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REBUILDING TRUST IS KEY FOR POLICYMAKERS TO RISE ABOVE PARTISAN DIFFERENCES

# REBUILDING TRUST IS KEY FOR POLICYMAKERS TO RISE ABOVE PARTISAN DIFFERENCES

By Betsey Stevenson

*This paper is part of an initiative from the Peterson Foundation to help illuminate and understand key fiscal and economic questions facing America. See more papers in the **Expert Views: Bipartisan Policymaking under Divided Government** (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/>) series.*

There is one thing that the 118th Congress can have confidence in: the public has very little confidence in it. The most recent data from **Gallup** (<https://news.gallup.com/poll/1597/confidence-institutions.aspx>) shows only 7% admitted to having a great deal or quite a lot of confidence in Congress and a whopping 57% reported having little to no confidence in Congress. Other longstanding surveys of trust (<http://web.archive.org/web/20230105123950/https://www.pewresearch.org/politics/2022/06/06/public-trust-in-government-1958-2022/>) and confidence (<https://gssdataexplorer.norc.umd.edu/variables/459/vshow>) in government show similar patterns: American's faith in Congress is at historic lows.

This decline in trust provides a few important lessons for Members of the 118th Congress as they begin to govern.

The first lesson is that political disagreement can coexist with trust and confidence. Most people go to work every day with people with whom they disagree on many topics, but they find a way to work together to benefit themselves, their employers, and their customers. Some of the decline in trust in Congress reflects skepticism about Congress's "**competency and responsiveness**" (<https://direct.mit.edu/daed/article/151/4/43/113715/Fifty-Years-of-Declining-Confidence-and-Increasing>)." Despite their political differences, Members of Congress need to demonstrate that they are working together to take concrete actions to solve America's problems and ensure its prosperity to restore Americans' trust in them.

The COVID pandemic showed us that Congress can still do this, even in our heavily polarized era. In 2020, a Democratic controlled House worked with a Republican controlled Senate to pass legislation to prevent widespread poverty and desperation in the face of a public health emergency. The bipartisan decisions made by the 116th Congress continue to benefit America today as they contributed to a rapid economic

recovery and today's low unemployment. Notably, the share of the public reporting having a great deal or quite a bit of confidence in Congress in 2020 was nearly twice as high as it is today.

There is a lesson here: Even as the daily press cycle focuses on the cacophony of political disagreements, actions break through that noise and are appreciated by the public.

The second lesson from research on trust in institutions is that the state of the economy matters. A decade ago Justin Wolfers and I **showed** (<https://www.aeaweb.org/articles?id=10.1257/aer.101.3.281>) that the public's confidence in institutions weakens when the economy weakens, and typically strengthens along with a strengthening economy.

The American economy faces several pressing challenges, many of which have external causes. The higher rates of inflation plaguing the U.S. are occurring around the **globe** (<https://www.epi.org/blog/rising-inflation-is-a-global-problem-u-s-policy-choices-are-not-to-blame/>) despite differences in fiscal and monetary responses. High and volatile oil prices reflect **global** (<https://blogs.worldbank.org/opendata/oil-prices-remain-volatile-amid-demand-pessimism-and-constrained-supply>) geo-political tensions and the negative effects have rippled across the globe. Weakening global demand threatens U.S. businesses that depend on their export business.

Part of the challenge for Congress is that the public **attributes** ([http://users.nber.org/~jwolfers/papers/Voterrationality\(latest\).pdf](http://users.nber.org/~jwolfers/papers/Voterrationality(latest).pdf)) more control to them over the economy than they have. Even so, there are important actions Congress can take to ensure a strong economy and help build public trust in it.

The first order of business must be to raise the debt ceiling and step away from threatening to default on government debt. This is not a political talking point from someone from a particular side of the political aisle. It is an economic reality. If Congress fails to raise the debt ceiling and the extraordinary measures ultimately give way to missed or delayed payments, then the American people will bear the consequences.

There are **many potential pain points** (<https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress-McCarthy-20230113.pdf>) for Americans if the Treasury can't make all of the payments it owes. Social Security payments, military salaries, tax refunds, are just some of the government payments that could be impacted. But let us focus on the most likely consequence of even a near-default: interest rates will rise as lenders perceive government debt to be riskier. These higher rates will potentially percolate through the economy pushing up the cost of borrowing for Americans as they purchase homes and cars and take on credit card debt.

There is no doubt that the United States must address its fiscal shortfalls. However, higher interest rates will make America's fiscal problems worse by increasing the cost of servicing the debt that we already hold. Defaulting on the debt makes it even more likely that budget deficits will continue to grow.

Beyond the higher cost of servicing debt, a default could have more widespread economic costs as previous debt ceiling standoffs have led to declining **business and consumer confidence** ([https://users.nber.org/~jwolfers/popular/Debt-Ceiling\(Bloomberg\).pdf](https://users.nber.org/~jwolfers/popular/Debt-Ceiling(Bloomberg).pdf)), which can lead to declining economic output. With the U.S. economy struggling to weather external storms and the Fed fighting to reduce the rate of inflation, the last thing Congress should do is cause a further fall in business and consumer confidence.

Congress should simply get rid of the debt ceiling.

If the 118th Congress cannot agree to eliminate the debt ceiling, they should replace the outcome that it triggers. Instead of defaulting on the debt, reaching a debt ceiling, and failing to raise it further, could trigger across the board tax increases unless the debt ceiling was raised. While some may gasp at such a suggestion, defaulting on the debt is more harmful to the American economy and American pocketbooks than a large across the board tax increase. And a revenue trigger is likely to do more to induce fiscal discipline than the ongoing brinkmanship of default has done, because the consequences are clearer for all to understand.

There are plenty of deficit hawks willing to **offer advice** (<https://www.crfb.org/papers/crfb-fiscal-blueprint-reducing-debt-and-inflation>) to help Congress reduce spending and raise more revenue. The size of the deficit means that fiscal stability is **not achievable** (<https://www.washingtonpost.com/politics/2023/01/26/peter-was-already-robbed-he-cant-pay-paul/>) by cuts to the discretionary non-defense budget alone. Congress will need to raise more revenue.

One way to do this and to build trust in government is through better IRS enforcement — simply to ensure that people are paying what they owe. Scholars have shown that people who are not **trusting** (<https://academic.oup.com/qje/article-abstract/112/4/1251/1911732>) are themselves less likely to be trustworthy. The American public needs to have their faith in our tax system so they can have confidence when they are being honest that everyone else is too. Unfortunately fewer Americans see failing to report all of their income as **morally wrong** (<https://www.pewresearch.org/politics/2013/04/11/a-third-of-americans-say-they-like-doing-their-income-taxes/#not-reporting-income-seen-as-morally-wrong>) than did in the past.

Fraud and cheating are terrible, but so is inefficiency. If something can be done in less time with the same outcomes, then we should see anything that stands in the way of such gains as a terrible cost to be cut. The IRS could cut the time it takes people to do their taxes by providing more information, building a better public website for tax filing, or even pre-filling people's tax forms as many other **countries** (<https://www.businessinsider.com/filing-taxes-america-system-how-other-countries-do-better-2021-8>) do. So far, such gains have been **prevented** (<https://www.propublica.org/article/what-to-know-about-turbotax-before-you-file-taxes>) to protect the interest of businesses that profit from our form-filing misery. This kind of waste is not only a painful cost on taxpayers, but it holds back the overall U.S. economy as it would be much better to deploy these resources elsewhere in the economy where they will have more value.

For those members of Congress that want a smaller government, work across the aisle to help ensure a more efficient, transparent, and fairer IRS. It will reduce the need to raise tax rates.

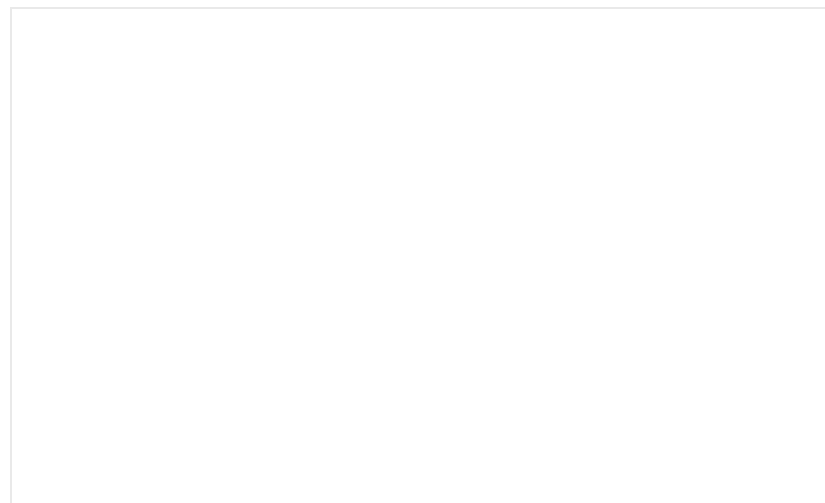
But the search for efficiency in our tax code shouldn't end with the IRS. Every time government spending becomes the focus of Congress' attention every dollar in the non-defense discretionary budget gets scrutinized, while the massive amount of **spending through the tax code** (<https://www.pgpf.org/budget-basics/tax-expenditures>) continues with little examination. Economists see these tax provisions as the same as spending, because whether the government gives you money or lets you keep your money the catch is the same: it's designed to get you to do some kind of activity. Conservatives draw a distinction because they favor people paying less in taxes. But cutting tax expenditures does not require asking people to pay more in taxes and conservatives who want to see people pay less in taxes should be just as opposed to wasteful requirements that allow only some people to get tax cuts. After all, if Congress eliminates wasteful tax expenditures, they could use the revenue to restore fiscal balance, lower overall tax rates, or increase spending. There is room to negotiate.

To be certain, many tax provisions are creating important financial support for education, childcare, green technologies and other valued activities that should continue to be supported through tax provisions. But when it comes time to start looking under the sofa cushions for savings, Congress should treat direct spending and tax expenditures equally.

The biggest challenge that Congress faces is our entitlement programs. Neither party wants to make cuts to Social Security or Medicare, but both programs are **forecasted** (<https://www.ssa.gov/OACT/TRSUM/index.html>) to have challenges meeting the promises we have made to Americans as they age. Unfortunately for Congress this **third rail** (<https://www.nytimes.com/2007/02/18/opinion/18iht-edsafmon.4632394.html>) of American politics is the home of much of government spending. There are no easy

answers, just trade-offs. Should we raise the age of retirement? Should we introduce more means-testing and shore up Social Security's poverty alleviating role? Should we add extra benefits for the longest lived as the probability of living to 100 is rising even as life expectancy is falling? Should we eliminate the taxable maximum for Social Security earnings? Should we build parental leave into our Social Security system? Republicans will bristle at some of these questions, Democrats others. That there are no easy answers is why bipartisan trade-offs are possible: very few can hope for their ideal reforms, the best they can do is work together to get reforms that will leave Americans better off than if they did nothing. There is plenty of room in compromise to achieve that goal.

The final lesson is that a polarized public has reduced trust in each other and in our institutions. For society to function we need faith in each other; Congress can and should lead by example. By being both trusting and trustworthy, Members of Congress can foster a trusting society. Trust allows government and the **economy to run more efficiently** (<https://www.bloomberg.com/opinion/articles/2016-07-05/want-to-help-the-economy-learn-to-trust#xj4y7vzkg>). Unfortunately, trust is a public good – when I trust you and when I am trustworthy, I encourage you to trust others and to be more trustworthy yourself. Rebuilding trust in Congress won't just strengthen our democracy, it will start rebuilding trust in each other. Working to restore the benefits of a society that trusts its government should be the 118th Congress's top priority.



## About the Author

**Betsey Stevenson** is a professor of public policy and economics at the University of Michigan. She is also a faculty research associate at the National Bureau of Economic Research, a visiting associate professor of economics at the University of Sydney, a

research fellow of the Centre for Economic Policy Research, a fellow of the Ifo Institute for Economic Research in Munich, and serves on the executive committee of the American Economic Association. She served as a member of the Council of Economic Advisers from 2013 to 2015 where she advised President Obama on social policy, labor market, and trade issues. She served as the chief economist of the U.S. Department of Labor from 2010 to 2011, advising the Secretary of Labor on labor policy and participating as the secretary's deputy to the White House economic team. She has held previous positions at Princeton University and at the University of Pennsylvania's Wharton School.

Dr. Stevenson is a labor economist who has published widely in leading economics journals about the labor market and the impact of public policies on outcomes both in the labor market and for families as they adjust to changing labor market opportunities. Her research explores women's labor market experiences, the economic forces shaping the modern family, and how these labor market experiences and economic forces on the family influence each other. She is a columnist for Bloomberg View, and her analysis of economic data and the economy are frequently covered in both print and television media.

Dr. Stevenson earned a B.A. in economics and mathematics from Wellesley College and an M.A. and Ph.D. in economics from Harvard University.

## **Expert Views**

### **Bipartisan Policymaking under Divided Government**

We asked experts with diverse views from across the political spectrum to share their perspectives and insights to help understand the landscape and identify solutions.

**Lanhee J. Chen** (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/coming-together-to-improve-americas-health-care-system-and-our-fiscal-condition/>)

**Heidi Heitkamp** (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/debt-and-divides-us-short-on-leadership-not-ideas/>)

**G. William Hoagland** (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/does-fiscal-policy-history-rhyme/>)

Leon E. Panetta (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/divided-government-the-choice-between-governing-or-chaos/>)

Brian Riedl (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/bipartisan-opportunities-in-a-fragile-economy/>)

Ben Ritz (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/opportunities-for-bipartisan-fiscal-policy-in-2023/>)

Michael Steele (<https://www.pgpf.org/programs-and-projects/convening-experts/expert-views/bipartisan-policymaking-under-divided-government/rising-above-the-gridlock-to-govern/>)

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