, and 2023, respectively, with the last month of 2023 based on current estimates. The deficit is projected to grow to \$1.9 trillion in fiscal year 2024.⁵ These deficits have occurred at a time when federal tax receipts were at or near record highs by multiple measurements including both in nominal and real dollars, as a percent of income, and as a percentage of GDP.⁶

Because spending grew so much faster than tax revenue the last three years, the Treasury Department increased its borrowing by \$9.1 trillion from the first quarter of 2020 through the second quarter of 2023.⁷ This increased demand for loanable funds would have drastically increased the price (interest rate) of Treasury borrowing, and so the Federal Reserve increased its purchases of government securities to increase the quantity of money and push down interest rates. From the end of February 2020 to mid-April 2022, the assets of the Federal Reserve grew by \$4.8 trillion, or 116 percent.⁸

While the Federal Reserve succeeded in reducing the borrowing costs of the Treasury Department in the short term, it also set off the highest inflation in decades, created systemic interest rate risk, encouraged consumers and businesses alike to take on excessive debt loads, and set the stage for substantial interest rate increases in the near future. Thus, a host of economic ills besetting the nation today began with excessive government spending over the last three years.

The Hidden Tax of Inflation

From the end of the Great Recession until the Biden administration, inflation was an annualized 1.8 percent, as seen in Figure 1. This period spanned nearly all eight years of the Obama presidency and the entire Trump presidency. This low and steady inflation rate quickly accelerated in the first 18 months of the Biden administration to an annualized 8.5 percent. Since June 2022, inflation has been at an annualized 3.3 percent and has accelerated in recent months. The monthly change in the consumer price

¹ [Personal Income | U.S. Bureau of Economic Analysis \(BEA\)](#)

² [Gross Domestic Product | U.S. Bureau of Economic Analysis \(BEA\)](#)

³ [Personal Income | U.S. Bureau of Economic Analysis \(BEA\)](#)

⁴ [Gross Domestic Product | U.S. Bureau of Economic Analysis \(BEA\)](#)

⁵ [Monthly Treasury Statement \(MTS\) | U.S. Treasury Fiscal Data](#)

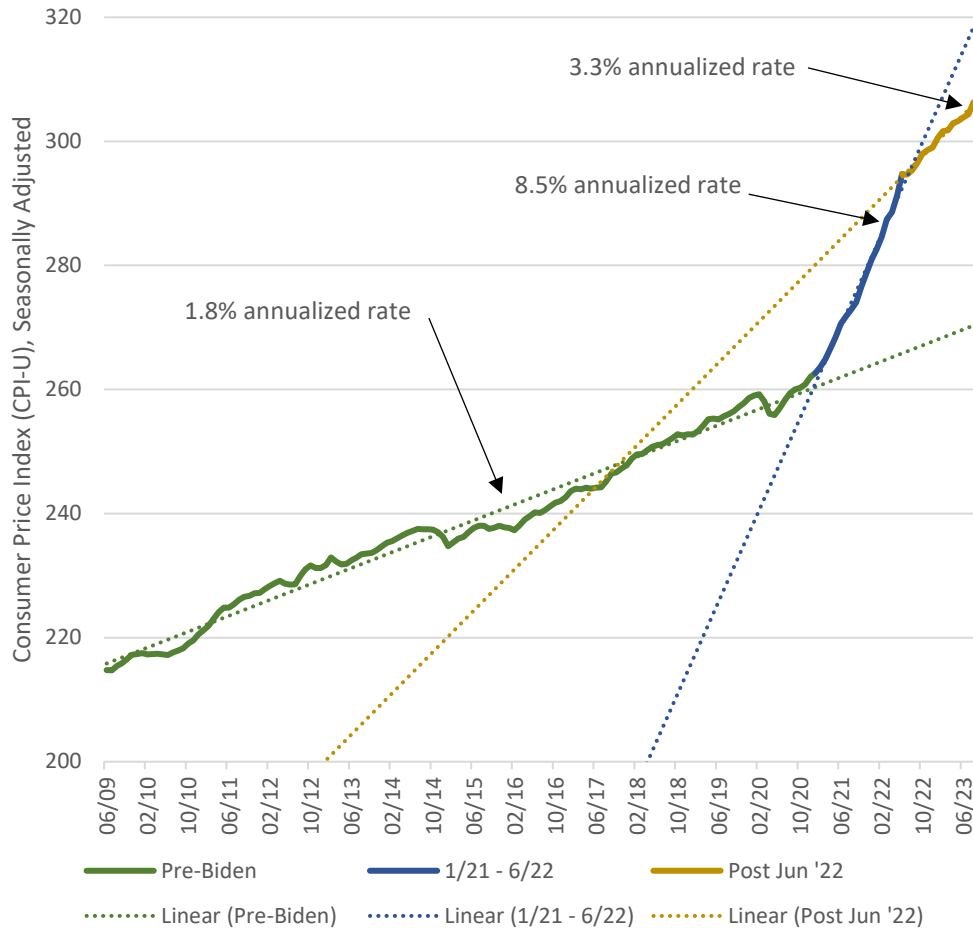
⁶ [Gross Domestic Product | U.S. Bureau of Economic Analysis \(BEA\)](#)

⁷ [Treasury Bulletin](#)

⁸ [Federal Reserve Balance Sheet: Factors Affecting Reserve Balances - H.4.1 - Release Dates](#)

index over the last year has clearly indicated that inflation is not trending towards the Federal Reserve's 2.0 percent target, let alone the 1.8 percent annualized rate that existed before the Biden administration. That is not surprising given the elevated levels of government spending under Mr. Biden. The latest monthly inflation rate of 0.6 percent is an annualized rate of 7.8 percent, a pace at which prices will double in less than a decade.

Figure 1:



Source: Bureau of Labor Statistics

Inflation is a devaluing of the federal reserve note, commonly called the dollar. This directly affects one of the functions of money which is that of a universal measuring instrument. Inflation effectively shrinks that measuring instrument so that more units are required to achieve the same value as before. It is like shrinking a yardstick from 36 to 30 inches, so that 1,112 shrunken yardsticks are needed to cover a mile while only 1,760 were needed previously. Inflation allows debtors to repay loans in devalued money. Thus, the hidden tax of inflation has reduced the debt load of the federal government by about 16.6 percent on current debt that was issued before January 2021. Those who bought medium- and long-term government debt before January 2021 which has not yet matured have lost a substantial part of their investment in terms of real value.

Before proceeding, it is worth dispelling the myth that anyone other than the government can cause inflation. Just as in the 1970s, many groups were scapegoated for the devaluation of the dollar and those same tropes are being used again. Workers and unions demanding higher wages, businesses seeking

higher profits, and consumers spending too much are all economic fallacies regarding the cause of inflation. For example, costs to consumers have risen 16.6 percent⁹ on a seasonally adjusted basis since January 2021, but costs to businesses have risen 17.1 percent¹⁰ over the same period. Businesses have not even passed on all their cost increases to consumers, let alone increased selling prices beyond the increase in their own prices. The government alone controls the money supply and is therefore solely responsible for its management or mismanagement. Inflation is solely caused by excessive creation of money by the government because no one else has that power.

Inflation is fundamentally a tax, but a hidden tax. It is a transfer of wealth from holders of dollars to the government. It is the mechanism by which the federal government has transferred trillions of dollars from the American people to itself by devaluing the currency.

The size of this wealth transfer can be measured in multiple ways, all of which illustrate both the reduced value of the dollar and the sheer size of the wealth transfer from the American people to the government. From the fourth quarter of 2020 to the second quarter of 2023, household net wealth grew by a nominal \$23 trillion, or 17.6 percent, but is roughly flat in real terms.¹¹ Nearly all the net household wealth generated during the Biden administration has been inflation, not a real increase in wealth.

The shocking reality is that the average American worker today pays more in the hidden tax of inflation on his hourly wages than federal income tax. Since Mr. Biden took office, average hourly wages have increased \$3.90¹² in nominal terms but fallen \$0.92¹³ in real terms, meaning the difference between nominal and real average hourly earnings is \$4.82, as seen in Figure 2. Given the Internal Revenue Service's 2023 tax inflation adjustments to the standard deduction and tax brackets,¹⁴ an average American worker earning \$60,497 annually will pay \$5,570 in federal income tax, or about \$3.11 on his hourly earnings. That is less than the \$4.82 in lost purchasing power on his hourly earnings. In other words, the entirety of the \$3.90 an hour in wage gains since January 2021, plus another \$0.92 an hour, are currently confiscated through the hidden tax of inflation.

⁹ [CPI Home : U.S. Bureau of Labor Statistics \(bls.gov\)](#)

¹⁰ [Producer Price Index Home : U.S. Bureau of Labor Statistics \(bls.gov\)](#)

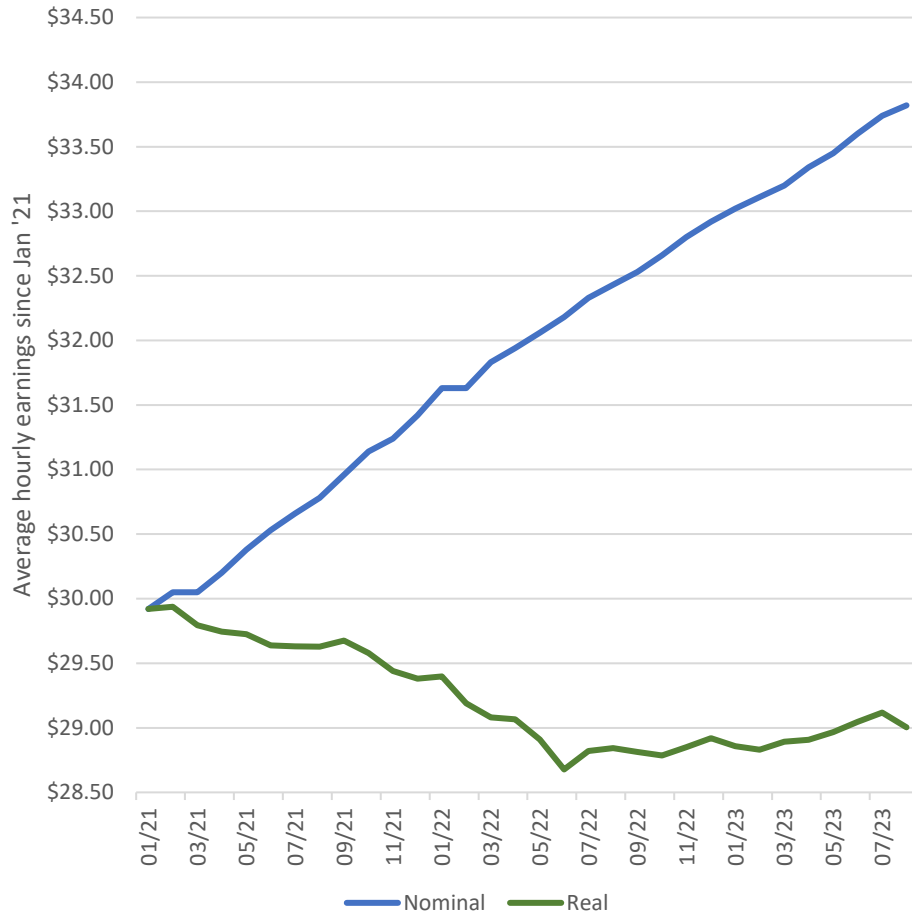
¹¹ [The Fed - Financial Accounts of the United States - Z.1 - Current Release \(federalreserve.gov\)](#)

¹² [Employment Situation - 2023 M08 Results \(bls.gov\)](#)

¹³ [CPI Home : U.S. Bureau of Labor Statistics \(bls.gov\)](#)

¹⁴ [IRS provides tax inflation adjustments for tax year 2023 | Internal Revenue Service](#)

Figure 2



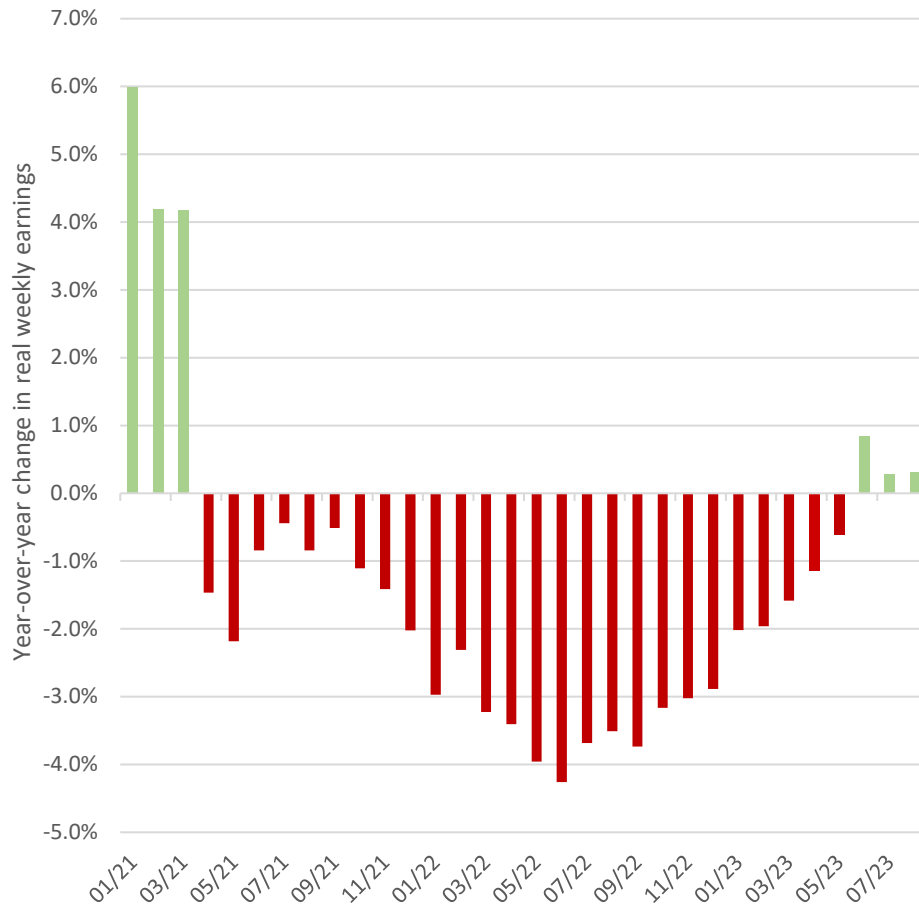
Source: Bureau of Labor Statistics

Figure 3 shows that in only the first two months of Mr. Biden’s presidency and in the last three months has the annual increase in nominal weekly earnings¹⁵ outpaced inflation.¹⁶ Over the 26 months in between, the annual inflation rate exceeded the increase in nominal weekly earnings, a new record. Equally troubling is the monthly decline in real hourly and weekly earnings in both July and August. Real average weekly earnings today are about 4.7 percent below the level when Mr. Biden took office, as seen in Figure 4.

¹⁵ [Employment Situation - 2023 M08 Results \(bls.gov\)](https://www.bls.gov/news.release/emp/20230801.pdf)

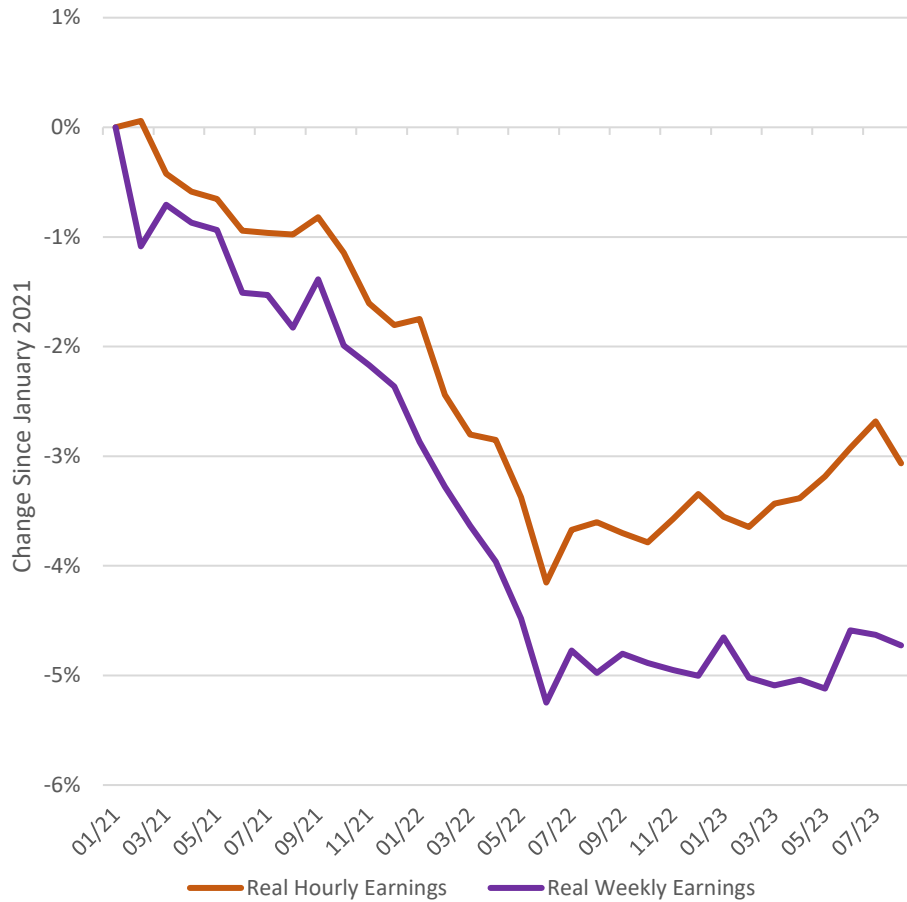
¹⁶ [CPI Home : U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/news.release/cpi/20230801.pdf)

Figure 3



Source: Bureau of Labor Statistics

Figure 4



Source: Bureau of Labor Statistics

For the average American worker, hourly pay has increased 13.0% under Mr. Biden – ordinarily a healthy increase in less than three years. But because prices have risen faster than wages and businesses have reduced hours amidst a slowing economy, real weekly earnings are even lower.

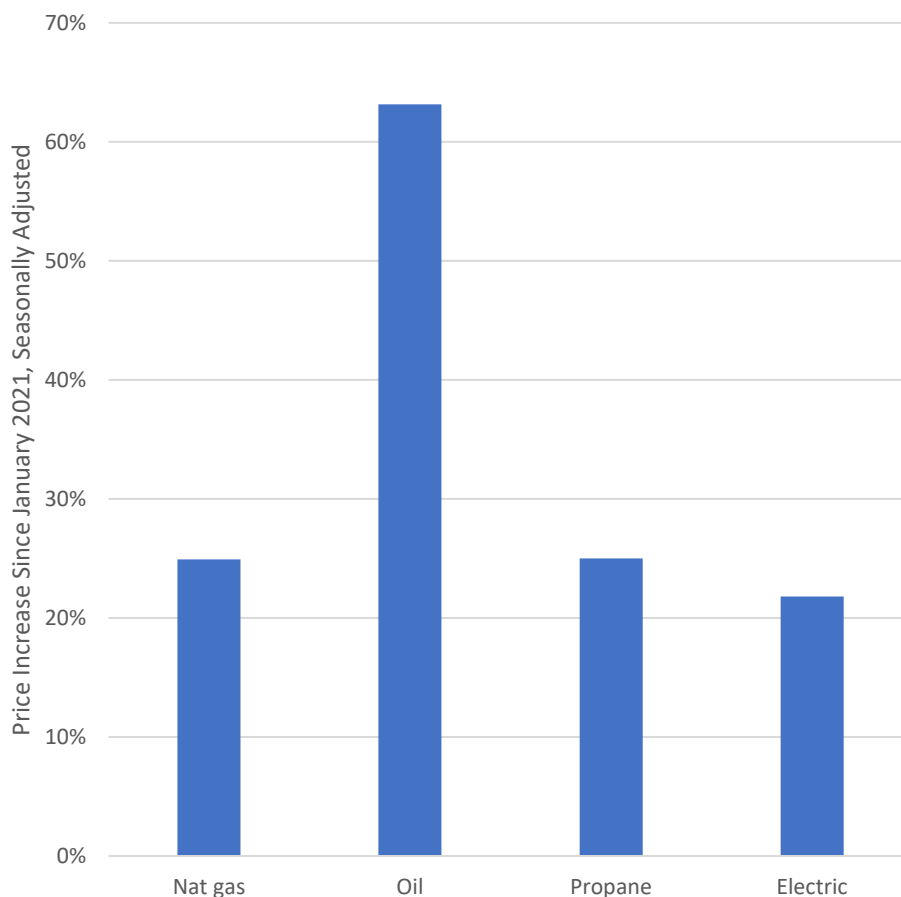
For the typical American family with two people working, weekly paychecks have grown an average of about \$230, but can buy about \$100 less today compared to January 2021. That is a loss of annual purchasing power of over \$5,100.

Retired seniors, who are commonly on fixed incomes, often fare even worse during periods of rapid inflation because their incomes adjust slower to inflation than those of people activity working, if their incomes adjust at all. In 2022, those on fixed incomes lost 4 percent of their incomes on average before cost-of-living adjustments began either at the end of December 2022 or the beginning of January 2023. That 4 percent loss is not rectified by the cost-of-living adjustment, however, since it only affects future payments and is not retroactive. The loss is permanent.

Besides elevated levels of government spending, other Biden admin policies have increased costs, but these are not inflationary in the strictest sense of the word. Energy prices have risen sharply under the Biden administration so that it will cost, on average, 25 percent more to heat a home this winter compared to when Mr. Biden took office due to increased fuel prices (Figure 5). Biden administration policies have

reduced domestic energy output and that decrease in supply has increased prices.¹⁷ While energy affects countless other products and services and thereby impacts their costs, this is distinct from a devaluation of the currency. Likewise, regulations from the Biden administration have added thousands of dollars in costs per household,¹⁸ but this is not strictly inflationary. That difference notwithstanding, both inflation and deadweight losses from burdensome regulation make Americans worse off.

Figure 5



Source: Bureau of Labor Statistics

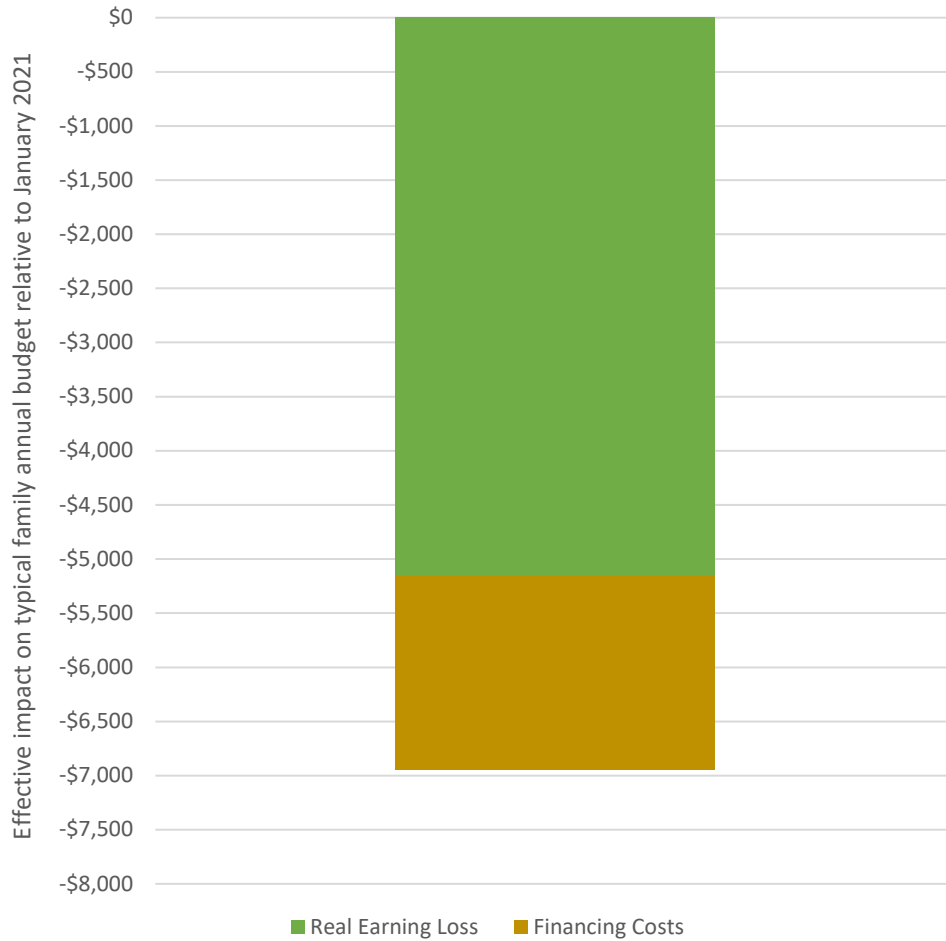
Response to Inflation: Higher Interest Rates

Four-decade-high inflation rates prompted the Federal Reserve to belatedly raise interest rates which has increased borrowing costs for consumers and businesses alike. I estimate higher interest rates today are costing the typical American family about \$1,800 in additional financing costs, relative to January 2021. In combination with the approximately \$5,100 loss in annual purchasing power, these two factors have effectively reduced the typical American family's annual income by nearly \$7,000 (Figure 5). This includes financing costs on housing debt, student loans, auto loans, and credit cards. It is worth emphasizing that this figure is just an average. While a family with only fixed-interest-rate debt at low interest rates has been unaffected, some families are utilizing credit, particularly revolving credit, at much higher rates than others, and are thereby shouldering much more of the burden of higher interest rates.

¹⁷ [221004_CTUP_TheCostOfBidensWarOnOilAndGas.pdf \(committeetounleashprosperity.com\)](#)

¹⁸ [CTUP_BurdensBack_ComparingRegulatoryCosts.pdf \(committeetounleashprosperity.com\)](#)

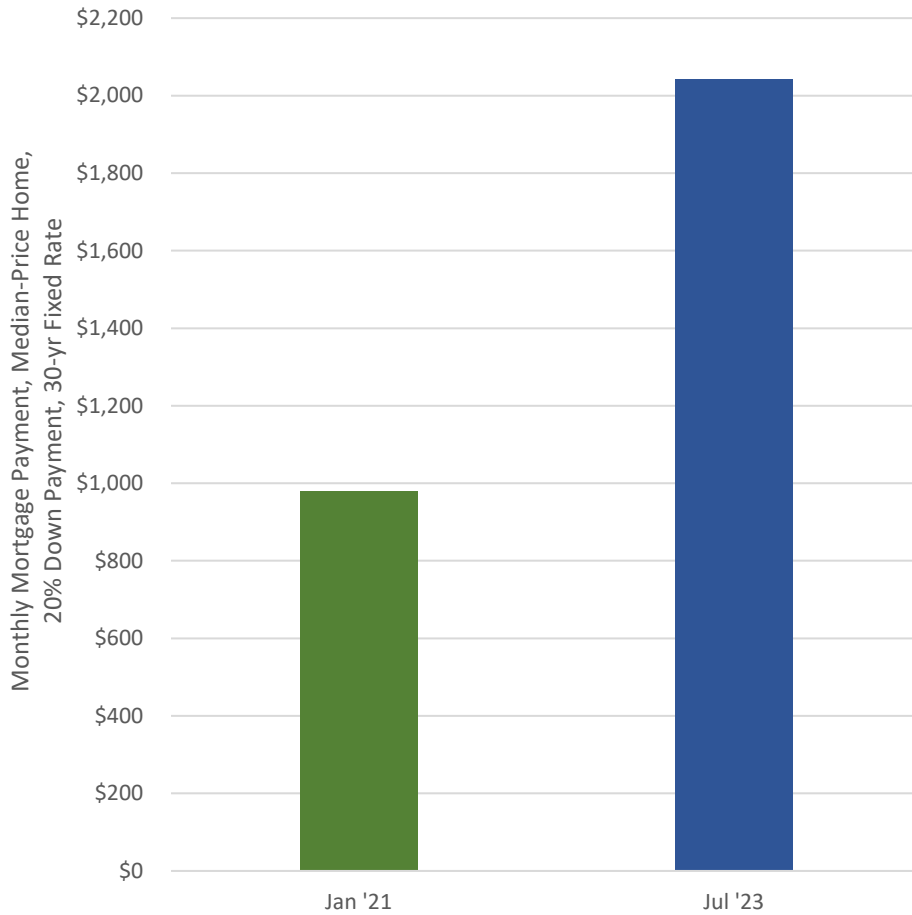
Figure 6



Sources: Bureau of Labor Statistics, Federal Reserve Banks of New York and St. Louis, Dr. EJ Antoni

Both lower real earnings, which have resulted in larger consumer debt loads, and higher interest rates have resulted in higher financing costs. For example, the monthly mortgage payment on a median price home was \$979 in January 2021, but is now \$2,042 today, a 109 percent increase for the same house (Figure 6). This will cost an American family an additional \$12,752 per year, of \$382,551 over a 30-year mortgage.

Figure 7



Sources: Freddie Mac, Redfin, Dr. EJ Antoni

Rising interest rates have also increased borrowing costs for the Treasury Department, but maneuvers by the Federal Reserve have succeeded in shifting some of this cost to private borrowers and lenders. As such, the impact of rising interest rates on federal debt is covered in the section title “Additional Costs of Monetary Policy Financing Fiscal Deficits.”

Interest Rate Risk

The sheer volume of government debt being issued at such low interest rates over the last three years was unprecedented and thereby created unprecedented challenges to financial markets, many of which are being realized only this year. Assured by promises from the Treasury Department and the Federal Reserve that inflation was transitory and interest rates would remain near zero for several years, many financial institutions acquired large volumes of low-yielding Treasury securities. Even without assurances from public officials, financial institutions had essentially no alternatives to low-yielding Treasuries because interest rates were so deeply depressed by the Federal Reserve’s loose monetary policy.

This created systemic interest rate risk in the banking system, even without any default risk. Financial institutions without interest rate hedges suffered major mark-to-market losses when interest rates rose. From March 2022 to March 2023, the unrealized losses at FDIC-insured banks were \$2.2 trillion and have grown since.¹⁹ Those losses were partly realized when low-yielding Treasury securities were sold by some

¹⁹ [The Fed’s Monetary Tightening and the Risk Levels of US Banks | NBER](#)

regional banks in March 2023 to pay depositors, ultimately resulting in the collapse of several institutions, like Silicon Valley Bank. It is no exaggeration to say that excessive government spending was the initial event that ultimately led to systemic problems in the banking sector, problems which have not yet been resolved.

The Federal Reserve faces similar mark-to-market losses, estimated at over \$1 trillion.²⁰ These losses are unlikely to be realized, however, since the current pace of reduction of securities held outright by the Federal Reserve still requires purchases of new debt to replace some of the maturing debt on the Federal Reserve's balance sheet. The result is that existing debt does not typically need to be sold before maturity. If the rate of decline of securities held outright should accelerate or if the composition of the balance sheet should quickly change to longer-term maturities, then these losses could potentially be realized.

Additional Costs of Monetary Policy Financing Fiscal Deficits

The Board of Governors of the Federal Reserve System could observe in March 2021 that the quantity of money was excessive and still growing. It was at this time that the Federal Reserve Bank of New York had to quickly and vastly increase its reverse repurchase agreement operations to effectively sterilize excess liquidity, similar to the policy of paying interest on reserves. Within three months, reverse repurchase operations had expanded over \$1 trillion,²¹ even as the Federal Reserve continued expanding its balance sheet.

This apparent contradiction deserves explanation since the Federal Reserve was simultaneously adding and subtracting large amounts of liquidity to and from financial markets. The purchase of government securities by the Federal Reserve increased the demand for those securities and thereby drove down their yields, providing lower interest rates at which the Treasury Department could borrow. It also increased the money supply. As those funds worked their way through the banking system, those funds multiplied through the process of fractional reserve banking. Because the multiplication of dollars in the banking system creates more money and is more inflationary than just the purchase of government securities, the Federal Reserve took extraordinary measures to reduce the former while continuing the latter.

Through its interest on reserve policy and reverse repurchase agreement operations, the Federal Reserve succeeded in sterilizing over \$6 trillion²² by the Spring of 2023, but at the cost of \$800 million a day in interest (Figure 8). This increased expense not only eliminated all remittances to the Treasury, thereby reducing revenue, but has resulted in cumulative deferred assets (losses) of over \$100 billion (Figure 9).²³ However, this is only part of the cost of providing trillions of dollars of financing for government deficits.

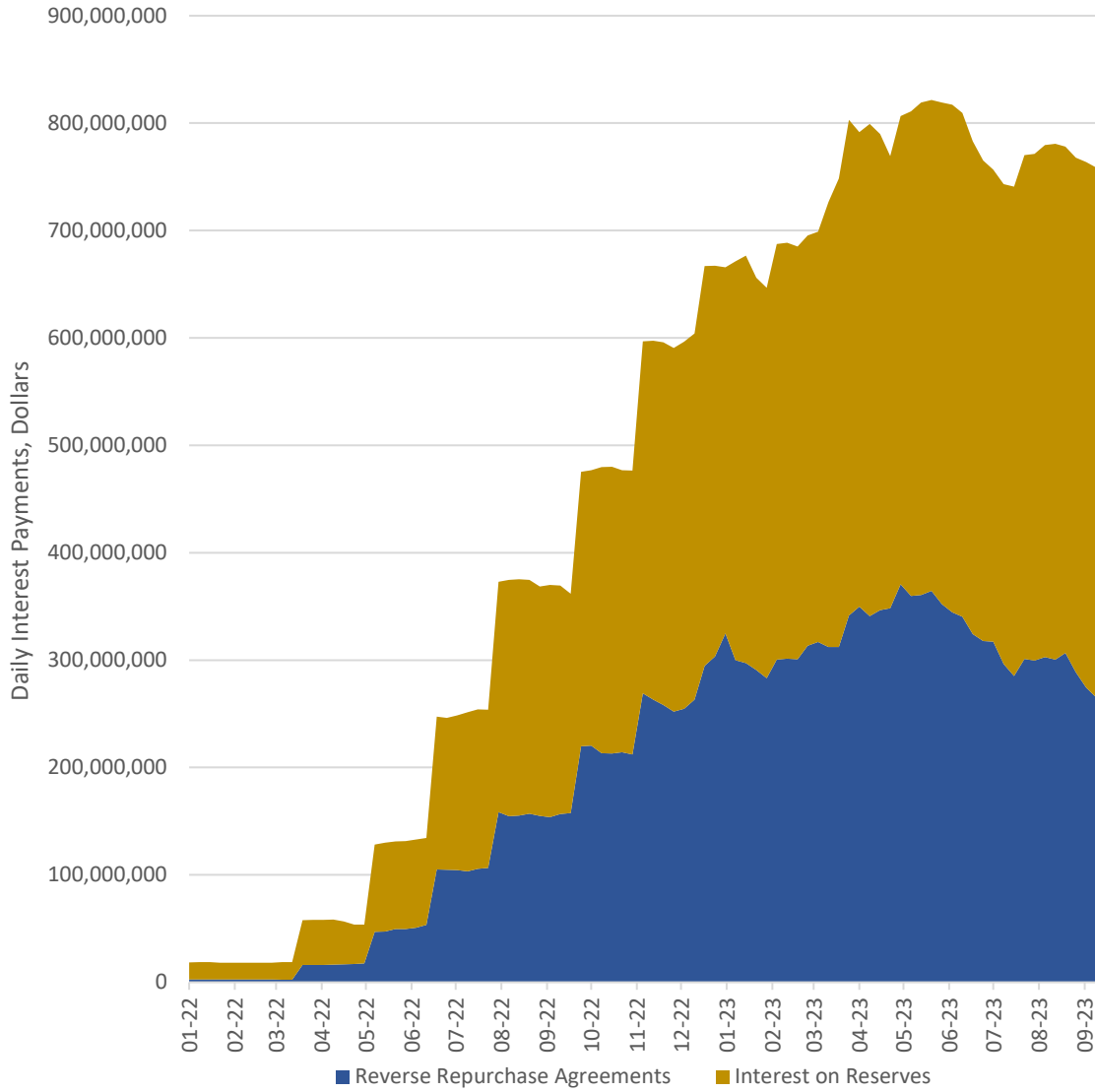
²⁰ [Federal Reserve Banks Combined Quarterly Financial Report \(Unaudited\) - June 30, 2023](#)

²¹ [Federal Reserve Balance Sheet: Factors Affecting Reserve Balances - H.4.1 - Release Dates](#)

²² [Federal Reserve Balance Sheet: Factors Affecting Reserve Balances - H.4.1 - Release Dates](#)

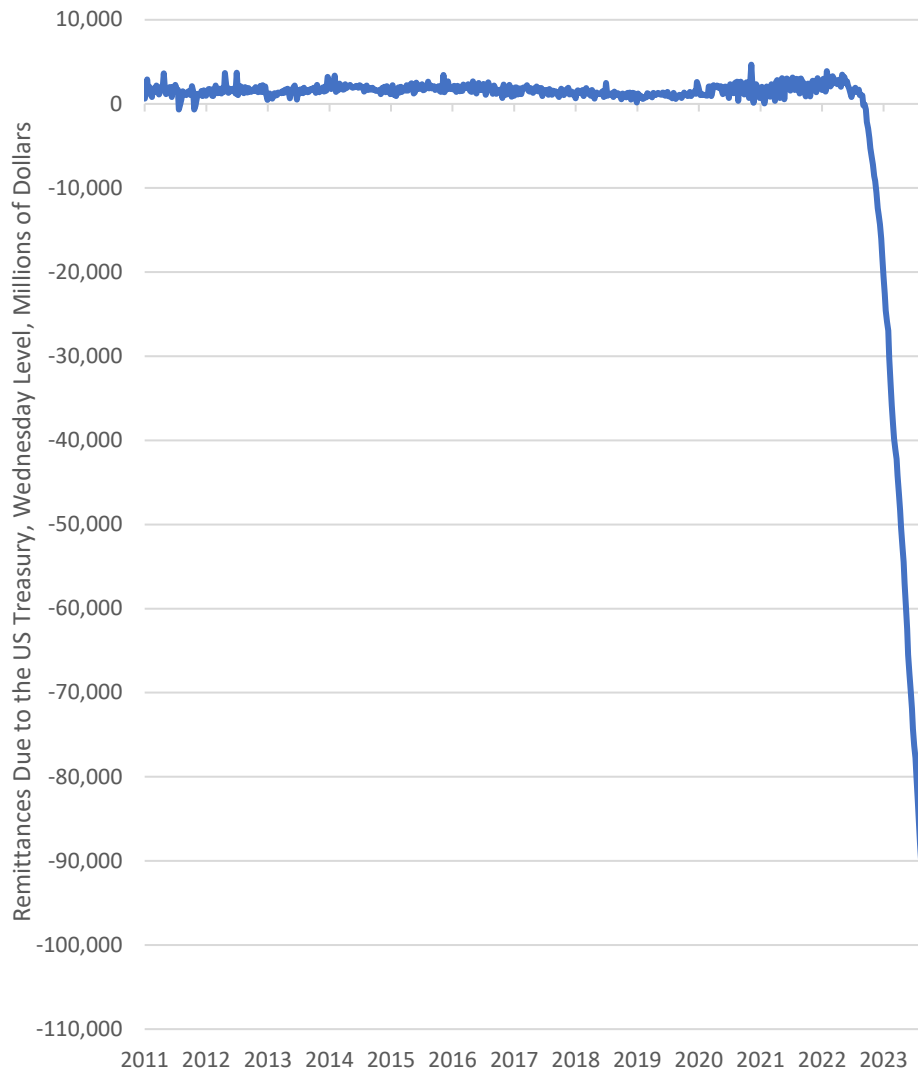
²³ [Federal Reserve Balance Sheet: Factors Affecting Reserve Balances - H.4.1 - Release Dates](#)

Figure 8



Source: Board of Governors of the Federal Reserve System

Figure 9



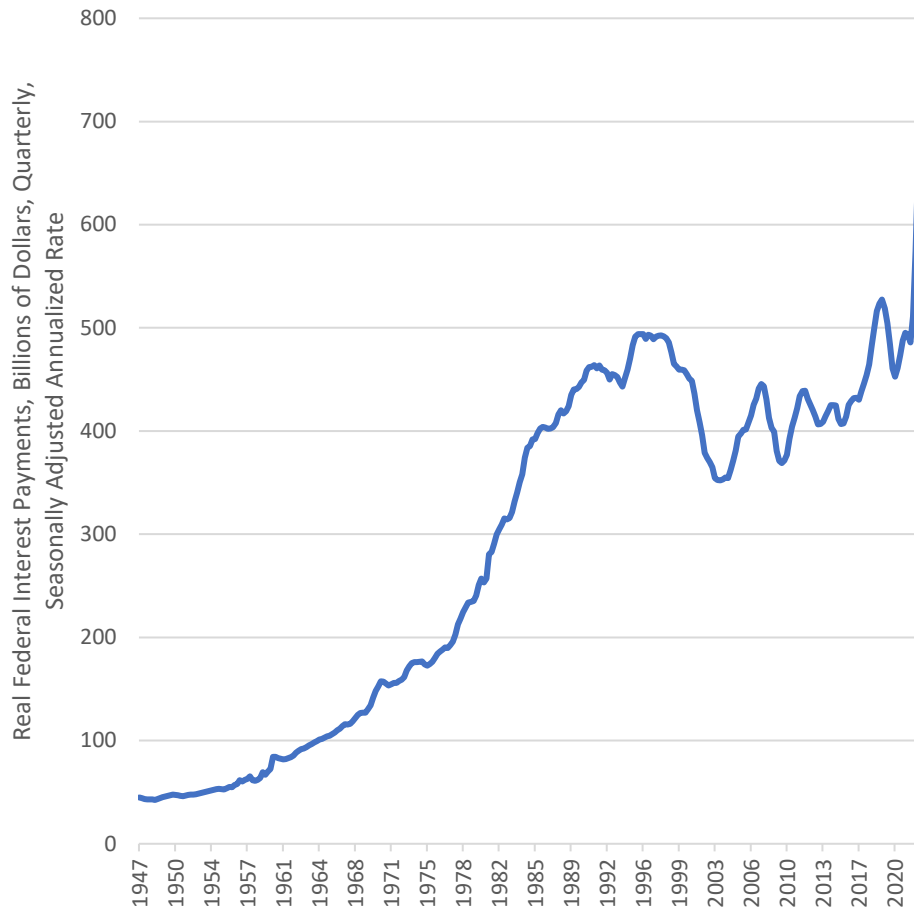
Source: Board of Governors of the Federal Reserve System

Sterilizing about a quarter of the money supply did reduce inflation, but it also starved the private economy of capital, increasing financing costs for businesses and consumers alike. That throttling of liquidity has reduced economic growth and, therefore, tax revenue, exacerbating the deficit. Conversely, maintaining artificially large volumes of government securities held outright allows the Federal Reserve to keep interest rates on Treasury issuances low relative to the private market, which is effectively subsidizing government borrowing. Even with this attempt at interest rate control, interest on the debt is rising at an unsustainable rate, reaching an annualized \$970 billion in the second quarter of 2023. Even after adjusting for inflation, the increase is still clearly unsustainable, having reached an annualized \$738 billion in 2012 dollars (Figure 10).²⁴ Gross interest on the debt is already the third largest line item in the Fiscal Service’s monthly Treasury statement.²⁵

²⁴ [Gross Domestic Product | U.S. Bureau of Economic Analysis \(BEA\)](#)

²⁵ [Monthly Treasury Statement \(MTS\) | U.S. Treasury Fiscal Data](#)

Figure 10



Source: Bureau of Economic Analysis

The loss of 17 percent of the dollar's value in less than three years, the clearly unsustainable fiscal path of the United States, and the unprecedented confiscation of foreign-owned dollar reserve assets by the Biden administration, has renewed calls to stop using the dollar as the reserve currency of the world. Should the dollar lose its reserve currency status, it is difficult to overstate the negative impact on the American economy and the worth of the dollar. The use of the dollar as the reserve currency of the world has created a large demand for dollars outside of the United States for the last seven decades, allowing for the exportation of deficits and inflation. If foreigners no longer want to hold dollars, whether as reserves, for international trade, or other reasons, then 70 years of deficits will all come back to the United States. The best word to describe such a scenario where so large a quantity of dollars is added to the United States economy in a short period of time is hyperinflation. Thus, there are economic and national security reasons to preserve the dollar's stability and return federal finances to a sustainable trajectory.

Looking Forward and Policy Recommendations

Even without any additional interest rate increases, the fiscal situation of the federal government is going to get much worse very quickly. Nearly \$10 trillion of debt will be issued at relatively high interest rates over the next year alone. That is a combination of about \$2 trillion in new debt issued by the Treasury Department to finance the growing budget deficit, and about \$8 trillion in existing debt that will be rolled over at higher interest rates.

This leaves the Congress, President, Treasury Department, and Federal Reserve with only a few options. First, if the status quo of government spending and borrowing continues, interest payments will increase at an increasing rate. If interest rates remain at current levels, prices will continue rising as inflation finances the federal deficit. That would eventually lead to a hyperinflation scenario if allowed to continue long enough, a form of implicit default.

Second, the Federal Reserve could respond by further tightening monetary policy as the deficit and debt continue to grow. This will further increase the deficit's rate of growth by increasing borrowing costs to the Treasury Department. The increased cost will necessitate higher taxes, slowing economic growth and reducing the future tax base. Like the first scenario, this is a downward spiral that ends in explicit, instead of implicit, default.

Third, and most preferably, Congress can reduce spending and alleviate the political pressure on the Federal Reserve to finance multi-trillion-dollar deficits. Balancing the budget through reduced spending would stop the growth of the debt, reduce the annual demand for loanable funds by about \$2 trillion, and bring down interest rates throughout the private economy, spurring economic growth.

It is difficult to overstate how urgent the problem of federal spending has become. Since the suspension of the debt ceiling in June 2023, the Treasury Department has borrowed over \$1 trillion, with about three-quarters of that money coming from a decline in reverse repurchase agreements.²⁶ Roughly half that money is now in the Treasury General Account,²⁷ but the rest has been spent and is now working its way through the banking system where it will multiply and further fuel inflation. It is no surprise, therefore, that inflation has reaccelerated in July and August 2023, which is increasing interest rates on securities. As seen in Figure 10, interest on the debt is rising at the fastest rate on record, even after adjusting for inflation.

Congress needs to immediately take action to prevent further inflation and financial pain to the American people. Reducing outlays is of primary importance here. Government spending needs to be cut as quickly as possible to balance the budget. The bipartisan budget reform for fiscal year 1998 is just one example of sensible changes which helped reduce federal outlays, grow the economy, and keep both interest and inflation rates relatively low.

Additionally, the "dual mandate" of the Federal Reserve should be removed, allowing the central bank to focus exclusively on price stability. This eliminates the political cover of ostensibly promoting full employment when the Federal Reserve is actually financing fiscal deficits through the hidden tax of inflation.

²⁶ [Federal Reserve Balance Sheet: Factors Affecting Reserve Balances - H.4.1 - Release Dates](#)

²⁷ [Federal Reserve Balance Sheet: Factors Affecting Reserve Balances - H.4.1 - Release Dates](#)