U.S. Senate Special Committee on Aging

Hearing on:

“Making Washington Work for Seniors: Fighting to End Inflation and Achieve Fiscal Sanity”

Testimony of E.J. Antoni

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Room 106 Dirksen Senate Office Building

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Chairmen Scott, Ranking Member Gillibrand, members of the committee: thank you for the invitation to discuss with you today the difficulties faced by seniors stemming from the last four years of excessive government spending and its subsequent inflation. I am a public finance economist and the Richard F. Aster fellow at the Heritage Foundation, where I research fiscal and monetary policy. I am also a senior fellow at Unleash Prosperity.

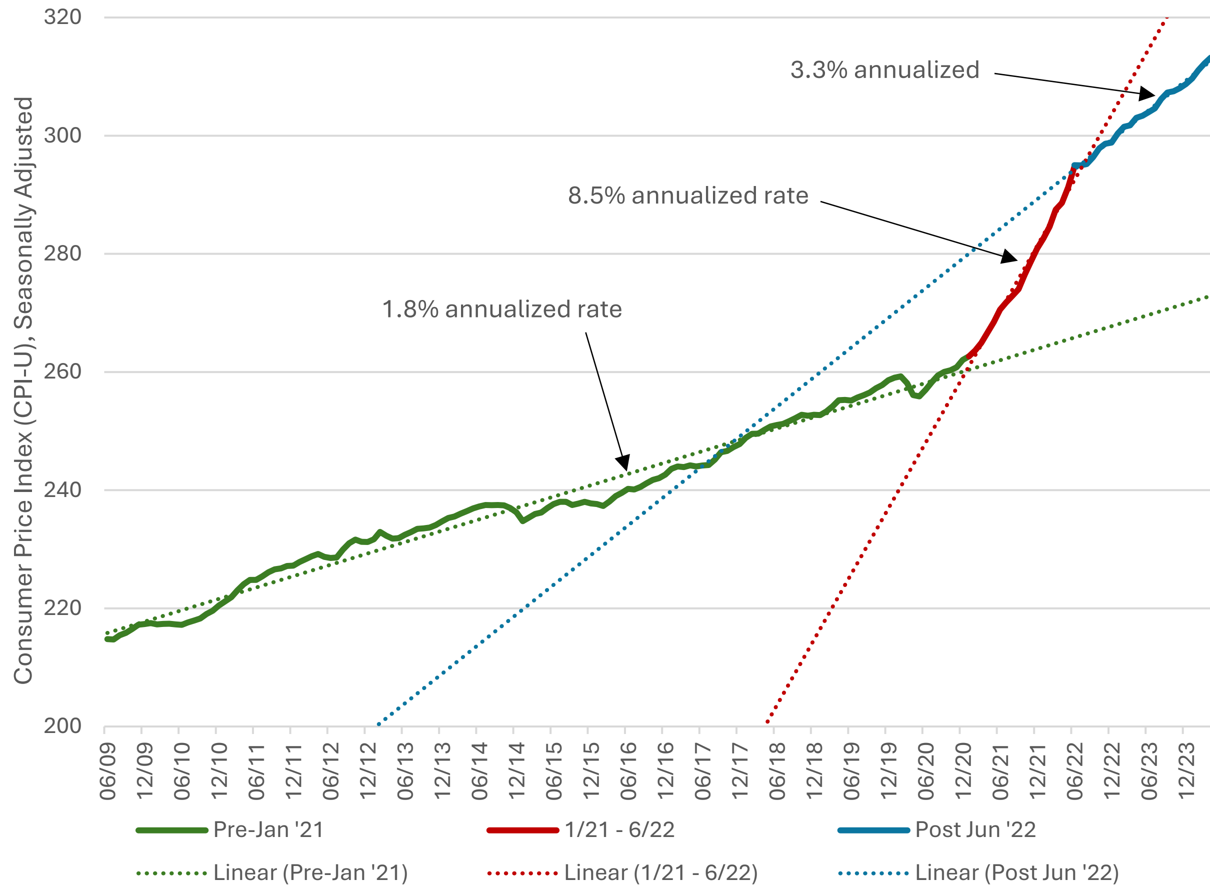
Four Years of Cost Increases

Since January 2021, American families and businesses have faced sharp increases in prices, due primarily to the declining value of the US dollar.[1] This has been especially true for seniors who have not only tended to face slightly higher price increases than the general population, but who disproportionately tend to be on fixed incomes, which adjust relatively slowly to inflation, if at all.

The consumer price index (CPI)[2] published by the Bureau of Labor Statistics (BLS) has risen a cumulative 21.0 percent in the 47 months from January 2021 through December 2024 on a seasonally adjusted basis. That is an annualized rate of 5.0 percent, at which pace prices will double in less than 15 years. This is in stark contrast to the rate of increase in the CPI before January 2021. From the start of the previous economic expansion through January 2021, the CPI rose at an annualized rate of 1.8 percent, below the Federal Reserve's 2.0 percent target (figure 1). After January 2021, however, the CPI began increasing significantly faster and from that time through June 2022 rose at an annualized rate of 8.5 percent, more than 4.7 times the previous rate of increase. Since June 2022 and through December 2024, the index has risen an annualized 3.0 percent, significantly above the Federal Reserve's target and even further above the annualized rate before January 2021.

[1] The Federal Reserve Note is referred to in this testimony as the US dollar for ease of understanding by the general public.
[2] The CPI-U, consumer price index for all urban consumers, is commonly referred to as simply the CPI.

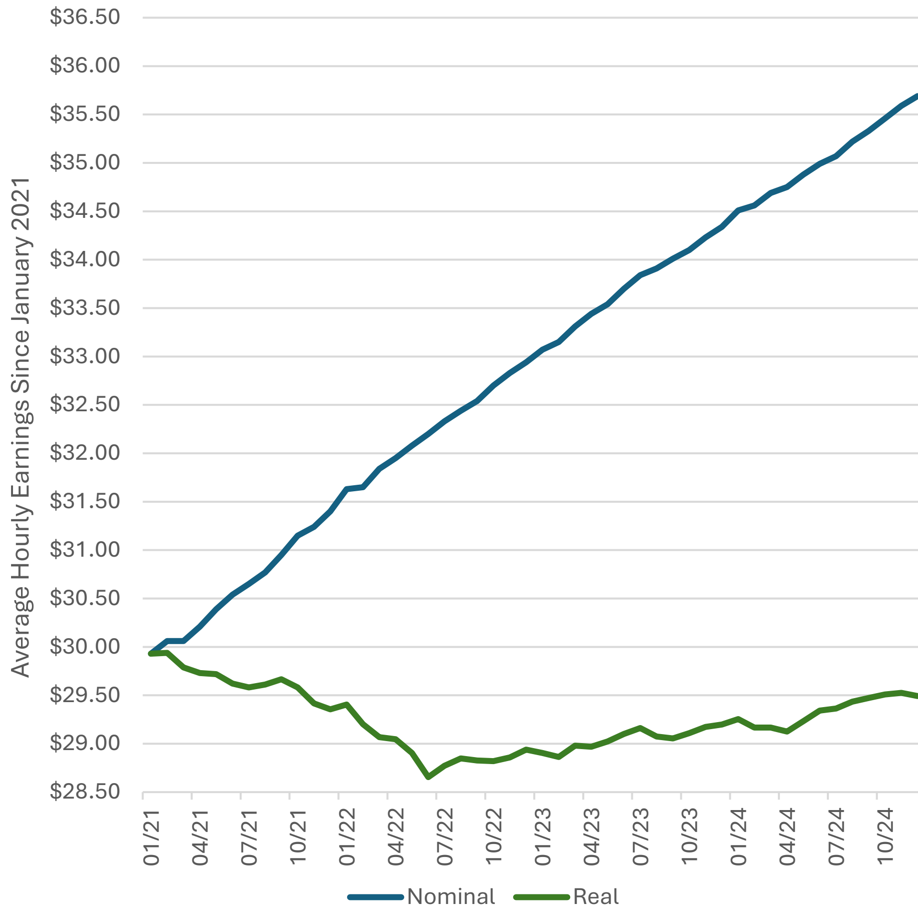
Figure 1



Source: Bureau of Labor Statistics

The increase in prices over the last four years has far outpaced the increase in the typical American's take-home pay. Average hourly earnings rose $5.76 from January 2021 through December 2024, but inflation-adjusted average hourly earnings fell $0.44 (figure 2). This difference of $6.20 between nominal and real hourly earnings can be thought of as the average American's hourly inflation tax under the Biden administration, which exceeds what that same worker loses to the personal federal income tax, on average.

Figure 2



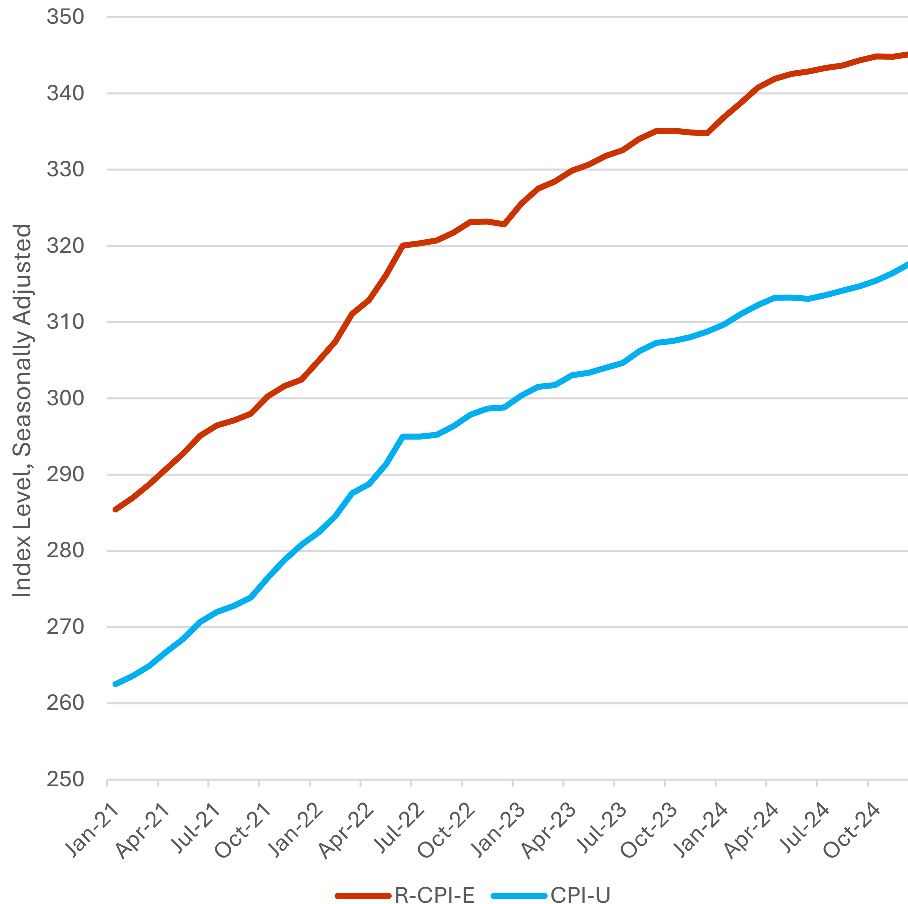
Source: Bureau of Labor Statistics

Price Increases for Seniors

The BLS has also produced a data series that aims to replicate the cost of the basket of goods and services purchased by the average retiree in the United States, called the R-CPI-E. This index differs from the CPI in how its components are weighted, in order to better approximate the cost of living for older Americans, compared to younger consumers. During most of the last four years, cumulative price increases in the R-CPI-E were outpacing those in the CPI. With the December 2024 data from the BLS, however, the two indexes now show essentially identical cost increases of about 21 percent from January 2021 through December 2024 (figure 3). That is not to say that seniors have suffered equally to the rest of the population over the last four years. On the contrary, prices for the things disproportionately purchased by seniors were rising slightly faster than the increase in the general price level for most of the last four years. Furthermore, seniors tend to have incomes which adjust slower to inflation than average because seniors tend to be on fixed incomes. Even programs like Social Security which have a cost-of-living adjustment (COLA) only increase benefits once annually so that seniors must suffer through an entire year of cost increases before this portion of their incomes adjust upward. Even still, the lost purchasing power which they experienced over the 12 months in question is never returned to them. This phenomenon can be illustrated with the following analogy. The situation faced by seniors is like being robbed daily for an

entire year, and the thief takes slightly more from the victim with each passing day. On the first day of the year, the thief takes a dollar, then two dollars on the second, three dollars on the third, and so on. By the last day of the year, the victim is losing $365 daily. Then, on New Year's Day, the theft stops, but the victim never receives any restitution for the money stolen throughout the prior year. This is like what seniors on fixed incomes and infrequent COLAs experience from inflation.

Figure 3



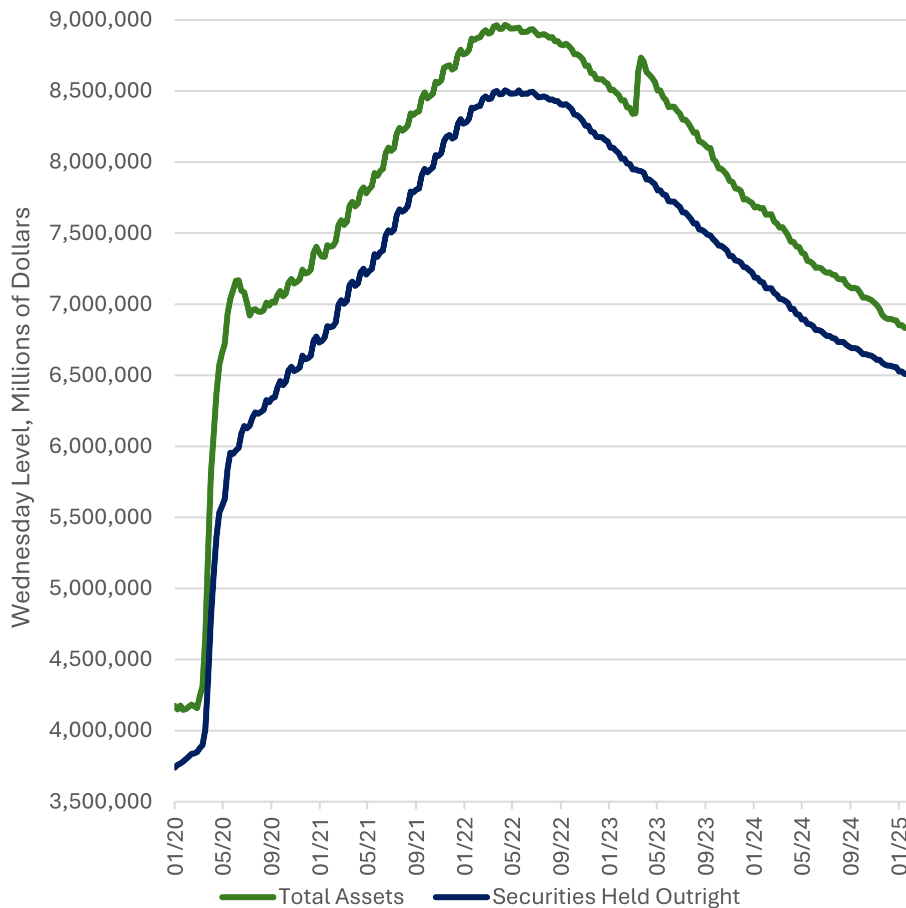
Source: Bureau of Labor Statistics

Source of Cost Increases

The primary source of cost increases over the last four years for seniors and the general population alike has been inflation. Beginning in 2020, the federal government began running unprecedentedly large budget deficits in response to the Covid pandemic. Unfortunately, the one-time emergency spending measures that caused these initial deficits were then replaced with other spending. This resulted in sustained elevated Treasury net debt issuances and an increase in the federal debt of approximately $8.5 trillion during the Biden administration, but also a reduction in the Treasury's cash balance of approximately $1 trillion. That is a net overspending of roughly $9.5 trillion in just four years. These debt issuances were largely financed by the Federal Reserve's purchase of almost $5 trillion of Treasury securities since the start of 2020, along with manipulations of interest rates and capital markets to steer liquidity away from the private sector and towards the public sector

(figure 4). Since purchases by the Federal Reserve are made from the right to issue fiat currency, they inherently increase the supply of money. Because the real economy has grown much slower than the money supply over the last several years, the value of the US dollar relative to goods and services has declined. This phenomenon is often referred to as "too much money chasing too few goods" and it is observed as an increase in the general level of prices. The Federal Reserve's balance sheet peaked at nearly $9 trillion, an increase of approximately 115 percent from pre-pandemic levels. Securities held outright by the Federal Reserve grew approximately 127 percent over that same period. These purchases are sometimes referred to as quantitative easing, or QE. Conversely, since the Summer of 2022, the Federal Reserve has engaged in quantitative tightening (QT), or the net sale of securities, to reduce the very inflation which the Federal Reserve itself helped cause. Simultaneously, the central bank raised interest rates significantly. This balance sheet runoff slowed markedly in the Summer of 2024 and securities held outright are now approximately 74 percent above their pre-pandemic level while the total balance sheet of the Federal Reserve is approximately 64 percent above its pre-pandemic level. In addition to the slower pace of balance sheet reductions, the Federal Reserve has reduced its benchmark interest rate target by 100 basis points, or one percentage point.

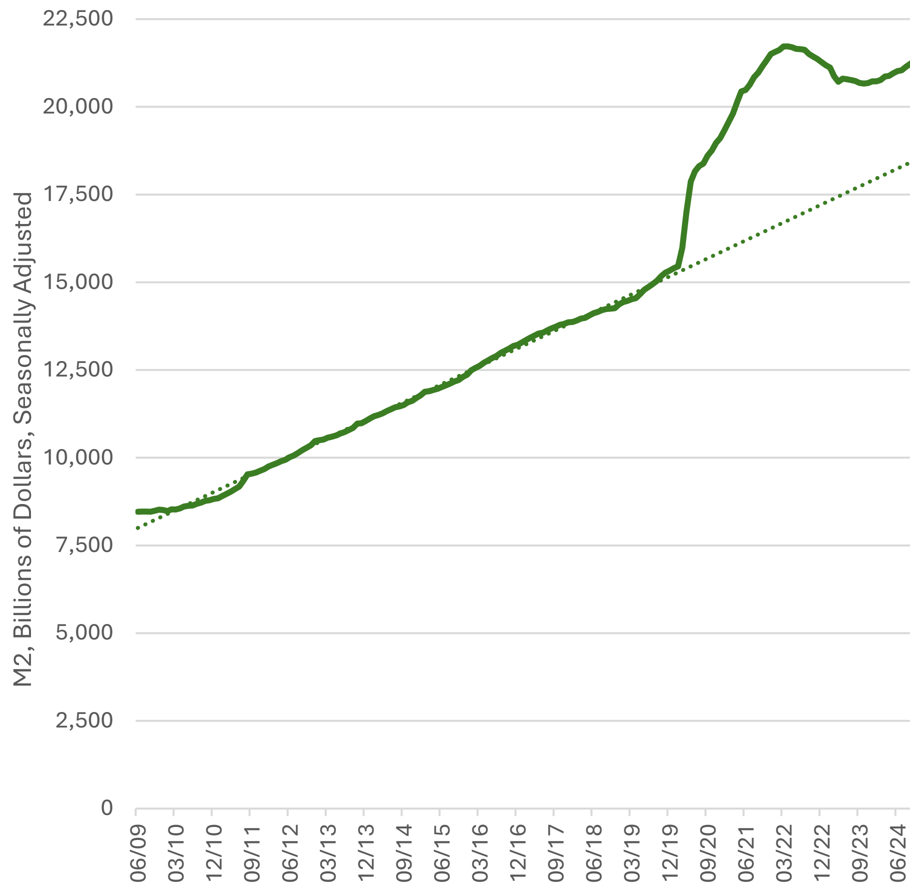
Figure 4



Source: Board of Governors of the Federal Reserve System

The quantity of money referred to as M2 grew over $6 trillion from early 2020 to the middle of 2022 (figure 5). After about a year of declines, M2 then remained relatively steady and has now begun growing again, with the latest data available at the time of this writing indicating that the growth rate of M2 is exceeding the average growth rate of the previous economic expansion. The level of M2 remains about $3 trillion above its pre-pandemic trend, is only down approximately 1 percent from its peak in April 2022, and 39 percent above its pre-pandemic level.

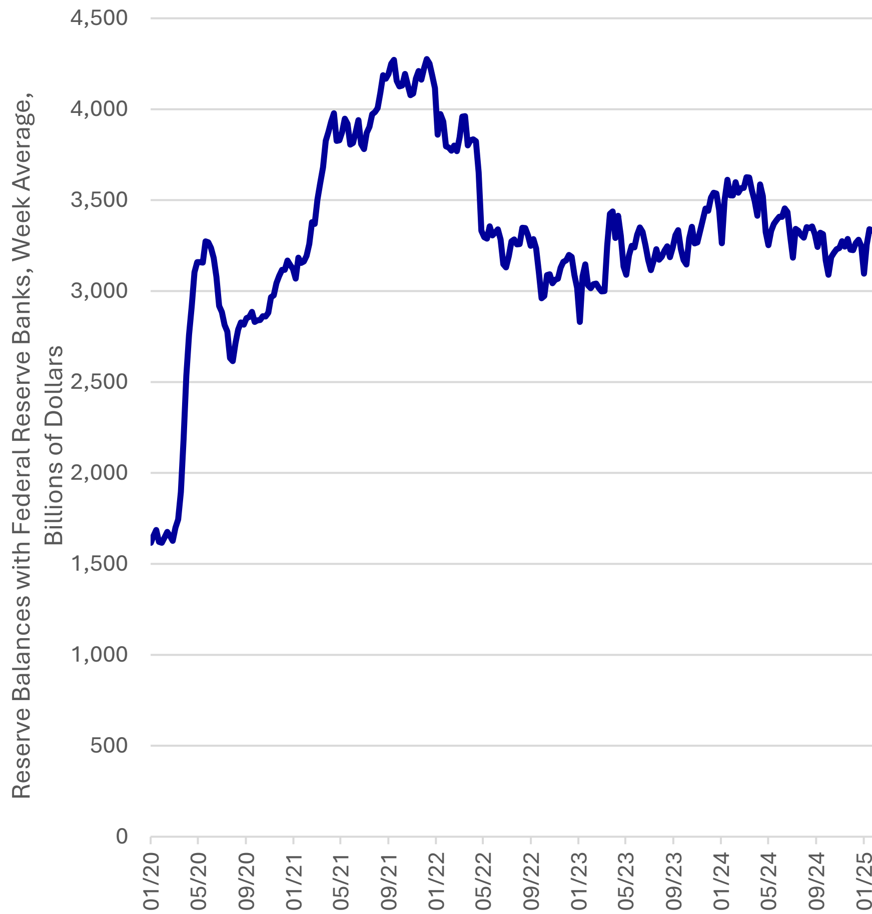
Figure 5



Source: Board of Governors of the Federal Reserve System

Similarly, bank reserves reached a trough at the beginning of 2023 and then trended up for that entire year, before declining throughout much of 2024 (figure 6). As this portion of the monetary base increases, loans to individuals, businesses, and the Treasury can increase, and each loan expands the total money supply. Thus, despite the Federal Reserve's reduction in its balance sheet, the increase in bank reserves throughout 2023 continued to expand the money supply and maintained an inflationary impulse in the economy. Bank reserves appear to be trending upward again, as inflation reaccelerates in the American economy, with the annualized increase in the CPI for December 2024 reaching 4.8 percent, the highest in nine months.

Figure 6



Source: Board of Governors of the Federal Reserve System

The Federal Reserve did not simply create money for the Treasury to spend but also engaged in active manipulation of the loanable funds market in order to channel liquidity away from private lending and towards the Treasury, while seeking to minimize the inflationary impact of its money creation. In March 2020, the Federal Reserve ended its interest on excess reserves policy and replaced it with the policy of paying interest on all reserves. This incentivized banks to keep money parked at the Federal Reserve and not lend it out to the private market. This revised policy stance can be seen as an extension of the interest on excess reserves policy, which was previously utilized to reduce the inflationary impact of government overspending financed with fiat money creation. Simultaneously, the Federal Reserve used its reverse repurchase agreement (RRP) facility to absorb massive amounts of excess liquidity and maintain an interest rate floor. Instead of lending that liquidity to either private borrowers or the Treasury, financial institutions were effectively lending to the Federal Reserve. The New York district's RRP facility saw a peak utilization of over $2.5 trillion as the central bank sterilized unprecedented amounts of money, in conjunction with similar efforts from the interest on reserve policy (figure 7).[3] However, as the Treasury's demand for loanable funds has remained stubbornly high, the RRP facility is seeing almost no use today. That has

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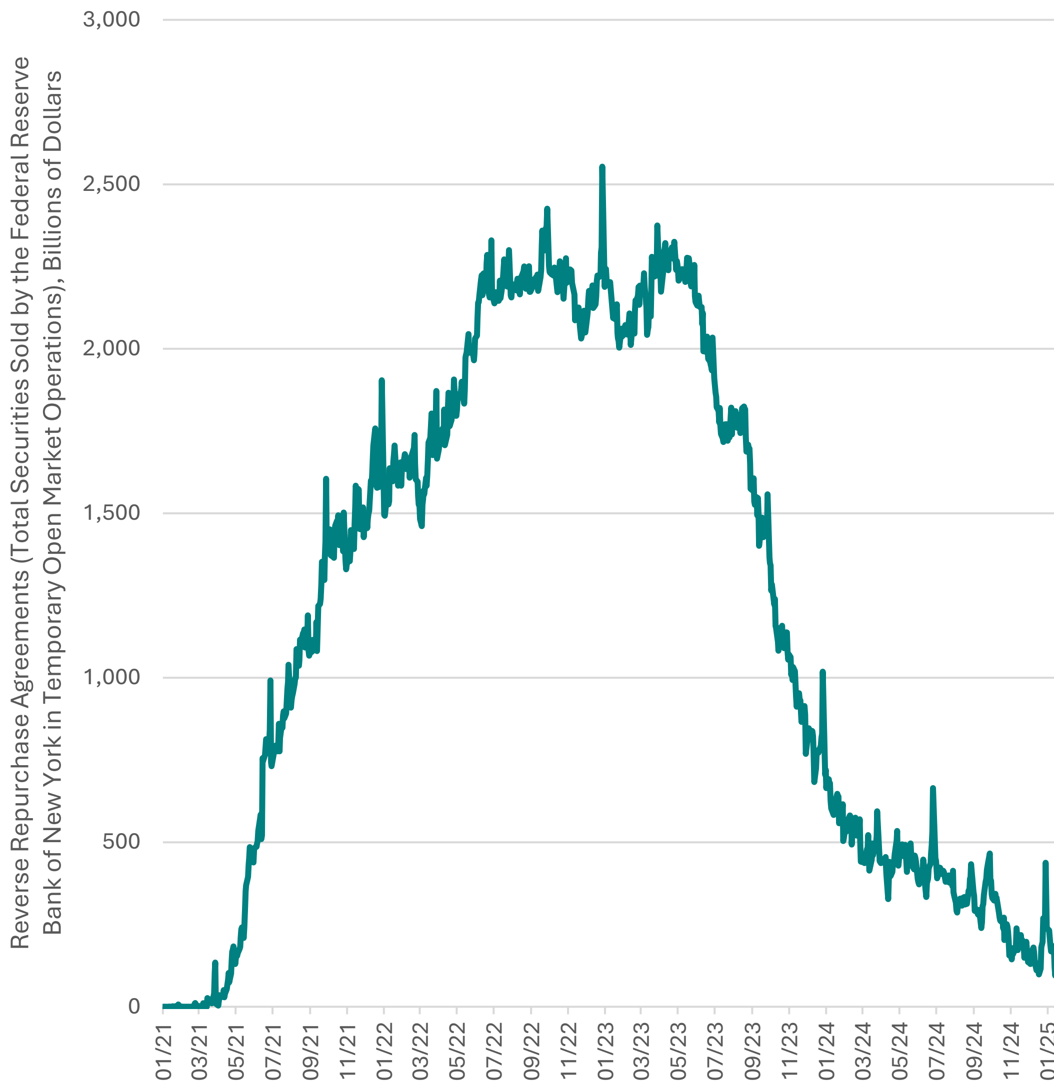
[3] Federal Reserve Bank of New York, desk operations.

caused the previously sterilized $2.5 trillion to come back into circulation and multiply in the banking system, creating renewed inflationary pressure and countering the Federal Reserve's continued QT. The economy is still suffering from the monetary malfeasance that began several years ago. In other words, some of the inflation which would have been caused months or years ago by the budget deficits of 2021 and 2022 is only now manifesting itself. This is contributing to the notion of "sticky" or persistent inflation.

Figure 7



Source: Federal Reserve Bank of New York

However, today's inflation is not only the result of past mistakes. Elevated levels of government spending have not abated. Consequently, the current fiscal year is off to its worst start ever, with a cumulative deficit of $711 billion in just three months.[4] The deterioration of federal finance has entered a positive feedback loop because of these elevated levels of spending and their

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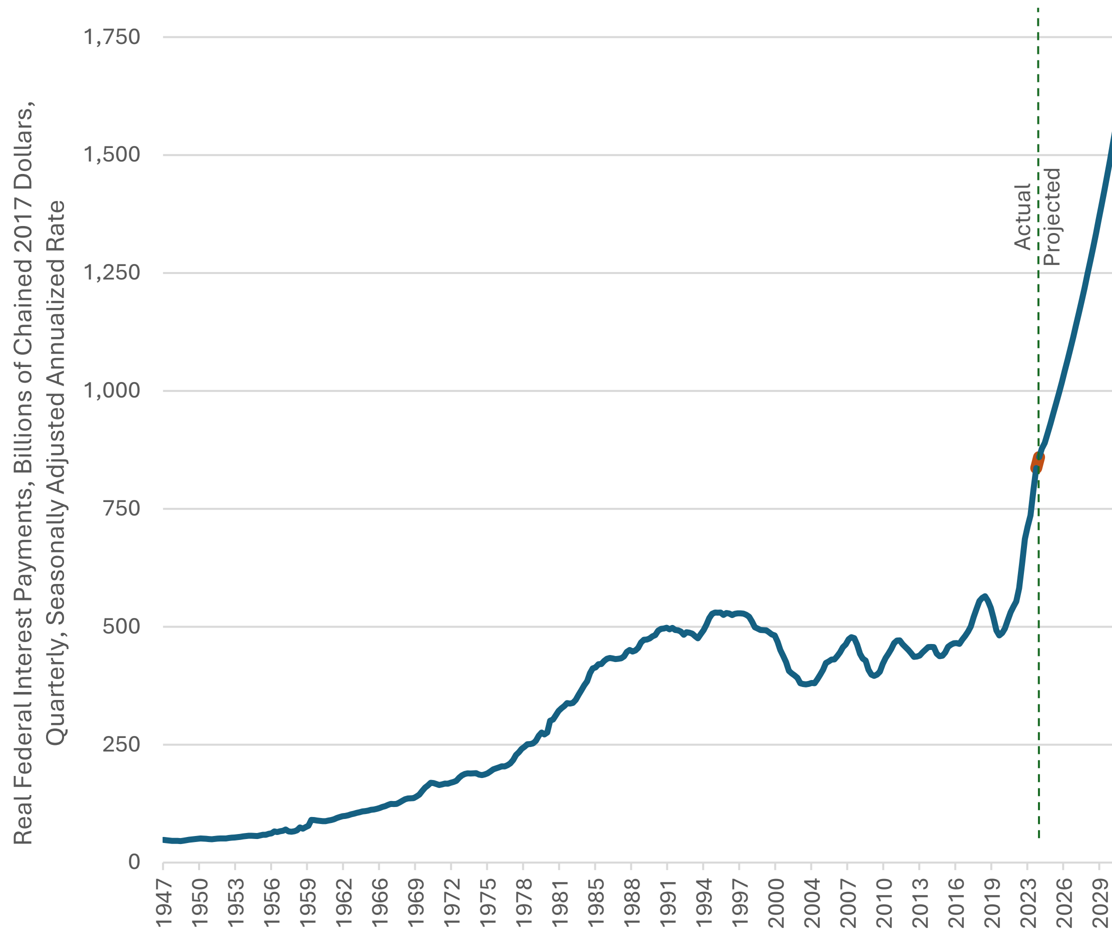
[4] Monthly Treasury Statement, Bureau of the Fiscal Service, December 2024.

accompanying higher interest rates. Interest on the federal debt now exceeds $1.2 trillion per year. In December 2024, the most recent data available at the time of this writing, gross interest payments were $140 billion, just for the month—the largest single line item in the entire monthly statement from the Treasury. For context, Treasury outlays in December for the next three largest line items were $130 billion for the Social Security Administration, $99 billion for the Department of Health and Human Services, and $79 billion for all military spending. For additional context, gross interest in December was equal to more than 66 percent of all personal income taxes collected that month. Since all marginal federal spending is borrowed, this increase in interest expense has increased the deficit. That additional borrowing in turn increases the demand for loanable funds, which puts upward pressure on interest rates. Higher interest rates then increase the cost of servicing the federal debt, which exacerbates borrowing, interest expense, interest rates, etc. If left unchecked, this positive feedback loop will result in exponential growth of federal interest payments (figure 8). As a percentage of gross domestic product, interest payments will set a new record high by 2027, exceeding 5 percent, and then continue climbing.

Figure 8



Sources: Bureau of Economic Analysis, Dr. E.J. Antoni

Impact of Inflation and Interest Rate Changes on Retirement Accounts

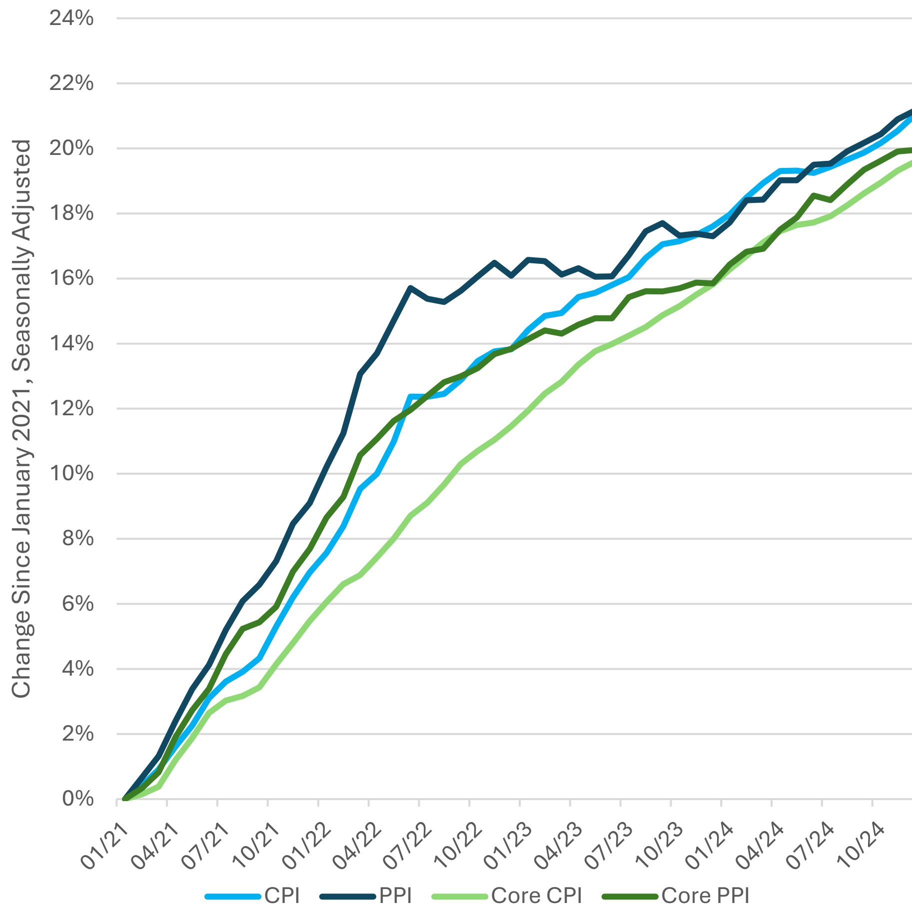
While equities have performed historically well in nominal terms since the end of 2020, much of that gain has merely been a reflection of the decreasing value of the dollar, which declined by about one-fifth in just four years. That poses particular difficulties for many savers because capital gains are not indexed for inflation. Nominal price appreciation and real growth are taxed exactly the same, which means that inflation not only imposes a higher cost of living but also increases savers' tax liability. From the first quarter of 2021 through the third quarter of 2024, major stock indices saw nominal gains of two to four times their inflation-adjusted increases.[5] Furthermore, the bond market experienced its worst three and a half year run in at least a century because of the rapid rise in interest rates that followed the unprecedented issuance of near-zero-interest-rate fixed income assets, with 2022 seeing the worst bond market returns in 100 years. The rapid rise in interest rates and inflation rates during the Biden administration caused devastating losses to retirement accounts. The average 401(k) plan fell about 9.2 percent from the first quarter of 2021 through the third quarter of 2024, after adjusting for inflation. Likewise, pension plans in aggregate have lost $2.5 trillion in real value over that same time. Because seniors tend to have their savings disproportionately allocated in cash and fixed-income assets, their individual retirement accounts have been hit even harder than the average 401(k) plan. The typical senior who was planning on retiring today will have to work an additional six years or more to recoup the real losses sustained to his or her retirement account since the beginning of 2021.

An Inflation Misnomer

Inflation is caused by the federal government overexpanding the money supply to pay for unfunded spending. The idea that inflation is caused by "corporate greed" or "price gouging" is incorrect according to both economic theory and empirical data. Businesses did not suddenly become greedy at the beginning of 2021 at the same time as the government vastly expanded its budget. Instead, the government's own data show that prices paid by businesses have risen faster than those paid by consumers during the Biden administration's tenure (figure 9). According to the BLS, in the 47 months from January 2021 through the end of 2024, the wholesale price level rose 21.2 percent while the consumer price level rose 21.0 percent. Furthermore, during nearly this entire period, the cumulative price increases faced by businesses exceeded those faced by consumers. In other words, businesses were shielding consumers from cost increases, likely in an effort to maintain or even grow market share. The exact same facts are observed when excluding the volatile categories of food and energy from both consumer and wholesale price indices.

[5] "Making Senior Citizens Poorer: The Negative Impact of the Biden Administration's Economic Policies on Senior Citizens' Retirement Incomes" E.J. Antoni, Ph.D., October 2024.

Figure 9



Source: Bureau of Labor Statistics

Public Policy Considerations

The elevated levels of government spending, which have made 40-year-high inflation possible today, stem directly from Congressional action. Additionally, the Federal Reserve's monetary manipulations were prompted by this same Congressional action. In conjunction with Congress, the Executive Branch during the Biden administration played a necessary role in both the highest inflation and fastest interest rate increases in four decades. Just two pieces of legislation alone increased federal spending by over $3 trillion, required then-Vice President Kamala Harris to cast the tie-breaking vote in the Senate, and accounted for at least half of the excess inflation since 2020.[6] Both of these pieces of legislation, as well as numerous other unfunded spending bills, had the explicit endorsement of then-President Joseph Biden who eventually signed each of them into law. Seniors have suffered considerably because of this government overspending, with their cost of living rising as their real incomes fall and their retirement accounts plunge at the worst rates in years.

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[6] "The Big Government Formula for Double-Digit Inflation" Casey B. Mulligan, Ph.D., August 2024.

Additionally, it is not just today's seniors who have been so negatively affected by the public policy decisions of the Biden administration and a spendthrift Congress. America's seniors in the future will be suffering because of the Biden administration's policies that have disincentivized work and retarded economic growth. Those policies have reduced Medicare and Social Security tax receipts over the last four years by about $500 billion, and that decline in revenues directly impacts the long-run solvency of these entitlement programs.[7] This has the effect of accelerating their insolvency and putting seniors' benefits at risk at a much earlier date than previously forecasted.

While the monetary phenomenon of inflation has been the primary driver of cost increases for seniors over the last four years, restrictive energy policy has also played a role in driving up costs. These anti-energy policies have reduced domestic oil output by at least a cumulative 2.4 billion barrels from 2021 through the end of 2023. The relatively lower production of oil and natural gas has increased prices higher than they otherwise would be, imposing additional costs on the economy of at least $250 billion over that same period.[8] Because energy is such a ubiquitous input in the economy, these higher energy prices have raised prices for all goods and services, exacerbating seniors' deteriorating financial situations.

If Congress wants to alleviate the pain inflicted on Americans, especially older Americans, then lawmakers should make drastic cuts to government spending and return the federal budget to pre-pandemic levels. This would achieve several objectives. First, it would begin reducing the primary inflationary pressure in the economy. As the Treasury borrows less, the demand for loanable funds will decline, putting downward pressure on interest rates. Reduced levels of spending and borrowing also remove the Federal Reserve's incentive to overinflate the money supply. Thus, both inflation rates and interest rates will decline if Congress reduces its spending. Efforts to increase domestic energy production would also have a positive impact by reducing prices while increasing both American jobs and payroll tax receipts. While regulatory reform would help roll back the $50,000 in regulatory costs that the Biden administration imposed on the average American family, this is largely the purview of the executive branch.[9]

Lastly, when considering the impact of proposed tariffs on seniors, the Senate Aging Committee should keep in mind that tariffs, by definition, cannot be inflationary. If a tariff is imposed on a particular import and raises the cost to consumers of that import, then the consumer has less money to spend on other products and services. The consumer will buy less in aggregate as the quantity demanded falls. Furthermore, because there is no change to the money supply, the value of the currency is unaffected. The Aging Committee should also consider factors like the price elasticity of the item(s) being tariffed and the effects on exchange rates. Failing to account for these economic realities will result in overestimating the negative impact of tariffs on consumers broadly and seniors specifically. Lastly, if tariffs protect American jobs, there can be a positive and significant impact on seniors, particularly the sustainability of those seniors' retirement savings. Increasing the number of American jobs and the real wages earned by Americans will also increase payroll tax revenue and provide additional tax receipts to Social Security and Medicare. This can

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[7] "Payroll Tax Revenues Down $400 to $900 Billion Due to Lower Wages and Less Growth: Casey B. Mulligan, Ph.D., March 2023.
[8] "The War on Oil and Gas has Cost America $250 Billion in Lost Output" Moore and Mulligan, May 2024.
[9] "Biden-Harris Regulations Cost the Average Family Almost $50,000" Casey B. Mulligan, Ph.D., July 2024.

help ensure benefits will be available to seniors in the future. Tariffs can also increase the value of American corporations, companies in which seniors hold shares of stock or from which seniors have purchased fixed-income assets like corporate bonds. Congress should consider these, and other, positive impacts of tariffs when proposing or evaluating any legislation in this area.

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