

THE CONGRESSIONAL BUDGET OFFICE'S BUDGET
AND ECONOMIC OUTLOOK: CONSIDERING
CBO'S ANNUAL BASELINE

HEARING
BEFORE THE
COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIFTEENTH CONGRESS
SECOND SESSION

HEARING HELD IN WASHINGTON, D.C., APRIL 12, 2018

Serial No. 115-13

Printed for the use of the Committee on the Budget



Available on the Internet:
www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
WASHINGTON : 2018

COMMITTEE ON THE BUDGET

STEVE WOMACK, Arkansas, *Chairman*

TODD ROKITA, Indiana, <i>Vice Chairman</i>	JOHN A. YARMUTH, Kentucky, <i>Ranking Minority Member</i>
DIANE BLACK, Tennessee	BARBARA LEE, California
MARIO DIAZ-BALART, Florida	MICHELLE LUJAN GRISHAM, New Mexico
TOM COLE, Oklahoma	SETH MOULTON, Massachusetts
TOM McCLINTOCK, California	HAKEEM S. JEFFRIES, New York
ROB WOODALL, Georgia	BRIAN HIGGINS, New York
MARK SANFORD, South Carolina	SUZAN K. DELBENE, Washington
DAVE BRAT, Virginia	DEBBIE WASSERMAN SCHULTZ, Florida
GLENN GROTHMAN, Wisconsin	BRENDAN F. BOYLE, Pennsylvania
GARY J. PALMER, Alabama	RO KHANNA, California
BRUCE WESTERMAN, Arkansas	PRAMILA JAYAPAL, Washington,
JAMES B. RENACCI, Ohio	<i>Vice Ranking Minority Member</i>
BILL JOHNSON, Ohio	SALUD O. CARBAJAL, California
JASON SMITH, Missouri	SHEILA JACKSON LEE, Texas
JASON LEWIS, Minnesota	JANICE D. SCHAKOWSKY, Illinois
JACK BERGMAN, Michigan	
JOHN J. FASO, New York	
LLOYD SMUCKER, Pennsylvania	
MATT GAETZ, Florida	
JODEY C. ARRINGTON, Texas	
A. DREW FERGUSON IV, Georgia	

PROFESSIONAL STAFF

DAN KENIRY, *Staff Director*

ELLEN BALIS, *Minority Staff Director*

CONTENTS

Hearing held in Washington, D.C., April 12, 2018	Page 1
Hon. Steve Womack, Chairman, Committee on the Budget	1
Prepared statement of	3
Hon. John A. Yarmuth, Ranking Member, Committee on the Budget	5
Prepared statement of	7
Keith Hall, Director, Congressional Budget Office	9
Prepared statement of	11
Hon. Gary Palmer, Member, Committee on the Budget, questions sub- mitted for the record	53
Answers to questions submitted for the record	55

THE CONGRESSIONAL BUDGET OFFICE'S BUDGET AND ECONOMIC OUTLOOK: CON- SIDERING CBO'S ANNUAL BASELINE

Thursday, April 12, 2018

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to call, at 10:00 a.m., in Room 1334, Longworth House Office Building, Hon. Steve Womack [Chairman of the Committee] presiding.

Present: Representatives Womack, Rokita, Black, McClintock, Woodall, Sanford, Brat, Grothman, Palmer, Westerman, Renacci, Johnson, Lewis, Bergman, Faso, Smucker, Yarmuth, Lujan Grisham, Jeffries, Delbene, Boyle, Jayapal, Carbajal, Jackson Lee, and Schakowsky.

Chairman WOMACK. The hearing will come to order. Welcome to the Committee on the Budget hearing on the Congressional Budget Office's Budget and Economic Outlook. Bear with me. In the congressional budget process, we often refer to this annual report as a baseline, because it provides a benchmark when considering the effects of policy options and determining funding levels. That being said, receipt of the baseline each year means that the process of writing the budget resolution in this committee can begin in earnest.

While the CBO's report is typically published earlier in the calendar year, we knew that this year's would be delayed in order to adjust for the recently enacted tax reform law. However, regardless of when it is released and updated each year, CBO's baseline is important because it sheds light on our Nation's current fiscal challenges and guides us in mapping out a sustainable path for the future.

Assuming the continuation of current law, CBO's baseline offers projections of Federal spending, revenue surpluses or deficits, and debt. CBO's baseline also includes a forecast of key economic indicators, as well as detailed budget estimates for specific programs and categories of spending.

We are joined today by Dr. Keith Hall, who is the Director of the Congressional Budget Office, and we appreciate his attendance at yet another hearing involving the CBO. And, Dr. Hall, we appreciate you being here today.

Before we welcome his comments and then begin, in earnest, our question and answer period, I would like to yield for some opening statements from the Ranking Member, the gentleman from the Commonwealth of Kentucky, Mr. Yarmuth.

[The prepared statement of Chairman Womack follows:]

WOMACK OPENING STATEMENT
**THE CONGRESSIONAL BUDGET OFFICE'S BUDGET AND ECONOMIC
 OUTLOOK: CONSIDERING CBO'S ANNUAL BASELINE**

Washington, D.C., Tuesday, February 27, 2018

Remarks as prepared for delivery:

Good morning and welcome to the House Budget Committee's hearing on the Congressional Budget Office's *Budget and Economic Outlook* for 2018-2028.

In the congressional budget process, we often refer to this annual report as the "baseline" because it provides a benchmark when considering the effects of policy options and determining funding levels.

That being said, receipt of the baseline each year means that the process of writing the budget resolution in this committee can begin in earnest.

While CBO's report is typically published earlier in the calendar year, we knew that this year's would be delayed in order to adjust for the recently enacted tax reform law.

However, regardless of when it is released and updated each year, CBO's baseline is important because it sheds light on our nation's current fiscal challenges and guides us in mapping out a sustainable path for the future.

Assuming the continuation of current law, CBO's baseline offers projections of federal spending, revenue, surpluses or deficits, and debt.

CBO's baseline also includes a forecast of key economic indicators as well as detailed budget estimates for specific programs and categories of spending.

The baseline paints a picture of the potential fiscal future, but it does not have to dictate the future.

However, the baseline *should* encourage Congress to heed warnings of what could be ahead and respond with solutions.

Without question, we have our work cut out for us in order to confront the nation's growing debt.

It is sobering that mandatory spending, including interest on the federal debt, continues to be the greatest driver of our debt. It is growing at an unsustainable pace.

While it is discouraging, this trend is not a surprise.

For years, House Republicans have called for real action to reform and strengthen mandatory programs upon which many Americans depend.

If we do nothing, these programs *will* eventually fail for those relying on them today and may not exist for those who hope to depend on them in the future.

The longer we wait to address these problems, the more difficult the solutions become.

Despite the many challenges, CBO's baseline does show where we are getting it right.

Take, for example, tax reform. It's working.

In fact, CBO expects that employment will rise, wages and income levels will increase, and potential output will grow as a direct result of tax reform.

CBO also expects that tax reform will lead to greater business investment in the economy and the creation of approximately 1.1 million new jobs over the next 11 years.

Another sign that recently-enacted policies are boosting the economy, CBO projects that unemployment will continue declining in the next few years. This is good news for our country.

As part of its analysis, CBO included an in-depth discussion on its handling of tax reform, comparing its estimates against nine other organizations.

While it is certainly not unusual for CBO to compare its projections for overall economic forecasts, this is the first time the baseline has used detailed comparisons to explain conclusions about the economic effects of a specific piece of legislation.

After concerns that were brought up about transparency in our oversight hearings with CBO earlier this spring, I applaud the agency for using that feedback and providing more context regarding assumptions.

During today's hearing, we welcome CBO's Director, Dr. Keith Hall.

Thanks for being with us today, Dr. Hall. Your insight about CBO's projections and expectations for the economy will help us understand the fiscal challenges we face as we write a responsible and balanced budget.

While CBO's projections are daunting, the current track does not have to dictate what the future will be. We can and, frankly, we *must* make the responsible choices to secure a prosperous nation for generations to come.

Thank you, and with that, I yield to the Ranking Member, Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman, and welcome, Director Hall. Thank you for appearing before us once again. This year's economic and budget outlook offers a contrasting story. CBO presents us with an optimistic short-term economic forecast, one that, you note, is more optimistic than that of the Federal reserve and most private forecasters, along with a very disturbing longer-term budget forecast that shows the deficit reaching \$1 trillion 2 or 3 years earlier than in your previous estimates.

The two, of course, are not unrelated. Congress has provided a large jolt of economic stimulus with tax and spending bills this winter. We would be better off if the other side had been as willing to support economic stimulus nine years ago, when it was urgently needed, as they are today. But we are where we are, and these bills are giving the economy some juice today. But they are also increasing our current and long-term deficits.

The tax bill focused its benefits on the wealthy and corporations. The Treasury Secretary and many Congressional Republicans kept insisting that the bill would pay for itself. No credible source has ever agreed, and your report confirms the obvious: the tax bill does not pay for itself. Indeed, its economic feedback does not even quite pay for the additional interest spending needed to finance it. The numbers in your report indicate that, if we had not passed the tax bill, the deficit outlook for 2018 to 27 would have actually improved since your June estimate. Instead, it is \$1.6 trillion worse.

We are getting some economic boost from the tax bill, and while that will be welcome, it will also be short-lived. The boost is very front-loaded. Indeed, your report indicates that the tax bill will actually reduce our economic growth rate beginning in 2025. I also worry that the benefits, as short as they may be, will not be broadly shared; that they will primarily help those who are already doing well at the expense of everyone else, just like the tax cuts themselves.

I think it is important to point out that this picture assumes we will not have a recession for a decade, that the fed will be able to raise rates just enough to keep the economy from overheating over the next four years, then drop them just enough from 2022 to 2026 to engineer a soft landing. I hope you are right about that, but I do not think we can count on having the current expansion last nearly twice as long as the longest previous one in our history, and a recession would surely mean a weaker economy and larger deficits than you forecast.

That is a reality Congressional Republicans and President Trump are pretending we do not live in. They have succeeded in making the deficit worse. They are now trying to use the deficit as an excuse to make massive cuts to programs vital to American families, including Medicare, Medicaid, and Social Security. The Balanced Budget Amendment we are debating on the floor today would force those cuts. It will not pass, but I think we can count on our colleagues to keep trying.

After all, it is what we have seen for decades. It happens every time a Republican President replaces a Democratic one in the White House. Ronald Reagan cut taxes, sent deficits skyrocketing, and unsuccessfully sought to slash the safety net. The second President Bush cut taxes, turned record surpluses into record defi-

cits, and unsuccessfully sought to cut Social Security. Even President Nixon inherited a surplus that immediately disappeared.

It is no surprise that we see the deficits soaring again now that Republicans have taken full control over the Federal budget. Some things never change. The only thing Republicans in Washington like better than complaining about deficits and debt is increasing deficits and debt. It is part of a three-step process that we have seen time and time again.

First, they cut taxes primarily for the wealthy. Second, they shed crocodile tears and raise the alarm about the rising deficits that they just worsened. Third, they insist that the deficit is purely a spending problem and push for extreme cuts in programs that are vital to American families.

I suspect we will hear at least some of my colleagues pursue steps two and three today, but before we get to that, Director Hall, I look forward to hearing your testimony. I yield back.

[The prepared statement of Mr. Yarmuth follows:]

YARMUTH OPENING STATEMENT
**THE CONGRESSIONAL BUDGET OFFICE'S BUDGET AND ECONOMIC
 OUTLOOK: CONSIDERING CBO'S ANNUAL BASELINE**

Washington, D.C., Tuesday, February 27, 2018

Remarks as prepared for delivery:

Thank you, Mr. Chairman. And welcome, Director Hall. Thank you for appearing before us once again.

This year's economic and budget outlook offers a contrasting story. CBO presents us with an optimistic short-term economic forecast – one that you note is more optimistic than that of the Federal Reserve and most private forecasters – along with a very disturbing longerterm budget forecast that shows the deficit reaching \$1 trillion two or three years earlier than in your previous estimates.

The two, of course, are not unrelated. Congress has provided a large jolt of economic stimulus with tax and spending bills this winter. We would be better off if the other side had been as willing to support economic stimulus nine years ago – when it was urgently needed -- as they are today. But we are where we are and those bills are giving the economy some juice today. But they are also increasing our current and long-term deficits.

The tax bill focused its benefits on the wealthy and corporations. The Treasury Secretary and many congressional Republicans kept insisting that the bill would pay for itself. No credible source has ever agreed. And your report confirms the obvious. The tax bill doesn't pay for itself. Indeed, its economic feedback doesn't even quite pay for the additional interest spending needed to finance it. The numbers in your report indicate that, if we hadn't passed the tax bill, the deficit outlook for 2018-27 would have actually improved since your June estimate. Instead, it's \$1.6 trillion worse.

We are getting some economic boost from the tax bill. And while that will be welcome, it will also be short-lived. The boost is very front-loaded. Indeed, your report indicates that the tax bill will actually reduce our economic growth rate beginning in 2025.

I also worry that the benefits, as short as they may be, will not be broadly shared. That they will primarily help those who are already doing well at the expense of everyone else – just like the tax cuts themselves.

I think it's important to point out that this picture assumes we will not have a recession for a decade, that the Fed will be able to raise rates just enough to keep the economy from overheating over the next four years, then drop them just enough from 2022 to 2026 to engineer a soft-landing. I hope you're right about that. But I don't think we can count on having the current expansion last nearly twice as long as the longest previous one in our history. And a recession would surely mean a weaker economy and larger deficits than you forecast.

That's a reality Congressional Republicans and President Trump are pretending we don't live in. They have succeeded in making the deficit worse, and they are now trying to use the deficit as an excuse to make massive cut programs vital to American families, including Medicare, Medicaid and Social Security. The balanced budget amendment we are debating on the floor

today would force those cuts. It won't pass. But I think we can count on our colleagues to keep trying.

After all, it's what we've seen for decades. It happens every time a Republican President replaces a Democratic one in the White House. Ronald Reagan cut taxes, sent deficits skyrocketing, and unsuccessfully sought to slash the safety net. The second President Bush cut taxes, turned record surpluses into record deficits, and unsuccessfully sought to cut Social Security. Even President Nixon inherited a surplus that immediately disappeared. It's no surprise that we see the deficit soaring again now that Republicans have taken full control over the federal budget.

Some things never change. The only thing Republicans in Washington like better than complaining about deficits and debt is increasing deficits and debt. It's part of a three-step process that we've seen time and time again. First, they cut taxes, primarily for the wealthy. Second, they shed crocodile tears and raise the alarm about the rising deficits that they just worsened. Third, they insist that the deficit is purely a spending problem and push for extreme cuts in programs that are vital to American families.

I suspect we'll hear at least some of my colleagues pursue steps two and three today. But, before we get to that, Director Hall, I look forward to hearing your testimony

Chairman WOMACK. Thank you, Mr. Yarmuth. As noted earlier, Dr. Keith Hall, Director of the Congressional Budget Office, is in front of you today. The committee, sir, has received your opening statement, and it will be made part of the formal hearing record. You will have 5 minutes to deliver oral remarks, and then, I am sure that the members that are gathered here today, and those that will arrive at some point during this hearing, will be anxious to engage you in a question and answer period.

So, we are going to yield the floor to you for 5 minutes for your opening remarks, and the floor is yours, sir.

**STATEMENT OF DR. KEITH HALL, DIRECTOR,
CONGRESSIONAL BUDGET OFFICE**

Mr. HALL. Thank you. Chairman Womack, Ranking Member Yarmuth, and members of the committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy. My statement summarizes CBO's new baseline budget projections and economic forecast, which the agency released on Monday.

In the Congressional Budget Office's baseline projections, we can incorporate the assumption that current laws governing taxes and spending generally remain unchanged, the Federal budget grows substantially over the next few years. Later on, between 2023 and 2028, it stabilizes in relation to the size of the economy, though at a high level. As a result, Federal debt is projected to be on a steadily rising trajectory throughout the coming decade, approaching 100 percent of gross domestic product by 2028.

Projected deficits over the 2018 to 2027 period have increased markedly since we issued our last budget and economic projections in June of 2017. The increase stems primarily from tax and spending legislation enacted since then, especially the 2017 tax act, the Bipartisan Budget Act of 2018, and the Consolidated Appropriations Act of 2018.

In our economic projections, which underlie our budget projections, inflation-adjusted GDP, or real GDP, expands by 3.3 percent this year, and by 2.4 percent in 2019. Most of this growth is driven by consumer spending and business investment, but Federal spending also contributes a significant amount this year.

Growth of real GDP exceeds the growth of real potential GDP over the next 2 years. This marked cyclical path in real GDP will occur, in large part, because the recent legislation provides significant fiscal stimulus at a time when there is very little slack in the economy. Those effects, as well as the larger Federal budget deficits resulting from the new laws, exert upward pressure on interest rates and prices.

During the 2020 to 2026 period, those factors, along with the slower growth and Federal outlays in the expiration of reductions in personal income tax rates, dampen economic growth.

After 2026, economic growth is projected to rise slightly, matching the growth rate of potential output by 2028. Between 2018 and 2028, real actual output and real potential output alike are projected to expand at an average annual rate of 1.9 percent. In our forecast, the growth of potential GDP is the key determinant of the growth of actual GDP through 2028, because actual output is very

near its potential level now and is projected to be near its potential level at the end of the period.

Potential output is projected to grow more quickly than it has since the start of the 2007 and 2009 recession, as our growth and productivity increases to nearly its average over the next 25 years. Nonetheless, potential output is projected to grow more slowly than it did in earlier decades, held down by slower growth of the labor force.

In our projections, the effects of the 2017 tax act on incentive to work, save, and invest raise real potential GDP throughout the 2018 to 2028 period. Over the same period, the tax act is projected to boost a level of real GDP by an average of 0.7 percent and non-farm payroll employment by an average of 1.1 million jobs.

Our current economic projections differ from those that we made in June 2017 in a number of ways. The most significant is that potential and actual real GDP are projected to grow more quickly over the next few years. Projected output is greater because of the recently-enacted legislation, data that has become available after our previous economic projections were completed, and improvements in our analytical methods.

Over the next decade, the unemployment rate is lower in our current projections than our previous ones, particularly during the next few years, then, economic stimulus boosts demand for labor. Also, both short and long-term interest rates are projected to be higher, on average, from 2018 to 2023.

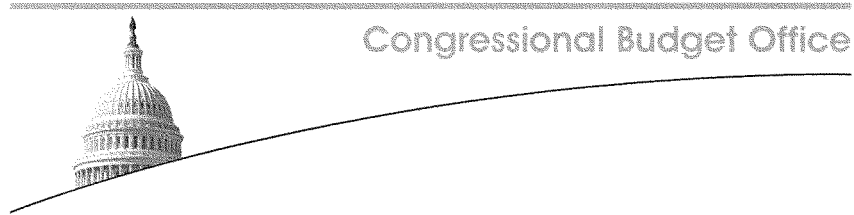
Turning to the budget projections, we estimate that the 2018 deficit will total \$804 billion, \$139 billion more than the \$665 billion shortfall recorded in 2017. In our projections, budget deficits continue increasing after 2018. As deficits accumulate, debt held by the public rises from 78 percent of GDP, or \$16 trillion, at the end of 2018, to 96 percent of GDP, or \$29 trillion, by 2028. That percentage would be the largest since 1946, and well more than twice the average over the next few decades.

For the 2018 to 2027 period, we now project a cumulative deficit that is \$1.6 trillion larger than the \$10.1 trillion that we anticipated in June. Projected revenues are lower by \$1 trillion. Projected outlays are higher by half a trillion.

Laws enacted since June 2017, above all, the three mentioned earlier, estimated to make the cumulative deficit \$2.7 trillion larger than previously projected between 2018 and 2027. However, revisions to our economic projections caused us to reduce our estimate of the cumulative deficit by \$1 trillion over the same period, mainly because of our expectations of faster growth in the economy.

I appreciate the invitation to testify today about CBO's budget and economic outlook, and I would be happy to answer questions.

[The prepared statement of Keith Hall follows:]



Testimony

The Budget and Economic Outlook: 2018 to 2028

**Keith Hall
Director**

**Before the
Committee on the Budget
U.S. House of Representatives**

April 12, 2018

This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Thursday, April 12, 2018. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Chairman Womack, Ranking Member Yarmuth, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy. My statement summarizes CBO's new baseline budget projections and economic forecast, which the agency released on Monday.

In the Congressional Budget Office's baseline projections, which incorporate the assumption that current laws governing taxes and spending generally remain unchanged, the federal budget deficit grows substantially over the next few years. Later on, between 2023 and 2028, it stabilizes in relation to the size of the economy, though at a high level by historical standards.

As a result, federal debt is projected to be on a steadily rising trajectory throughout the coming decade. Debt held by the public, which has doubled in the past 10 years as a percentage of gross domestic product (GDP), approaches 100 percent of GDP by 2028 in CBO's projections. That amount is far greater than the debt in any year since just after World War II. Moreover, if lawmakers changed current law to maintain certain current policies—preventing a significant increase in individual income taxes in 2026 and drops in funding for defense and nondefense discretionary programs in 2020, for example—the result would be even larger increases in debt.

Projected deficits over the 2018–2027 period have increased markedly since June 2017, when CBO issued its previous projections. The increase stems primarily from tax and spending legislation enacted since then—especially Public Law 115-97 (originally called the Tax Cuts and Jobs Act and called the 2017 tax act here), the Bipartisan Budget Act of 2018 (P.L. 115-123), and the Consolidated Appropriations Act, 2018 (P.L. 115-141). The legislation has significantly reduced revenues and increased outlays anticipated under current law.

In CBO's economic projections, which underlie its budget projections, output grows at a faster pace this year than in 2017, as the recent changes in fiscal policy add to existing momentum in spending on goods and services. Growth in actual GDP outpaces growth in potential (that is, maximum sustainable) GDP both this year and next, pushing the unemployment rate down. After 2019, economic growth is projected to slow, eventually

matching CBO's estimate of the economy's maximum sustainable rate of growth.

Real GDP (that is, GDP adjusted to remove the effects of inflation) and real potential GDP are now projected to be greater throughout the coming decade than projected last June, in part because of the significant recent changes in fiscal policy. Also, interest rates are projected to be higher and the unemployment rate lower in the next few years than CBO projected previously.

Even if federal laws did generally remain in place, budgetary and economic outcomes would be difficult to predict and thus uncertain. CBO's projections, especially its economic projections, are even more uncertain than usual this year, because they incorporate estimates of the economic effects of the recent changes in fiscal policy—and those estimates are themselves uncertain. CBO aims to formulate projections that fall in the middle of the distribution of possible outcomes.

Economic Growth Is Projected to Be Relatively Strong This Year and Next and Then to Moderate

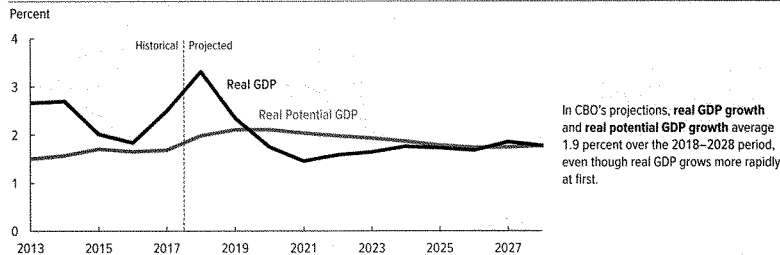
In CBO's projections, the growth of real GDP exceeds the growth of real potential output over the next two years, putting upward pressure on inflation and interest rates (see Figure 1). But during the 2020–2026 period, a number of factors dampen economic growth: higher interest rates and prices, slower growth in federal outlays, and the expiration of reductions in personal income tax rates. After 2026, economic growth is projected to rise slightly, matching the growth rate of potential output by 2028.

Economic Growth

Between 2018 and 2028, actual and potential real output alike are projected to expand at an average annual rate of 1.9 percent. In CBO's forecast, the growth of potential GDP is the key determinant of the growth of actual GDP through 2028, because actual output is very near its potential level now and is projected to be near its potential level at the end of the period.

Potential output is projected to grow more quickly than it has since the start of the 2007–2009 recession, as the growth of productivity increases to nearly its average over the past 25 years and as the recent changes in fiscal policy boost incentives to work, save, and invest. Nonetheless, potential output is projected to grow more

Figure 1.

Growth of Real GDP and Real Potential GDP

Source: Congressional Budget Office.

Real values are nominal values that have been adjusted to remove the effects of inflation. Potential GDP is CBO's estimate of the maximum sustainable output of the economy. The growth of real GDP and of real potential GDP is measured from the fourth quarter of one calendar year to the fourth quarter of the next.

GDP = gross domestic product.

slowly than it did in earlier decades, held down by slower growth of the labor force (which results partly from the ongoing retirement of baby boomers).

In CBO's projections, real GDP expands by 3.3 percent this year and by 2.4 percent in 2019 (see Table 1). It grew by 2.6 percent last year. Most of the growth in output in the next two years is driven by consumer spending and business investment, but federal spending also contributes a significant amount this year. After averaging 1.7 percent from 2020 through 2026, real GDP growth is projected to average 1.8 percent in the last two years of the 2018–2028 period.

Effects of Recent Legislation on the Economy

The recently enacted legislation has shaped the economic outlook in significant ways. In CBO's projections, the effects of the 2017 tax act on incentives to work, save, and invest raise real potential GDP throughout the 2018–2028 period. In addition, all three major laws mentioned above provide fiscal stimulus, raising real GDP more than potential GDP in the near term. Over the longer term, all of those effects, as well as the larger federal budget deficits resulting from the new laws, exert upward pressure on interest rates and prices.

The largest effects on GDP over the decade stem from the tax act. In CBO's projections, it boosts the level of real GDP by an average of 0.7 percent and nonfarm payroll

employment by an average of 1.1 million jobs over the 2018–2028 period. During those years, the act also raises the level of real gross national product (GNP) by an annual average of about \$470 per person in 2018 dollars. (GNP differs from GDP by including the income that U.S. residents earn from abroad and excluding the income that nonresidents earn from domestic sources; it is therefore a better measure of the income available to U.S. residents.) Those projected effects grow in the earlier years of the period and become smaller in the later years.

The other two laws are estimated to increase output in the near term but dampen it over the longer term. The fiscal stimulus that they provide boosts GDP by 0.3 percent in 2018 and by 0.6 percent in 2019, in CBO's assessment. However, the larger budget deficits that would result are estimated to reduce the resources available for private investment, lowering GDP in later years.

GDP Is Projected to Be Greater Than CBO Previously Estimated

CBO's current economic projections differ from those that the agency made in June 2017 in a number of ways. The most significant is that potential and actual real GDP are projected to grow more quickly over the next few years. As a result, the levels of those measures are 1.6 percent higher than CBO previously estimated for 2027 (the last year in the previous projection period). Projected output is greater because of recently enacted

Table 1.

CBO's Projections of Key Economic Indicators for Calendar Years 2018 to 2028

		Annual Average				
	Actual, 2017	2018	2019	2020	2021– 2022	2023– 2028
	Percentage Change From Fourth Quarter to Fourth Quarter					
Gross Domestic Product						
Real ^a	2.6	3.3	2.4	1.8	1.5	1.7
Nominal	4.5	5.2	4.5	3.9	3.7	3.9
Inflation						
PCE price index	1.7	1.8	2.0	2.1	2.1	2.0
Core PCE price index ^b	1.5	1.9	2.1	2.2	2.1	2.0
	Annual Average					
Unemployment Rate (Percent)	4.4	3.8	3.3	3.6	4.4	4.8
Payroll Employment (Monthly change, in thousands) ^c	181	211	182	62	25	57
Interest Rates (Percent)						
Three-month Treasury bills	0.9	1.9	2.9	3.6	3.7	2.8
Ten-year Treasury notes	2.3	3.0	3.7	4.1	4.1	3.7

Sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve.

PCE = personal consumption expenditures.

a. Real values are nominal values that have been adjusted to remove the effects of inflation.

b. Excludes prices for food and energy.

c. Calculated as the change in payroll employment from the fourth quarter of one calendar year to the fourth quarter of the next, divided by 12 (the average monthly amount).

legislation, data that became available after CBO's previous economic projections were completed, and improvements in the agency's analytical methods. Also, because inflation is now anticipated to be higher, the level of nominal GDP is projected to be 2.4 percent higher in 2027 than previously estimated.

Over the next decade, the unemployment rate is lower in CBO's current projections than in its previous ones—particularly during the next few years, when economic stimulus boosts demand for labor. Also, both short- and long-term interest rates are projected to be higher, on average, from 2018 to 2023—by roughly 0.7 percentage points and 0.4 percentage points, respectively—than projected in June. That faster rise in interest rates primarily reflects stronger overall demand.

Deficits Are Projected to Be Large by Historical Standards

CBO estimates that the 2018 deficit will total \$804 billion, \$139 billion more than the \$665 billion shortfall recorded in 2017 (see Table 2). Both amounts, however, are affected by shifts in the timing of some payments.

Outlays in 2018—and thus the deficit—have been reduced by \$44 billion because October 1, 2017 (the first day of fiscal year 2018), fell on a weekend; as a result, certain payments that were to be made on that day were instead made in September, in fiscal year 2017. If not for those shifts, the deficit projected for 2018 would be \$848 billion.¹

In CBO's projections, budget deficits continue increasing after 2018, rising from 4.2 percent of GDP this year to 5.1 percent in 2022 (adjusted to exclude the shifts in timing). That percentage has been exceeded in only five years since 1946; four of those years followed the deep 2007–2009 recession. Deficits remain at 5.1 percent between 2022 and 2025 before dipping at the end of the period, primarily because some tax provisions are scheduled to expire under current law, boosting revenues. Over the 2021–2028 period, projected deficits average

1. October 1 will fall on a weekend again in 2022, 2023, and 2028. The resulting shifts noticeably boost projected spending and deficits in 2022 and 2028; they reduce spending and the deficit in 2024.

Table 2.

CBO's Baseline Budget Projections

															Total	
	Actual, 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019– 2023	2019– 2028		
In Billions of Dollars																
Revenues	3,316	3,338	3,490	3,678	3,827	4,012	4,228	4,444	4,663	5,002	5,299	5,520	19,234	44,162		
Outlays	3,982	4,142	4,470	4,685	4,949	5,282	5,500	5,688	6,015	6,322	6,615	7,046	24,893	56,580		
Deficit	-665	-804	-981	-1,008	-1,123	-1,276	-1,273	-1,244	-1,352	-1,320	-1,316	-1,526	-5,660	-12,418		
Debt Held by the Public at the End of the Year	14,665	15,688	16,762	17,827	18,998	20,319	21,638	22,932	24,338	25,715	27,087	28,671	n.a.	n.a.		
As a Percentage of Gross Domestic Product																
Revenues	17.3	16.6	16.5	16.7	16.7	16.9	17.2	17.4	17.5	18.1	18.5	18.5	16.8	17.5		
Outlays	20.8	20.6	21.2	21.3	21.6	22.3	22.3	22.2	22.6	22.9	23.1	23.6	21.8	22.4		
Deficit	-3.5	-4.0	-4.6	-4.6	-4.9	-5.4	-5.2	-4.9	-5.1	-4.8	-4.6	-5.1	-4.9	-4.9		
Debt Held by the Public at the End of the Year	76.5	78.0	79.3	80.9	83.1	85.7	87.9	89.6	91.5	93.1	94.5	96.2	n.a.	n.a.		
Memorandum:																
Deficit as a Percentage of GDP, Adjusted to Exclude Timing Shifts ^a	-3.5	-4.2	-4.6	-4.6	-4.9	-5.1	-5.1	-5.1	-5.1	-4.8	-4.6	-4.8	-4.9	-4.9		

Source: Congressional Budget Office.

GDP = gross domestic product; n.a. = not applicable.

a. The adjusted amounts exclude the effects of shifting payments from one fiscal year into another so that those payments are not made on a weekend.

4.9 percent of GDP; the only time since World War II when the average deficit has been so large over so many years was after the 2007–2009 recession.

Revenues

For the next few years, revenues hover near their 2018 level of 16.6 percent of GDP in CBO's projections. Then they rise steadily, reaching 17.5 percent of GDP by 2025. At the end of that year, many provisions of the 2017 tax act expire, causing receipts to rise sharply—to 18.1 percent of GDP in 2026 and 18.5 percent in 2027 and 2028. They have averaged 17.4 percent of GDP over the past 50 years.

Outlays

In CBO's projections, outlays for the next three years remain near 21 percent of GDP, which is higher than their average of 20.3 percent over the past 50 years. After that, outlays grow more quickly than the economy does, reaching 23.3 percent of GDP (adjusted to exclude shifts in timing) by 2028.

That increase reflects significant growth in mandatory spending—mainly because the aging of the population and rising health care costs per beneficiary are projected to increase spending for Social Security and Medicare, among other programs. It also reflects significant growth in interest costs, which are projected to grow more quickly than any other major component of the budget, the result of rising interest rates and mounting debt. By 2028, net outlays for interest are projected to be roughly triple what they are this year in nominal terms and roughly double when measured as a percentage of GDP. In contrast, discretionary spending in the projections declines in relation to the size of the economy.

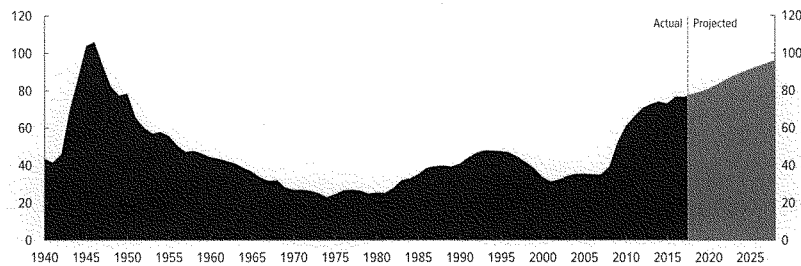
Deficits Are Projected to Be Larger Than CBO Previously Estimated

The deficit that CBO now estimates for 2018 is \$242 billion larger than the one that it projected for that year in June 2017. Accounting for most of that difference is a \$194 billion reduction in projected revenues, mainly because the 2017 tax act is expected to reduce collections of individual and corporate income taxes.

Figure 2.

Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

For the 2018–2027 period, CBO now projects a cumulative deficit that is \$1.6 trillion larger than the \$10.1 trillion that the agency anticipated in June. Projected revenues are lower by \$1.0 trillion, and projected outlays are higher by \$0.5 trillion.

Laws enacted since June 2017—above all, the three mentioned above—are estimated to make deficits \$2.7 trillion larger than previously projected between 2018 and 2027, an effect that results from reducing revenues by \$1.7 trillion (or 4 percent) and increasing outlays by \$1.0 trillion (or 2 percent).² The reduction in projected revenues stems primarily from the lower individual income tax rates that the tax act has put in place for much of the period. Projected outlays are higher mostly because the other two pieces of legislation will increase discretionary spending. Those revenue reductions and spending increases would result in larger deficits and thus in higher interest costs than CBO previously projected.

In contrast, revisions to CBO's economic projections caused the agency to reduce its estimate of the cumulative deficit by \$1.0 trillion. Expectations of faster growth in the economy and in wages and corporate profits led to an increase of \$1.1 trillion in projected tax receipts from

all sources. Other changes had relatively small net effects on the projections.

Debt Held by the Public Is Projected to Approach 100 Percent of GDP

As deficits accumulate in CBO's projections, debt held by the public rises from 78 percent of GDP (or \$16 trillion) at the end of 2018 to 96 percent of GDP (or \$29 trillion) by 2028. That percentage would be the largest since 1946 and well more than twice the average over the past five decades (see Figure 2).

Such high and rising debt would have serious negative consequences for the budget and the nation:

- Federal spending on interest payments on that debt would increase substantially, especially because interest rates are projected to rise over the next few years.
- Because federal borrowing reduces total saving in the economy over time, the nation's capital stock would ultimately be smaller, and productivity and total wages would be lower.
- Lawmakers would have less flexibility to use tax and spending policies to respond to unexpected challenges.
- The likelihood of a fiscal crisis in the United States would increase. There would be a greater risk that

2. Those estimates generally reflect the budgetary effects reported in CBO's cost estimates at the time the new laws were enacted and do not include the budgetary effects of information that has become available in recent months about the 2017 tax act. Those adjustments are classified as technical updates.

investors would become unwilling to finance the government's borrowing unless they were compensated with very high interest rates; if that happened, interest rates on federal debt would rise suddenly and sharply.

Deficits and Debt Would Be Larger If Some Current Policies Were Continued

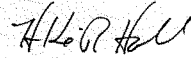
CBO also analyzed an alternative scenario in which current law was altered to maintain major policies that are now in place and to provide more typical amounts of emergency funding than the sums provided for 2018. Specifically, CBO analyzed what would happen if:

- More than 50 expiring revenue provisions were extended, including the individual income tax provisions of the 2017 tax act;
- Delays in implementing certain taxes established by the Affordable Care Act were extended or made permanent;
- Scheduled limits on discretionary appropriations did not take effect, and most appropriations instead grew each year from their 2018 amount at the rate of inflation; and
- Lawmakers provided inflation-adjusted emergency appropriations for nondefense discretionary programs equal to the average amount of such funding from 2012 through 2017—about \$11 billion—each year between 2019 and 2028, rather than the roughly \$100 billion a year projected in the baseline.

In that scenario, far larger deficits and much greater debt would result than in CBO's baseline projections for the

2019–2028 period. Deficits would be larger by an average of a full percentage point of GDP, rising by a total of \$2.6 trillion to yield a cumulative deficit of nearly \$15 trillion over that period. And debt held by the public would reach about 105 percent of GDP by the end of 2028, an amount that has been exceeded only once in the nation's history. Moreover, the pressures contributing to that rise would accelerate and push debt up even more sharply in subsequent decades.

This testimony reiterates the summary of *The Budget and Economic Outlook: 2018 to 2028*, which is one in a series of reports on the state of the budget and the economy that CBO issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. Both publications are available on CBO's website, at www.cbo.gov/publication/53651 and www.cbo.gov/publication/53722, respectively.



Keith Hall
Director



Chairman WOMACK. Thank you, Dr. Hall, once again, for your appearance and for your opening remarks. And now, we are going to begin our Q-and-A with you.

Dr. Hall, this is the first hearing we are having with you since the conclusion of the CBO Oversight Hearing series. In the course of those five hearings, the committee expressed concerns about the CBO's level of transparency in its interactions with outside organizations in the course of developing projections and analysis.

In what ways has CBO responded to those concerns in the budget and economic outlook that you present today? And then, I will follow up by asking, would you characterize the work that you have done in this product fundamentally showing your work on the baseline? So, help us understand where you are in the area of transparency.

Mr. HALL. Sure. Well, one of the things we did, of course, when we talked about our economic projection, we did put that in context of other economic projections around. So, we compared it to blue-chip. We compared it to the Federal Reserve, and some of those things. And then, one thing that we did that I thought has been particularly helpful already, is when we estimated the impact of the tax act.

One of the things we focused on in appendix B was we focused on how we formulated our economic impact of the tax act, how we incorporated that. So, we spent a lot of time in appendix B going through great detail of how we saw the economic impact working out, and we produced a table comparing our estimate of economic impact with estimates of the eight other groups or individuals that did a comparable job of trying to estimate the effect of the tax act.

Chairman WOMACK. In the CBO's budget outlook, you project mandatory spending will reach 15 plus percent of GDP by the end of the budget window in 2028. By that point, your budget outlook projects mandatory spending, plus net interest payments, will be 77 percent of the Federal budget. Talk a little bit about the composition of the Federal budget in terms of mandatory spending versus discretionary spending, and how it has changed down through the last several decades. In other words, how these proportions have basically flipped from, say, 50 years ago.

Mr. HALL. Right. Well, for example, in 1968, mandatory outlays were something like 6 percent of GDP, and discretionary outlays were something like 13 percent. Discretionary was much larger. Right now, mandatory outlays total about, as you say, 12, 13 percent of GDP. Discretionary outlays are now only about 6 percent of GDP. So, mandatory outlays have completely overtaken discretionary outlays.

And in our 10-year forecast, that trend is only going to continue. Discretionary outlays are going to continue to fall as a share of GDP, and mandatory outlays are going to grow significantly.

So, we are getting to see a very, very different picture of how the Federal Government spends money. And one aspect of that I think is important is net interest is going to become a very large share of Federal spending going forward, hitting a number that is over 3 percent of GDP in the next 10 years, which is going to be higher than total spending on either defense or nondefense discretionary

spending. Either one of those will now be overtaken by net interest, going forward.

Chairman WOMACK. One of my takeaways in the outlook is the fact that discretionary spending—and I am addressing what we just talked about in a little different way, here—that discretionary spending in the aggregate numbers goes up over the 10-year window, as one would expect it might, but its share, its percentage of GDP, actually goes down.

So, is that not another way of saying that the fiscal challenges facing the United States right now is more complicated on the mandatory side, the autopilot spending that this Congress provides every year for big programs, and less to do with what is happening on the discretionary budget?

Mr. HALL. Absolutely.

Chairman WOMACK. Okay. I think my Ranking Member is going to defer his questions, as he traditionally does.

Mr. YARMUTH. I am going to defer.

Chairman WOMACK. So, we are going to go straight into member questions, and I am going to yield first to the gentlelady from Tennessee, Ms. Black, for 5 minutes.

Ms. BLACK. Thank you, Mr. Chairman, and again, welcome, Dr. Hall, for being here to talk about the report. I want to ask you if you can explain how CBO treats the cost-sharing reduction payments in the baseline, and along with that, is CBO doing this in full compliance with the section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as the Gramm-Rudman?

Mr. HALL. Sure, sure. Well, the cost-sharing reductions used to be paid for with direct payments, and that has now ended. And in reality, what has happened is insurance companies have had the ability to raise their premiums on silver plans to compensate for the lack of direct payments for the CSRs. In fact, I think we are projecting something like an increase in premiums of about 10 percent.

And so, in our forecast, we have the CSRs paid for by these higher premiums, which are then subsidized by the Federal Government. And those subsidies are sort of taking the place of the direct payments on the CSRs. And so, the CSR entitlement is paid for in our forecast, it is just paid for a different way that reflects the reality of what is going on.

Ms. BLACK. So, just to make sure that I understand completely and to clarify, does this mean that the CBO continues to treat CSRs as an entitlement obligation in the baseline, in accordance with the law as stated before in this committee?

Mr. HALL. It does. It is an entitlement in our baseline, and we have it paid for in our baseline.

Ms. BLACK. And then, my final piece of this is, what is the benefit of CBO reflecting the entitlement obligation through the premium tax credit? And does this show the American public a more realistic picture of our fiscal situation?

Mr. HALL. Well, absolutely. We are required to show that it is paid for, and it is paid for, but in reality, it is being paid for through increased subsidies from higher premiums. So, it is reflect-

ing the reality. And again, we are describing, I think, accurately how the CSRs are operating and being paid for.

Ms. BLACK. Thank you, Mr. Hall, and I yield back the balance of my time.

Chairman WOMACK. Mr. Jeffries, New York.

Mr. JEFFRIES. Thank you, distinguished chairperson, as well as the distinguished Ranking Member, for yielding. Good morning, Dr. Hall. You were asked earlier today about mandatory outlays, is that correct?

Mr. HALL. Yes.

Mr. JEFFRIES. And mandatory outlays primarily include Social Security and Medicare, correct?

Mr. HALL. That is right.

Mr. JEFFRIES. So, when some folks in this town talk about reducing mandatory outlays, that is “Washington speak,” as Mick Mulvaney might say, for cutting Social Security and Medicare. True?

Mr. HALL. Most of the increase in mandatory spending is keeping up with the aging population and the scheduled payments out of Social Security and Medicare.

Mr. JEFFRIES. Okay. Now, before becoming the Director of the CBO, you served as the chief economist for President George W. Bush, correct?

Mr. HALL. Yes.

Mr. JEFFRIES. And you were chosen for your current role by congressional Republicans in 2015, is that right?

Mr. HALL. Yes.

Mr. JEFFRIES. Okay. So, according to CBO’s new baseline budget projections, remind me again, how large is the 2018 deficit projected to be?

Mr. HALL. It is projected to be \$804 trillion this year.

Mr. JEFFRIES. Okay. That is under a Republican-controlled House, Senate, and Presidency, correct?

Mr. HALL. Yes.

Mr. JEFFRIES. How does that estimate compare with last year’s level?

Mr. HALL. It is a significant increase over our estimate last year for 2018. But it is a significant increase since last year. It was, like, \$655 trillion last year. It is now \$804 billion [sic].

Mr. JEFFRIES. Okay. So, let me try to get an understanding of what accounts for that significant increase. Now, I think in your testimony you said that a \$194 billion reduction in projected revenues accounts for much of that difference. Is that right?

Mr. HALL. Yes.

Mr. JEFFRIES. And that reduction in revenues is mainly because of the effects of last year’s so-called Republican tax reform bill. Is that right?

Mr. HALL. That is correct.

Mr. JEFFRIES. And, according to the CBO’s new budget and economic outlook, the Republican tax bill increases the projected deficit over the next 10 years by about \$1.9 trillion. Is that right?

Mr. HALL. That is correct.

Mr. JEFFRIES. Now, we are going to hear a lot of talk on the floor today about the notion of confronting this existential \$20 trillion

debt that we face, and certainly, that is enormous. I am trying to get an understanding of how we arrived at that point. Is it fair to say that part of that debt results from a failed war in Iraq that occurred under a Republican administration?

Mr. HALL. I would not want to characterize the war, but certainly, spending on the conflicts has been a part of the budget.

Mr. JEFFRIES. Okay. And we also had what I would call an unnecessarily prolonged conflict in Afghanistan. Several of us were just there. Our troops are doing a phenomenal job. But 16, 17 years is an incredibly long period of time. Would part of that \$20 trillion debt be accounted for by the war in Afghanistan?

Mr. HALL. Yes, it would.

Mr. JEFFRIES. Okay. And that war, of course, unnecessarily prolonged by going into Iraq, occurring under a Republican administration. Now, would the debt that confront now, in part, be accounted for by the 2001 Bush tax cuts?

Mr. HALL. Yeah, I am not sure how that plays into it, but I think it did have a negative impact on the deficit.

Mr. JEFFRIES. And a negative impact on the deficit could also be attributed to the 2003 Bush tax cuts, is that correct?

Mr. HALL. I believe so. I have not looked at those numbers lately.

Mr. JEFFRIES. It also seems to me that the economy, which collapsed, in 2008—perhaps because of this theory of Republican financial deregulation, but I know you will not characterize that one way or the other—but the collapse of the economy in 2008 contributed, in some measure, to the debt and the financial situation that we find ourselves in right now. Is that not correct?

Mr. HALL. Yeah. There is a nice statistic I can throw at you, is the debt in 2007 was about 35 percent, the cumulated debt of GDP. And in just 5 years, it doubled to about 75 percent of GDP over that time period.

Mr. JEFFRIES. Okay. And then, the icing on this cake that has been given to us by my good friends on the other side of the aisle seems to be the \$2 trillion in additional debt to subsidize the lifestyles of the rich and famous in a way that was totally unnecessary, given the state of our economy at this moment.

And so, I know my friends on the other side of the aisle, in good conscience, have a different perspective, but it is really hard to be lectured about fiscal and financial restraint, given all of what we just detailed that has taken place over the last 18 years. I yield back.

Chairman WOMACK. Mr. McClintock, California.

Mr. MCCLINTOCK. Thank you, Mr. Chairman. I would remind my colleague that the deficit annually exceeded \$1 trillion in the Obama-Pelosi era, and the national debt doubled under that administration. But that does not excuse the deficit numbers and projections that we are seeing today. I have also tried to educate my friends over the years to the fact that debts and taxes are really the same thing. A deficit and a tax are the only two possible ways to pay for spending. This is driven by spending. A deficit is simply a future tax. We borrow now and pay it back out of future taxes. But it is all driven by spending.

My greatest fear for our country is that our spending-driven debt and our annual deficits are setting the stage for a debt spiral that

could well lead to a sovereign debt crisis. We have already seen years of irresponsible fiscal policy having cost Puerto Rico access to the credit market, which has left it absolutely helpless to respond to emergencies when it was struck by natural disasters.

Mr. Hall, are we setting the stage for a debt spiral, when the capital market begins assessing higher interest rates to compensate for higher risk?

Mr. HALL. Yeah, the difficulty in that is knowing how much is too much, but I think that we have accumulated a lot of debt. We have increased the risk of a debt spiral, of a financial——

Mr. MCCLINTOCK. Now, that 5 years ago, Standard and Poor's downgraded our AAA credit rating for the first time in history, did it not?

Mr. HALL. It did.

Mr. MCCLINTOCK. How are credit markets assessing our current situation?

Mr. HALL. Well, it is hard to know how to characterize that, but that is, I think, the right thing to focus on, because if the U.S. debt gets sufficiently higher and we seem to show insufficient resolve to fix it, then it can affect the willingness of credit markets to lend Federal Government money without a premium.

Mr. MCCLINTOCK. And we do not know when that is going to occur, but we are quite certain, on the path that we are now on, it will occur.

Mr. HALL. Yes. I think we have characterized, and I still would characterize, the path as unsustainable.

Mr. MCCLINTOCK. Now, if Treasury yields begin to rise due to market concern over all level of debt and our inability and unwillingness to manage that debt, what does that do to our interest costs?

Mr. HALL. Well, it can raise our interest costs significantly. Our forecast already has really high interest costs. At some point in the future, that could raise it significantly.

Mr. MCCLINTOCK. Now, we are already paying, both Republican and our governmental debt, about \$475 billion just to rent the money we have already spent, are we not?

Mr. HALL. That is right.

Mr. MCCLINTOCK. What does a 1 percent increase in the interest rate do to our interest costs annually?

Mr. HALL. We have not worked out that rule of thumb number, but it raises it significantly.

Mr. MCCLINTOCK. Is it roughly \$200 billion a year?

Mr. HALL. Yeah, I think that is what we worked out last year. It should probably be about the same.

Mr. MCCLINTOCK. So, a 1 percent increase in interest rates this year would add another \$200 billion to our interest costs, even if we balanced the budget this year?

Mr. HALL. That is right. And I would say, in terms of the uncertainty in our forecast, that is one of the biggest ones.

Mr. MCCLINTOCK. Now, a debt spiral occurs when the market begins raising interest rates or interest costs balloon accordingly. Since we have to borrow that money as well, the risk goes up, the treasury yield goes up, and we enter a debt spiral. Is that correct?

Mr. HALL. That would be the——

Mr. MCCLINTOCK. What are our policy options, at that point?

Mr. HALL. They are pretty tough. They are much more Draconian than anything we have faced, I think, maybe ever, if that happened.

Mr. MCCLINTOCK. Is Venezuela, right now, going through a sovereign debt crisis?

Mr. HALL. I believe so. I do not know that much about Venezuela's situation. But there are countries like Venezuela who have gone through this.

Mr. MCCLINTOCK. Well, I think history is screaming this warning at us that countries that bankrupt themselves simply are not around very long. Now, a lot has been said about mandatory spending, but does the Budget Act not give Congress expedited powers, streamlined powers, to deal with mandatory spending?

Mr. HALL. I am not an expert in that, so I am going to have to pass on that one. I do not know.

Mr. MCCLINTOCK. Well, the budget adopted by Congress has discretionary and mandatory spending levels, and then triggers a reconciliation bill, which gives us expedited, streamlined powers to adjust any statutes to conform to those mandatory budget levels. But that requires a budget to be in place. What effect on our ability to deal with this looming crisis is our failure to even produce a budget this year?

Mr. HALL. Well, certainly, the uncertainty is not efficient for the Federal Government, and certainly for expectations going forward. I think that one of your concerns is a valid one, that a lot of our ability to function depends upon people's confidence in our ability to handle the deficit.

Mr. MCCLINTOCK. And we do not even have a plan to do so, at this point, and certainly have shown no inclination.

Mr. HALL. None that I have heard.

Chairman WOMACK. Thank you. Mr. Boyle, Pennsylvania.

Mr. BOYLE. Well, thank you to the Chairman, Ranking Member, and thank you, Dr. Hall, and not just for testifying, but your work. But I also want to say for everyone at the Congressional Budget Office, it is incredibly important in any time that we have a non-partisan agency to simply call the balls and strikes without partisan interference. But I think especially in these times, the work that CBO does is vital. So, thank you, and to everyone at CBO.

Last year, at a number of town halls I held in my district, I predicted that the fiscal and budgetary plan of the majority was in two parts. First was to push through a massive tax cut, which they ultimately did, to the tune of \$1.9 trillion.

And to put that into perspective, the Obama-era stimulus—back when the worldwide economy was in the great recession that some on the other side complained wildly about for its enormous size—that was under \$1 trillion. So, the tax cut that was just planned was actually double the size of the Obama stimulus. And bear in mind something that is often forgotten—half of the Obama stimulus was a tax cut. Only half of it was, in fact, spending.

Part two of the majority's plan, though, after spiking the deficit and the debt to unsustainable rates, is to come back and say, "My God, we have a deficit problem. We have a debt problem. It must be because of out-of-control spending." And then, of course, the

area to target are the two biggest drivers of our spending, Social Security and Medicare. Part one of that plan has already happened, and I fear that 2018 will be, as Speaker Ryan put it, about “entitlement reform,” which is, essentially, part two of that plan.

Now, on to this deficit and debt. There have been previous periods, as one of the speakers on the other side pointed out, where our deficit has exceeded \$1 trillion. They did in the great recession. You also saw, in the 2001, 2002, early part of the George W. Bush era, a massive tax cut which spiked the deficit and took us from a few straight years of surpluses to deficits. But at least, in those last two examples, the economy had fallen into recession.

We had, of course, the great recession beginning in December of 2007, though no one knew at the time that recession had started in December of 2007. Everyone knew it by the fall of 2008. And, in 2001, the economy also went into recession.

What really concerns me is the fact that in an era of an unemployment rate of almost 4 percent, in an era of growth, not recession, that we are already exceeding, as we will next year, \$1 trillion in deficit. I ask you, what tools will be at our disposal when the next recession hits?

Because sure enough, just as we know the sun will rise tomorrow, we know that there will be another recession yet to come, and that this economic growth cycle of approximately 8 to 9 years now will inevitably end, and we will enter into recession. And if we already have a \$1 trillion deficit when that happens, what tools will be at our disposal in order to inject stimulus into the economy?

Mr. HALL. You are focused on something that I think is really important, is we have deficit and debt at this time period when there is essentially no slack in the economy. There is no recession going on. This would be a time where one could run a surplus and try to pay for debt that has been accumulated during the last recession. But we are not in that position, and if you think about what happened with the great recession—I think I mentioned this before but I will mention it again—debt doubled from 35 percent of GDP, which was already considered to be a high level, to 75 percent in just 5 years.

So, one of the real worries going forward is exactly what you described. If we go into an economic downturn, the tools available for Congress and everybody else to deal with it will be much more limited than they have been in the past. And I think that should be a real concern.

Mr. MCCLINTOCK. Thank you. I yield back the remaining 25 seconds of my time. Thank you.

Chairman WOMACK. Mr. Woodall, Georgia.

Mr. WOODALL. Thank you, Mr. Chairman, and thank you, Dr. Hall for being here. Dr. Hall, I want to pick up where my colleague left off. You said in these more robust economic times, these are times where we could be running a surplus. I have your economic outlook that you just published. I have the one from last April. I have the one from last January. Which one should I be looking at, where you were forecasting America’s economic future and you saw those surpluses in the numbers?

Mr. HALL. Well, under current law, it has been quite a long time since current law pointed toward surpluses.

Mr. WOODALL. Well, let me make sure I understand, then. If these are the times where we should be running surpluses, but no look that you have taken in your tenure at CBO has us running surpluses, what tools are there, then, to get us from where we are to the surpluses that you think we should be achieving?

Mr. HALL. Well, what I was trying to suggest is not that we should be running a surplus. I do not want to offer advice like that. But if you are going to run a surplus, and you are going to run a surplus to deal with the debt, the time to do it would be when your economy is in full force, it is functioning near its potential.

Mr. WOODALL. Undeniably, that is true. I am thinking about what are the tools to make that happen? I heard one of my friends on the other side talk about spending, and that we did not have a spending problem. What I am looking at, at the CBO reports, and I look at taxation as a percent of GDP—certainly, we have just undergone a tax cut, but all of your previous reports suggested to me that the level of taxation in America was already higher than the historical norm. Have I been reading your historical reports accurately?

Mr. HALL. Oh, yeah, you have. You have.

Mr. WOODALL. Absolutely. I saw that in the appendix. But I guess what I am trying to understand is, if the CBO is reporting that we have been experiencing record high levels of taxation in this country, way above the historical norm, that we are experiencing a sound economy in ways, that you would expect this to be the time to dig us out of any hole that we have been in, I am just trying to think of what other tools are available to us, and I cannot think of many. And I was hoping you might, in your expertise, have some other ideas.

Mr. HALL. Well, in a sense, the tools are three, right? You can reduce spending, you can increase revenues, you can try to grow the economy, but I do not think growing the economy is going to make enough of a difference on its own. And I think it is such a big problem, you need to think about it broadly.

Mr. WOODALL. Well, I appreciate your saying that. I appreciate all the kind words that you have received for your leadership and for your organization. I think you are exactly right. If we are experiencing record high taxation, experiencing more record high taxation is probably not the best tool in the toolbox. Dealing with spending, on the other hand, is an important thing to do. We can demonize it all we want to, but you cannot demonize deficit spending and reducing spending simultaneously.

What I also want to follow up on is folks applauded your role as the nonpartisan scorekeeper, which I value. But I also noticed in your response to the Chairman about transparency, you made a note of other institutions that were also looking at economic prognostication, and how you compared to them. If we were to have the Federal Reserve economist sitting beside you this morning, would you think that would be a partisan analysis they were sharing with us, or would you put that in the nonpartisan analysis, also?

Mr. HALL. My experience is that they are nonpartisan. They are very solidly nonpartisan.

Mr. WOODALL. Now, what if we brought in one of the big Wall Street macroeconomic analysis groups. Would that, then, be a partisan analysis, or would they also give us a nonpartisan view?

Mr. HALL. Probably nonpartisan. It sort of depends.

Mr. WOODALL. So, you would say that, while we might all recognize the importance of a nonpartisan analysis, that finding nonpartisan analysis is not a particularly difficult thing to go? We do have institutions across this country, including the CBO, perhaps even led by the CBO, but institutions across this country that provide that same high-quality analysis and effort to do it in a nonpartisan way.

Mr. HALL. Right, yeah. And certainly, we offer more than just an economic forecast because we are doing the whole baseline. But we do. There are other places, and we do look at them, actually. We do compare our numbers to make sure that we are not too out line and understand if we are a little out of line that we are confident in what we are forecasting.

Mr. WOODALL. Thank you very much for your work on this product and for being here today. Mr. Chairman, I yield back.

Chairman WOMACK. Ms. Jayapal, Washington.

Ms. JAYAPAL. Thank you, Mr. Chairman. Director Hall, thank you so much for being with us again, and thank you for all the work that you and your staff do. I, too, wanted to echo some of the comments that Mr. Boyle made. I am troubled by some of the statements that we heard last year, as our Republican colleagues attempted to push through—did push through—a tax plan that really benefited only the wealthiest in the country and tried to say that it actually paid for itself. And I just want to read some of the quotes that we heard.

So, President Trump's top economic advisor, Gary Cohn, said, "We can pay for the entire tax cut through growth." Treasury Secretary Steve Mnuchin agreed; "The plan will pay for itself." Senator John Thune said that, "Even a modest amount of economic growth could cover the cost of this bill," and White House Budget Director Mick Mulvaney went so far as to say that he thinks that it, "actually generates money." Director Hall, does this bill—do the tax cuts pay for themselves, in your analysis?

Mr. HALL. No. Our estimate is that they increase the deficit by almost \$1.9 trillion over the next 10 years.

Ms. JAYAPAL. So, the tax cuts increase the deficit by almost \$1.9 trillion over the next 10 years. And, do you think that we will be in a position where there is any level of sustained growth that, in your analysis, would somehow mitigate that? Your analysis counts for that, obviously, but tell us about the growth assumptions. Maybe that is a better way to state the question.

Mr. HALL. Well, sure. And really, there are kind of two different growth things going on. The tax act, in particular, made some changes that encourage investment, encourage capital deepening, and we think that that did, in fact, contribute to potential GDP, which is sort of the supply side of view. And we do have an increase in potential GDP throughout the 10-year period, and probably some increase after that. But also, at the same time, a lot of the tax act and actually the other two bills, the Bipartisan Budget

Act and the Consolidated Appropriations Act, provided a lot of stimulus.

So, you have some increase in potential, but you have a lot of stimulus, and that stimulus is going to push growth above its potential for a while. And while that is good in the short run, the fact that it is above potential is going to cause pressure. It could increase pressure on inflation and interest rates, and we think what is going to happen is the Fed is going to react, raise interest rates faster, interest rates are going to go up faster.

So, we are going to have to then go through a bit of a cycle. After this strong growth from stimulus that is going to come down, we are looking for a soft landing to get us back toward potential. So, we go through this sort of cycle now, I think.

Ms. JAYAPAL. So, for people who are listening who may not be as familiar with the numbers as you are, that means that you estimated, I think it was 3.4 or 3.5 percent for this year. Is that correct?

Mr. HALL. That is right.

Ms. JAYAPAL. And then you brought it down to a much lower level for the following year. So, in other words, it is not generating sustained growth in the economy. And the result of that is this \$1.9 trillion deficit. So, let me ask you another question sort of related to growth. Did you factor in any effects of a restrictive immigration policy?

Mr. HALL. No. Our assumptions on the level of immigration has been pretty much the same.

Ms. JAYAPAL. So, if we were to pass bills that the other side has been pushing that would significantly restrict immigration policy to this country, what would happen to growth?

Mr. HALL. Well, it depends on what is done, exactly.

Ms. JAYAPAL. Let's say we cut legal immigration by 25 million over the next five decades.

Mr. HALL. Sure.

Ms. JAYAPAL. Which is the proposal that Chairman Goodlatte has put on the floor.

Mr. HALL. Well, one of the concerns we would have on the possible outcomes would be a lowering of the labor supply. And it is part of why our near-term projection is pretty high now because we have the labor supply increasing pretty significantly, labor force participation going up. That would, potentially, have the other effect, where it would lower the labor supply, and it could restrict our ability to produce.

Ms. JAYAPAL. And so, it could significantly increase our deficits, because it could significantly decrease our growth. Let me ask you this. I said last year, as Mr. Boyle did, that the plan here is to first, transfer trillions of dollars of wealth to the wealthiest—you do not have to comment on that—through the tax cut.

Second, balloon the deficit, which is what has happened; \$1.9 trillion deficit, the majority of which is because of this tax cut. And then, third, to use that as an argument to cut spending on programs that I consider earned benefit programs, programs like Social Security, programs like Medicare. There are other options besides that.

What would happen, for example, if we raised the cap on Social Security? And you have just 8 seconds, and I know the Chairman is very certain about these things.

Mr. HALL. It would generate some more income, and revenue would go up. We have an exact estimate. I do not have it in my mind, but we have a document called "Options for Reducing the Deficit," and we do go through that scenario.

Ms. JAYAPAL. So, there are lots of opportunities to do things that do not involve cutting Social Security, even though that is certainly what, sometimes, the majority seems to be focused on, is cutting Social Security.

Mr. HALL. Right. Though I do say, just in general, sometimes the effect of raising that limit gets exaggerated. It does have an impact, but it is not a solution.

Ms. JAYAPAL. Fair enough. Thank you.

Chairman WOMACK. Let the record reflect that I did give her a chance to throw one more question.

Ms. JAYAPAL. You are always very generous with me, Mr. Chairman. I have to say that.

Chairman WOMACK. Thank you. Mr. Renacci, Ohio.

Mr. RENACCI. Thank you, Mr. Chairman. I want to thank Director Hall for being here. I was a business guy for 30 years. I used to love when the numbers guy came in and talked to me, so I love your numbers. Let us talk about them. Let us go to your numbers.

Mr. HALL. Okay.

Mr. RENACCI. Total revenue over 10 years goes from \$3.3 trillion to \$5.5 trillion. That shows me an increase of 66 percent. You do not have to answer that. It is 3.3 to 5.5. You can calculate it. It is 66 percent. That is great. In my business world, if you came to me and told me revenues were going to increase by 66 percent, I would say, "We are going to have some record good years." The problem is, mandatory spending goes from \$2.519 to \$4.524 trillion.

That is an increase of 80 percent, and I would say to you, "Wow. We have got some serious problems. Not on the revenue side, because we are growing 60 percent. We have got problems in the spending side because we are growing 80 percent over 10 years." Again, these are your numbers.

The other problem we talk about is growth, and I am going to ask you a question, and I know you are going to have a long answer about growth. We talk about growth, and of course, the tax plan is going to get us some growth. I heard you say just earlier, "Growth is not that important, in many cases." But I go back to 1996 to 2006, and the average growth rate was 5.52 percent. That is the reason we balanced the budget.

That is the reason we had surpluses. It had nothing to do with anybody sitting around this room, or anybody in Congress. We had growth because the economy was booming. It was the tech age. It was the computer boom. I was living it. In fact, government even budgeted for \$2 trillion in expenses during those periods and doubled their expenses. So, Congress just got in the way half the time. It was the economy that was moving.

The problem is, we keep narrowing ourselves down to the tax cuts. The other side wants to talk about the tax cuts. And let us talk about that. According to table 4.4, page 47, the gross Federal

debt increases from \$21.3 trillion in 2018 to \$33.8 trillion in 2028. That equates to an increase in the national debt in that time period of \$12.5 trillion. While I disagree to the extent the impact of the debt that H.R. 1 will provide, it does say that H.R. 1 will provide \$1.854 trillion to that debt. That is your calculation.

Mr. HALL. Yes.

Mr. RENACCI. That is 15 percent of the total problem. That is 15 percent of the total deficit; \$12.4 versus \$1.854. There is \$10.564 in additional debt that is going to occur over the next 10 years, and we keep talking about the tax bill. Tell me what you believe is in that \$10.564, because that is really the problem. That is the 80 percent increase. Where are we at, and what is going to cause that?

Mr. HALL. Well, this is something that we have actually been saying for a long time, that the aging population is going to raise spending on the entitlements pretty significantly. It has been coming for a long time. That is the big driver of the increase in the deficit, going forward. And part of why I caution about not counting on economic growth is we also have, for the same reason, we have some limitations on our ability to grow the economy, because we have an aging population. We are just not going to get that sort of growth in the labor supply that we had at one point.

Mr. RENACCI. But you do agree that the aging population, which does contribute to mandatory spending—which does contribute to your numbers going from \$2.5 to \$4.5 trillion over 10 years, which is an 80 percent increase—that needs dealing.

Look, it is not the fault of many people here. I call it “demographics.” We have an aging population bubble that is coming through. Would you agree that that is our biggest problem, with our debts and deficits?

Mr. HALL. Well, that is the biggest reason for why we have a growing deficit, absolutely.

Mr. RENACCI. That is the greatest answer I have heard, and I appreciate that, because too many times, people on the other side and even on this side, we talk about taxes. I just told you, our taxes are going up. Our revenue is going up 66 percent. If I was in business, I would be slapping you on the back, and I would say, “Let us go have a beer today, because our revenues are going up 66 percent over the next 10 years.”

But I really would be saying, “What are we going to do to cut this 80 percent increase in mandatory spending? What do we have to do to cut those numbers?” And you just answered it. It is a demographic bubble that we, as people here in this budget, better start talking about.

Now, there will be somebody on the other side that will say, “Renacci wants to cut Social Security.” That is not true. I think that is a program that has to be around, but I think you would also agree that these programs have to be looked at. They are not sustainable, and if we do not look at these programs, we are going to have a massive debt problem. I heard one of my colleagues talking about spiraling debt. God help our children and grandchildren. I say it all the time. I am concerned for them every day because we cannot make the decisions that are necessary to fix this mandatory spending. I thank you for your time, and I yield back.

Chairman WOMACK. Mr. Carbajal, California.

Mr. CARBAJAL. Thank you, Mr. Chairman, and certainly, I appreciate my colleague, Mr. Renacci, on the other side's comments. I was just hoping to see him at my Armed Services Committee asking for an audit to finally be done of the Department of Defense, which has never been accomplished to date in the history of our Nation.

Dr. Hall, thank you for being here and for the nonpartisan good work that the CBO does. CBO's new forecast shows a worsening fiscal outlook for our Nation, with a large part due to the recently passed Republican tax plan. The tax bill alone increases our deficits over 10 years by about \$1.9 trillion, almost half of our national budget. Is that correct, Dr. Hall?

Mr. HALL. That is correct.

Mr. CARBAJAL. Dr. Hall, in your analysis of the economic impact of the Republican tax bill, it looks like most of the short-term benefits fade away over time, in particular, on page 115, on the last 4 years of the outlook window. Your table B2 shows that the tax bill will actually reduce our GDP growth rate. Is that correct?

Mr. HALL. That is right. That is the cycle I mentioned from the stimulus being thrown into an economy with near potential.

Mr. CARBAJAL. Thank you. It is troubling that my Republican colleagues insist these tax cuts would pay for themselves, when we can see it is just not true. Meanwhile, later today, the majority plans to vote on a flawed balance budget amendment. Now that we have thrown our finances out of whack, we want to move forward with a balance budget amendment. That would lead to deep cuts to Social Security—let me repeat, Social Security—and Medicare, and Medicaid.

There is no question we need to address our growing debt, and that requires painful tradeoffs. Unlike some of my Republican colleagues, I believe that cuts to Social Security, Medicare, and Medicaid to pay for tax benefits that mostly go to multi-national corporations and the wealthiest 1 percent of Americans is not the right priority for our country. Looking at ways that we can grow our economy, Dr. Hall, as a general rule, does immigration tend to increase or decrease our economic growth?

Mr. HALL. Well, in general, immigration can raise the labor supply and increase growth.

Mr. CARBAJAL. I want to remind my colleagues that a 2013 comprehensive immigration reform proposal would have reduced Federal deficits by \$850 billion over 20 years, and increased GDP by 5.4 percent over 20 years. I hope we can consider proposals like this one, that would actually make our economic future better. Thank you, Mr. Chairman. I yield back.

Ms. BLACK. [Presiding.] The gentleman yields back the balance of his time. The gentleman from Virginia, Mr. Brat, you are recognized for 5 minutes.

Mr. BRAT. Thank you, Chairman. Thank you for being with us today. Let me ask you a couple of questions. In your view, all else equal, what would generate more economic growth: if you reduced taxes \$2 trillion, or raised taxes \$10 trillion?

Mr. HALL. Well, certainly, tax reduction would generate more growth, and that is what we have reflected in our forecast.

Mr. BRAT. Great. And so, thank you for that thoughtful, accurate answer. In response to the comments on immigration in the labor force, I think people have not taken Econ 101. And so, it is clearly true if you imported everyone in the world, right, all 8 billion people into our country, what would happen to economic growth? It would go through the roof. Would anyone be better off?

Mr. HALL. Well, we would not necessarily have a rise in GDP per capita, I think.

Mr. BRAT. Correct, right? And so, this whole conversation is totally misplaced on labor supply, right? What people care about is income per capita, right; how they are doing. And so, the immigration and labor supply, et cetera, is missing the point.

I wish my Democrat friends would go back to their buddy and my buddy, JFK, who got tremendous economic growth by focusing on things that matter. Productivity is what matters. That produces per capita growth. Adding more labor supply by itself, it depends. So, immigration, if you are pulling in folks that have, on average, a tenth-grade education, what, is your guess, happens to productivity for the country?

Mr. HALL. Right. I am sorry, once more.

Mr. BRAT. On average, the folks that are coming into the country have about a tenth-grade education.

Mr. HALL. Oh, I see.

Mr. BRAT. All children of God, they are all Catholic brothers and sisters, but what does that do to national productivity, on average?

Mr. HALL. It really kind of depends upon the mix. Less skilled immigration does not add to productivity. More skilled actually does, so that mix is important.

Mr. BRAT. Right. And so, I want to get to this year on the spending side. It has been abstracting from reality, in my view. If you look at what happened this year on the Budget Committee, the House did a budget and plussed up the military, nothing else. And we did tax cuts, and I have asked the CBO to score, right? The Chicago guy said the tax cut bill does not pay for itself. I think that is true. It pays for maybe a third of itself.

But the Republican agenda with deregulation, et cetera, has produced economic growth that, for the past 10 years or so, we have been growing at about 1.5 or 2 percent, and now we are looking at 3 percent. Right after you do tax cuts and get rid of regulation, I do not think there is anything shocking here.

The shocking thing is that we did the tax cuts, and the mainstream press, the Democrats discovered this thing called the deficit. But then, when we went over to the Senate and we needed nine Democrat Senators, we had to plus up the budget by \$400 billion, and not a word on that \$400 billion from the colleagues. \$400 billion is bigger than \$150 billion. And just to show you who we needed to negotiate with, the biggest block of votes on the Democrat side—and this is why I asked you the opening question—the Progressive Caucus got 107 votes for their budget, the Progressive Caucus budget, that raised taxes by \$10 trillion, raised spending by \$11 trillion, and had more debt and deficit than the Republican agenda when we cut taxes.

Right? And so, I asked you the question, “Which is better for growth, raising taxes \$10 trillion, as the other side wanted, or cut-

ting taxes by \$1.5 or \$2 trillion that we wanted?” And now you guys did not get the growth forecast right. It would be pretty hard for you to forecast who is going to be President a year out or whatever.

But now, it seems empirical evidence is coming in. And, in your view, when consumer confidence is at historic highs and when business capital investment and business future expectations are at all-time highs, do those two variables usually go along with economic growth in the future?

Mr. HALL. Yeah. There are signs that consumer spending is going to be strong.

Mr. BRAT. Yeah, and there are signs that consumer spending is going to be strong, but consumer spending is passive, right? It is kind of the Keynesian composition of demand, right? So, consumption is 70 percent of demand, blah, blah, blah. Why do consumers have money to spend? Because the business side did capital investment. And what leads to capital investment? Do you think the Republican tax cut policy, that allows for immediate expensing, is good for capital investment?

Mr. HALL. Yes, I do, and in fact that is part of our forecast, is that we think that part of the tax act encourages capital deepening, and maybe reduce some distortions. So, it is giving a boost to this potential GDP. It is one of the reasons why I focused on that.

Mr. BRAT. Right. And in the comments, I wish we had more on the supply side. Some folks on the other side of the aisle like to poo-poo the supply side. Another name for the supply side is “business.” Everybody in the country that goes to work in the morning at a business is on the supply side, and that is the cause of the growth that allows consumers to spend. In your view, in the growth theory, what are the two or three major variables that cause economic growth?

Mr. HALL. Well, in the long-term, it is almost kind of a simple recipe, right? Labor supply, productivity, and then productivity depends upon capital deepening. And then, you can get things like regulation in there, that helps productivity, and maybe helps the labor supply, too.

Ms. BLACK. Gentlemen, time has expired.

Mr. BRAT. Right. I think I ran out of time. Thank you very much.

Ms. BLACK. Gentlemen Mr. Sanford from South Carolina is now recognized for 5 minutes.

Mr. SANFORD. I suspect that both sides could point plenty of fingers at the other side in aligning blame, but I guess my bigger question is, “Are we set up for a disaster, in financial terms?” And so, I was jotting down, here, some notes. If I am not mistaken, this is an all-time peacetime high, in terms of debt, to GDP numbers. That we have never, in our country’s existence, seen a higher number.

We are in a benign interest rate environment relative to historic patterns. We have an aging population. To a degree, we still have at least a remnant of Pax Americana, maybe not the 1950s or 1960s, in terms of America’s percentage of GDP relative to the rest of the world, but still, well over robust. But it is still a shrinking role, relative to the GDP of the world.

We have asset inflation, and you can look at that in real estate values. You can look at it in PEs, you can look at it in dividend yield, which I think, in part, drives consumers spending, which is the wealth effect. We have economic longevity. I think we have the third longest economic recovery in American history going. It has been anemic; had not had wide distribution. Maybe it has been more concentrated than light. But it has had the duration.

You add all those things up, and you say, "Wow. If something went wrong, it could go really wrong." I guess going back to my colleague from California's point on debt spiral. Are we set up for a disaster?

Mr. HALL. Well, part of my concern—I alluded to it before—is we have such a high debt and deficit level right now when the economy is operating near potential. So, the concern is, of course, is we want to be operating near potential forever. And when we go through business cycle, we will be going through business cycle where the debt deficit's starting at a very high level. So, if you go through normal sort of cycle, those numbers could get much worse than we had forecast.

Mr. SANFORD. Give me odds

Mr. HALL. Sorry?

Mr. SANFORD. Odds.

Mr. HALL. We try not to do that. A timeframe, I would be a little worried right now as we are going through a cyclical period with GDP. Right? GDP is now going to be above potential. We are looking for a soft landing, so.

Mr. SANFORD. When I look at the kind of ingredients that I looked at here, I do not know of a civilization that has seen a soft landing from this kind of economic unraveling. I mean, if you combine all of these different things in with the aging population, with, you know, interest rates possibly clicking up. Tell me how many other civilizations have seen soft landings.

Mr. HALL. I am not an expert in that, but we are certainly having a lot of faith, I think, in the Federal Reserve's ability to sort of deal with the cyclical aspect.

Mr. SANFORD. Yet if I remember right, back in the 1930s the Fed's comment at the end of the day was they likened it to "pushing on a string." That there was, in fact, limited effect as to what they could do. If I am not mistaken, the Fed's balance sheet has quadrupled over, you know, basically since 2008. We have gone from about \$1 trillion in asset base to about \$4 trillion in asset base. Are they not quite limited in what they could do going forward?

Mr. HALL. Well, I would say to me one of the most encouraging things is expectations on inflation have just remained very calm, around 2 percent. And really what that is is that is investor confidence that the Federal Reserve is going to be able to handle things.

Mr. SANFORD. I cannot remember the name of the gentleman. He may have been head of the New York Stock Exchange or maybe the head of the Fed. But his point was stocks had reached a permanent new plateau. And this was 1929, just prior to the crash. Again, these things have a way of unraveling, and I will come back to that. But I do want to ask one question going back to the point that

was made earlier on the tax and spending front. Our rough back of the envelope number for the last 50 years on spending as a percentage of GDP has been what?

Mr. HALL. It has been a little over 20 percent.

Mr. SANFORD. Revenue as a percent of GDP roughly has been about what?

Mr. HALL. Seventeen-something percent.

Mr. SANFORD. At the end of the tax cut, at the end of the 10-year mark, we will be about what?

Mr. HALL. Will be at about 18.5 on revenue.

Mr. SANFORD. We will be about where we have always been for the last 50 years.

Mr. HALL. And 23.6 percent.

Mr. SANFORD. So, spending is the part that is projected to unravel the budget going forward. Is that correct?

Mr. HALL. Right. And both numbers are above the 50-year average. Both numbers are going up. Spending is going up by more.

Mr. SANFORD. Thank you.

Ms. BLACK. The gentleman's time has expired. The gentlelady from Texas, Ms. Jackson Lee, is now recognized for 5 minutes.

Ms. JACKSON LEE. Mr. Hall, let me thank you for your presence here, and your repeated presence before the Budget Committee, and to the Chairman and Ranking Member. Mr. Hall, is this your testimony? You put it in a nice package for us. It looks like it says, "Keith Hall, Director." Is this the testimony that you submitted?

Mr. HALL. Yes.

Ms. JACKSON LEE. So, if I hold this in my hand and begin to read, you would surmise that I am not making it up as I read it from your testimony.

Mr. HALL. Yes.

Ms. JACKSON LEE. And I thank you very much. I think the responsibility of the American people is to be diligent. But those of us who represent the American people, our responsibility is to be truthful. And as Members of the United States Congress, which I tell the children in my district, the most powerful lawmaking body in the world, it is to provide the detailed oversight that is necessary. So, let me first of all read this, and you just simply say that is my testimony.

"As a result, Federal debt is projected to be on a steadily rising trajectory through the coming decade. Debt held by the public, which has doubled in the past 10 years, as a percentage of gross domestic product approaches 100 percent of GDP by 2028." Is that your testimony, sir?

Mr. HALL. It is.

Ms. JACKSON LEE. As I also reflect, so that my good friends on the other side of the aisle, you do have something that says, "GDP is projected to be greater than CBO." That is a headline. And then, you say, "It is projected to grow more quickly over the next few years. As a result, the levels of those measures are 1.6 percent higher than CBO previously estimated." So, you have got a little bit more growth. And you wanted to make sure that we knew that you knew that, and the CBO wanted to make that statement. Is that correct?

Mr. HALL. That is right. In the near term, yes.

Ms. JACKSON LEE. And in the near term. Very important point. In the near term. It does not say 10 years, 20 years; it says in the near term. You have got a headline, but this is in your statement. "Deficits are projected to be large by historical standards." Is that correct?

Mr. HALL. That is correct.

Ms. JACKSON LEE. And my surmising is—this is in his testimony—that the tax cut as have been given as a dupe to the American people will be about a \$800 billion deficit in 2018. I am so glad I voted against it. A trillion-dollar deficit in 2019; a trillion dollars in 2020 and keep on growing. Now, have you had a chance to look at the tax cut?

Mr. HALL. Yes. We did an analysis of it.

Ms. JACKSON LEE. Do you recall the corporate tax rate at this time?

Mr. HALL. Twenty-one percent.

Ms. JACKSON LEE. 21 percent, down from?

Mr. HALL. It used to be a scale, but it was as high as 35 percent.

Ms. JACKSON LEE. Correct. But let me just say my understanding, my factual understanding is that corporate America said give us 25 percent, but it might have been able to work with 28 percent. This tax bill wanted to overdo it on behalf of the American people, screw them out of, in essence, Medicare, destroy Social Security. They gave 21 percent. So, let me ask you this question. And what that means is that is less income coming into the Treasury. Is that correct?

Mr. HALL. That is right.

Ms. JACKSON LEE. And so, working Americans, but poor Americans, poor Americans have a devastating impact by a growing deficit. Do you think so, Mr. Hall?

Mr. HALL. Well, I think it raises the risk of economic downturns. Economic downturns are very hard on everybody, but it is particularly hard on lower income folks.

Ms. JACKSON LEE. Do economic downturns possibly generate loss of jobs?

Mr. HALL. Yes.

Ms. JACKSON LEE. And that would be loss of jobs of individuals who may be hourly workers, or temporary workers, or just workers in positions that might be considered expendable?

Mr. HALL. Yes.

Ms. JACKSON LEE. And say restaurants close because of the lack of business or the lack of the ability to carry the overhead. Is that correct?

Mr. HALL. That is right.

Ms. JACKSON LEE. All right. Let me also ask you this question. What have you learned about per capita spending for the Medicaid expansion population, and how have you revised your 10-year estimates for the program since June, which by the way go beyond poor people, but are elderly in nursing homes, are children with programs that we have touted, but they depend upon Medicaid spending. What have you determined there?

Mr. HALL. Well, we recently just lowered our forecast on Medicaid spending since June of 2017, particularly on the expansion

stage. Spending has been lower than we projected, so we have lowered our forecast going forward.

Ms. JACKSON LEE. You mean you lowered it in terms of it not being available for those individuals who need it?

Mr. HALL. No. No. It is just that the cost to the Federal Government has been less than we expected.

Ms. JACKSON LEE. And what do you attribute to that?

Mr. HALL. Just costs are lower. I do not think it is anything particularly with the number of people.

Ms. JACKSON LEE. Well, what do you project long-term about the viability of Medicaid in being able to pay for those individuals who might need it?

Mr. HALL. Yeah. I do not recall offhand what exactly our forecast is. But we do have a forecast going forward on that.

Ms. JACKSON LEE. Let me ask for the record, Madam Chair—

Ms. BLACK. The gentlelady's time is expired.

Ms. JACKSON LEE. Well, let me ask for the record to be able to have that from the Director, and just say that the frivolity of a balanced budget amendment should have been discussed when my friends passed the frivolous tax cut bill. With that, Madam Chair, I yield back.

Ms. BLACK. The gentlelady's time has expired. The gentleman from Arkansas, Mr. Westerman, is recognized for 5 minutes.

Mr. WESTERMAN. Thank you, Madam Chair. Thank you, Dr. Hall, for being here today. The fiscal year 2018 deficit projections went from \$563 billion to \$804 billion from the June 2017 CBO report to the April 2018 one. How would you assign liability for this deficit growth among specific legislative, economic, and technical changes?

Mr. HALL. Most of the increase was the Tax Act. A pretty big part of the increase was also an increase in discretionary spending from the Bipartisan Budget Act and Consolidated Appropriations Act. In fact, the number would have—the deficit would have actually improved a little bit if it were not for those three pieces of legislation.

Mr. WESTERMAN. So, the CBO report shows that under current law, the debt held by the public will be 96 percent of GDP by 2028.

Mr. HALL. Yes.

Mr. WESTERMAN. And if you add the other debt, we are already over 1-to-1 ratio on debt to GDP, are not we?

Mr. HALL. That is right.

Mr. WESTERMAN. Right. So, when was the last time in our Nation's history where a debt has been that large?

Mr. HALL. It was immediately after World War II. Just one brief period, about 1946. And that is it. And that is the only time. And one of the things I want to caution is that was a really different time than now. All right? We are at a very different time. And I think going forward, it is looking to get larger going forward, I think. And the trend is upward.

Mr. WESTERMAN. So, what would be some of the potential consequences of having a debt that is equal or above our Nation's GDP?

Mr. HALL. Well, number one is if we have an economic downturn, we will have much fewer tools in dealing with it. It could be much

more severe because we just do not have the tools because we have got so much debt. Second, the chances of a financial market collapse, or a financial market problem is higher now than it was before. And it really relies on the Federal Government is going to continue to borrow.

We really rely on people having confidence that the Federal Government is going to pay them back. Right? So, this is the part that makes it difficult to forecast because who knows when people are going to start asking for a premium from the United States? And then, of course it restricts the ability of Congress to do things. Right? Discretionary spending is going to be a smaller and smaller part of the budget.

Mr. WESTERMAN. And you may have already covered this, but what is the current interest on the debt payment?

Mr. HALL. I do not know offhand. I should know that, but the number is evading me. But we do think the long-term interest rates are going to go up significantly.

Mr. WESTERMAN. Can you give an approximate interest on the debt?

Mr. HALL. Okay. Our 10-year interest rate right now is about 2.4 percent. And we think it is going to go up to about 3.7 percent by the end of the decade.

Mr. WESTERMAN. But in dollar value, what is the interest on the debt payment?

Mr. HALL. I do not know in dollar value. One thing I do have is we have interest payments being about 1.6 percent of GDP. That gives you a little perspective of how easy it will be to pay it back.

Mr. WESTERMAN. So, 1 percent of GDP.

Mr. HALL. One-point-six percent, yes.

Mr. WESTERMAN. But I am saying for every 1 percent, that is about \$200 billion.

Mr. HALL. Yeah.

Mr. WESTERMAN. And 1.6, we are over \$300 billion in interest on the debt payment currently.

Mr. HALL. That sounds right. Yeah. And in 10 years, actually that interest payment is going to get very close to a trillion dollars.

Mr. WESTERMAN. And how will that affect our ability to fund other government services and the economic outlook of the country if we are paying a trillion dollars per year in interest on the debt?

Mr. HALL. I think I said this before, but I will repeat it. It is going to be larger than all of defense spending; it will be larger than all of nondefense discretionary spending.

Mr. WESTERMAN. It will be the largest single expenditure in the Federal Government will be interest on the debt?

Mr. HALL. Well, mandatory outlays will still be larger.

Mr. WESTERMAN. Is not Social Security the largest one now, just over \$900 billion?

Mr. HALL. Yes.

Mr. WESTERMAN. So, we are talking about interest on the debt at over a trillion. I was looking at the outlays in 2017, 3.982 trillion; 2027, 6.615 trillion. That is 2.633 trillion in 10 years, or 66 percent increase if you average that 6.6 percent per year. Is that what you consider the baseline, and if we reduce that growth, would that be considered a cut?

Mr. HALL. That is right. That is right. We compare things to the baselines. So, we are comparing things to a growing baseline. That is right.

Ms. BLACK. The gentleman's time has expired.

Mr. WESTERMAN. Madam Chair.

Ms. BLACK. The gentleman from New York, Mr. Faso, is recognized for 5 minutes.

Mr. FASO. Thank you, Madam Chairman.

Dr. Hall, thank you for your service, and thank you for the sobering analysis that you and your staff have provided for us today. CBO is projecting that mandatory outlays for major healthcare programs, including Medicare, Medicaid, health insurance subsidies, and SCHIP will total a little over a trillion dollars in fiscal year 2018, and almost doubled to two trillion by fiscal year 2028. What are the biggest or largest factors that CBO is attributing this large increase in Federal healthcare spending?

Mr. HALL. Well, the number one thing is the aging population. We are just going to have more people who are 65 and older, and of the people 65 and older, more will be older.

Mr. FASO. And that is not a Democrat or Republican, a Liberal or Conservative factor; that is just plain simple demographics, is not it?

Mr. HALL. It is demographics, and it is demographics that we have seen coming for a long time.

Mr. FASO. And so, other than demographics, what do you attribute that increase in expenditure to?

Mr. HALL. Well, the second biggest thing is the cost of healthcare. For decades now, the per beneficiary cost of healthcare has been growing faster than GDP. And I am not sure that we understand that well, but it has been, and so we forecast it will continue to grow faster than GDP going forward.

Mr. FASO. Could you attribute a portion of that growth in healthcare expenditures to the fact that we have created, since World War II, a third-party payment system through insurers where consumers and providers actually do not have an economic relationship to each other?

Mr. HALL. I mean, that is certainly one of the changes. I am not an expert in the field, so I do not want to talk too much about what is causing that.

Mr. FASO. But you are more expert than most.

Mr. HALL. There certainly has been an increasing Federal role in healthcare. And that has become a bigger and bigger part of the budget as a result.

Mr. FASO. And so, when we are looking at the means testing programs for mandatory spending, the CBO last year told us that this spending grew substantially over the prior decade, doubling from 385 billion in fiscal year 2007, to about 745 billion in fiscal year 2017. What accounts in this area for the most significant growth in mandatory means tested spending?

Mr. HALL. I suppose a lot of it still is the aging population part of that. I am not sure I can answer that really well. I have not looked at that lately. We did a report last year on it. We have not updated that. But certainly, part of it is still the aging population. Some of it is simply that healthcare costs are rising fast.

Mr. FASO. Now, we just had the budget agreement that I supported in the House. It was 6 months late. We had passed all the appropriations bills in the House. None of them passed the Senate. We wound up in a continuing resolution situation. And that budget that we passed, those spending bills, defense and nondefense discretionary spending, represents about 28 percent of the Federal spending. The mandatory Social Security, Medicare, Medicaid, and interest, and other mandatory items I guess as well in that, represents about 72 percent of Federal spending.

How can we get better public recognition of the fact that, yes, our friends on the other side will blame the tax bill, but so much of the growth in spending is on automatic pilot in Washington? And when Congress is considering and goes through long, extended discussions and continuing resolutions about budgets, we are talking about 28 percent of spending.

Mr. HALL. We have been talking about this for a long time. Every year we put out the report; we talk about the role that mandatory spending is playing not only up to now, but also going forward, having a larger and larger share of the Federal budget.

Mr. FASO. And the major factor in this, as you said at the outset, are demographic factors—

Mr. HALL. That is right.

Mr. FASO.—which have no left or right, Democrat, Republican, Liberal, Conservative slant to them. The facts are what they are. The demography of our country is that we are all living longer, and that is great. But the demography is that there are not enough young people coming in behind us to help sustain the mandatory spending. And that, it seems to me, is the major challenge that we face on both sides of the aisle in getting the public to understand what truly is driving these expenditures.

Mr. HALL. I think that is correct.

Mr. FASO. Thank you, Madam Chairman. I yield back.

Ms. BLACK. The gentleman's time has expired. The gentlelady from Illinois, Ms. Schakowsky, is recognized for 5 minutes.

Ms. SCHAKOWSKY. Just to follow up on the line Mr. Faso was talking about. What about prescription drug prices? Is not that driving a lot of an increase? We have seen a dramatic increase in prescription drug cost as well.

Mr. HALL. Right. That is part of the growing healthcare cost per beneficiary just continues to grow faster than GDP.

Ms. SCHAKOWSKY. So, the CBO cast doubt on what the GOP tax bill does to support American workers. For corporations, the bill included a tax on global and tangible low tax income. GILTI, G-I-L-T-I; I do not know. And the deduction for foreign derived intangible income, FDII. So, I am going to read a part of the outlook, and then I would like your help in understanding it.

Mr. HALL. Sure.

Ms. SCHAKOWSKY. "By locating more tangible assets abroad, a corporation is able to reduce the amount of foreign income that is categorized as GILT. Similarly, by locating fewer tangible assets in the United States, a corporation can increase the amount of U.S. income that can be deducted as FDII. Together the provisions may increase corporation's incentive to locate tangible assets abroad."

So, what are tangible assets, and would that be things like manufacturing equipment and physical factories actually moving?

Mr. HALL. That is right. Then let me be clear, though. One of the things we are pointing out there is that that particular aspect of the Tax Act is complicated. Right? It encourages companies to locate in the United States, but there is also this other aspect where it can encourage companies to also locate abroad.

So, our point there is that that is sort of complicated. We think on the whole, the Tax Act does encourage locating production in the United States on the whole. But on that particular one, like I say, that one is an example of how sometimes this is more complicated than simply looking at the Tax Act as intended.

Ms. SCHAKOWSKY. But that is a factor, you are saying.

Mr. HALL. Right.

Ms. SCHAKOWSKY. So, when CBO says corporations may "locate tangible assets abroad," that could be moving manufacturing, and of course the manufacturing jobs with them, overseas. Is that a fair characterization?

Mr. HALL. Yeah. We do say that it may be possible that some companies will do that. We are not saying that that is going to be the rule. But that is a possibility.

Ms. SCHAKOWSKY. Let me see if I have got any more. Maybe I will yield back. I did want to follow up on some of the questions I have asked previously in other hearings about how the tax bill and changes in agency implementation affects healthcare costs and coverage. So, how does CBO's analysis reflect the Trump administration's decision to stop making cost-sharing reductions? If that has been asked already, I can yield. But cost-sharing reduction payments that help keep down health insurance costs?

Mr. HALL. We did talk about that. But what has happened is insurance companies have raised their premiums for silver plans. And by raising their premiums, it has increased the subsidies they receive from the Federal Government. And those increased subsidies, tax credits for people, is sort of replacing the direct payment. So, the point is that we are still spending money for the CSR even though we are not making the same direct payments.

Ms. SCHAKOWSKY. I think I am going to yield back. And I think all those questions have been answered. I appreciate it.

Chairman WOMACK. The gentlelady yields back. Mr. Lewis, Minnesota.

Mr. LEWIS. Thank you, Mr. Chairman. Thank you, Dr. Hall. There seems to be some mixed messages here I want to try to drill down on a little bit. I believe in your report you cite that revenues over the 10-year period will be about \$44.1 trillion. Is that correct?

Mr. HALL. Yes.

Mr. LEWIS. And that is about a trillion dollars more than your previous estimate?

Mr. HALL. Let me check.

Mr. LEWIS. Before the Tax Cut and Jobs Act?

Mr. HALL. Yeah. The change is in revenues.

Mr. LEWIS. Yes.

Mr. HALL. Yeah.

Mr. LEWIS. That is all right.

Mr. HALL. Yeah. I think revenues are down about a trillion.

Mr. LEWIS. It is about a trillion.

Mr. HALL. Yes. Catching up to you, sorry.

Mr. LEWIS. So, to what do you attribute the increase in revenues after we passed the tax cut bill to?

Mr. HALL. Well, it is a decline in revenues, not an increase in revenues.

Mr. LEWIS. But the previous estimate was below \$44 trillion. So, are you saying we are getting the \$44.1 trillion because of growth?

Mr. HALL. Yeah. We have a number of things going on. That is right. We have stronger growth. And stronger growth has added over one half trillion dollars—

Mr. LEWIS. I got you.

Mr. HALL.—reducing the deficit. And that stronger growth than we earlier forecast has meant we have higher revenues.

Mr. LEWIS. All right.

Mr. HALL. The revenue collection has been higher.

Mr. LEWIS. Growth and revenues are actually higher post the Tax Cut and Jobs Act than you had previously estimated.

Mr. HALL. Well, not in our forecast, but in our current level.

Mr. LEWIS. Your current level.

Mr. HALL. Right.

Mr. LEWIS. So, what do you attribute that to? What was the change from June 2017 to June 2018 for revenues going to 44.1 trillion, and growth going higher?

Mr. HALL. Well, some of the growth being higher was from the Tax Act. Overall, the Tax Act had lowered revenues.

Mr. LEWIS. Well, you say “than otherwise would be.” But if you take a look at the actual revenue tables, they go up every year to \$44.1 trillion, which is a trillion dollars higher than the previous estimate. And so, was growth. And I am just wondering why you made that change from a year ago?

Mr. HALL. Yeah. I am not tracking that we have got an increase in revenue.

Mr. LEWIS. We should check on that.

Mr. HALL. I am sorry.

Mr. LEWIS. It is quite all right. But you do say there is more growth in the near term.

Mr. HALL. Yes.

Mr. LEWIS. All right. So, there is more growth in the near-term, but you say it is slower later on.

Mr. HALL. Right.

Mr. LEWIS. To what do you attribute that to?

Mr. HALL. It slows down because we think real GDP is going to get out ahead of potential. So, in other words, we are nearing to where we are at full employment, basically. And we have a lot of stimulus coming in. And so, we are going to see an increase in labor force participation; we are going to see more employment, unemployment rates going down. All this is leading to growth above potential. So, what then will happen is eventually that will increase pressure on prices and then interest rates.

Mr. LEWIS. So, if increased growth was a result, at least in the near-term, and we have an increase in the deficit of 1.6 to 1.9 trillion—there seems to be some dispute there, but regardless, an in-

crease in deficit—what would the deficit look like if we did not have the increase in growth?

Mr. HALL. Well, overall our change in our economic forecast added a trillion dollars to reducing the deficit. So, it would be a trillion dollars worse.

Mr. LEWIS. So, because we have got higher growth, we have got a lower deficit.

Mr. HALL. That is right.

Mr. LEWIS. Right. I guess where I am going with this is I am not quite certain why growth is always considered, well, underestimated in my view, but always considered inflationary. You mentioned the bottlenecks, which is the traditional economic view, when you get a spike in interest rates and a shortage of capital.

But you are old enough to remember, I certainly am, when Ronald Reagan took office, the prime rate was 21.5 percent, inflation was running 13 percent; came in with Kemp-Roth, delayed for a year, but then kicked in. And what happened to interest rates? They were cut in half. How is that possible? You are saying because of this tax cut, interest rates are going up. How did we miss that?

Mr. HALL. Well, we have had two effects from this tax cut. Part of our forecast, we do have an impact of potential GDP. We do think potential GDP is going to be higher. That is the supply side as a result of the Tax Act. And that will be higher throughout the period.

Mr. LEWIS. More capital, more productivity.

Mr. HALL. Exactly. So, we have that happening as well. It is just that there is more stimulus pushing GDP above that outweighs that.

Mr. LEWIS. I certainly agree with you to the degree that we think we can prime the pump in consumer spending. That is not pro-growth. What is pro-growth is getting that truck to the truck driver. And that requires capital.

Mr. HALL. Correct.

Mr. LEWIS. And that is what we tried to do with the Tax Cut and Jobs Act in my view. Final quick point; spending growth between 2017 and 2019 is driven in large part by, in fact, the increase in discretionary spending. Is there a danger of us just saying everything the problem is mandatory, and we can keep pumping up discretionary?

Mr. HALL. Well, sure. Discretionary spending is contributing.

Mr. LEWIS. Thirty percent.

Mr. HALL. Yeah. You know, it has gone not noticed, but I can tell you that discretionary spending, from the three pieces of legislation, increased the deficit by \$650 billion.

Mr. LEWIS. I yield back. Thank you.

Chairman WOMACK. Mr. Smucker, Pennsylvania.

Mr. SMUCKER. Thank you, Mr. Chairman. Good afternoon, Director Hall. As someone who voted for the Tax Cuts and Jobs Act, I am very proud of the work that was done and pleased with the impact on individuals that I represent in my district in Pennsylvania. I have heard from countless constituents back in my district about the benefits that they have seen. For instance, using just the first name, Gage, from Lancaster County, shared, "We are a family of

four, and we will use the savings that we have seen towards purchasing our first house.”

Ken, from Chester County, shared, “My daughter has special educational needs. Although she is only in second grade, my wife and I recognize the value of a strong educational foundation and have enrolled her into a private school where any and all of our savings are going.” And what I am hearing from folks across the district, that they are seeing the impact of more money in their pockets. And it is beneficial to them.

I have also seen the optimism among businesses. And a quote from your report says that the recent enacted tax law, and I quote, “Will encourage workers to work more hours, businesses to increase investment in productive capital, thereby raising employment and raising income.” We are seeing an impact on wages today?

Mr. HALL. Yes.

Mr. SMUCKER. And how much do you expect we will see wages be impacted?

Mr. HALL. Yeah. You know, I do not have an estimate on the wages, but I can tell you about employment. We think employment is going to be an average of 1.1 million higher over the 10-year period because of the Tax Act.

Mr. SMUCKER. So, we are not only seeing more money in individual’s pockets today, but we are seeing wages rising for the first time in a while, more than we have seen in the past.

Mr. HALL. Yes.

Mr. SMUCKER. 1.1 million. That is what you just said, 1.1 million more jobs created over the next 10 years as a direct result of the Tax Cuts and Jobs Act?

Mr. HALL. Yes.

Mr. SMUCKER. One of the things I am now hearing, and I just recently met with a group of large staffing companies. So, these are companies that are working with businesses to fill available spots. And the availability of individuals to fill that spots has reached almost a crisis point for a lot of businesses. And I guess I would like to hear from you whether you are seeing that as well? Going down, what are you projecting the unemployment will go down to?

Mr. HALL. You know, I do not have it in front of me, but it will go down. It is already very low. Do have it going down a bit lower.

Mr. SMUCKER. To about 3.3 percent?

Mr. HALL. That sounds about right. Yeah.

Mr. SMUCKER. Yeah.

Mr. HALL. Yeah.

Mr. SMUCKER. Which is historically very low. Right?

Mr. HALL. Right, which are already historically low.

Mr. SMUCKER. Right.

Mr. HALL. Three-point-three percent would be very low.

Mr. SMUCKER. So, what I have heard from these individuals—and this is anecdotal, but I want to get your thoughts on this—businesses are ready to reinvest back into building factories and creating jobs here. But literally today still are forced to make decisions about where they will locate a new plant, or where to locate their operations based on available workforce. Do you think your report bears that out?

Mr. HALL. Yeah. It does, and it should. I mean, we have started to see some modest increases in wages. And we think that is going to accelerate. We are going to get much stronger wage growth in the next few years. So, that is absolutely true, and that is a big part of getting the slack out of the economy.

Mr. SMUCKER. So, do you think that lack of labor availability will impact economic growth over the next 10 years?

Mr. HALL. I think it will.

Mr. SMUCKER. I would like to get to that, but I have run out of time. So, 62 percent labor force, or 63 percent is the current labor force participation rate. Can you give us some historical perspective on that?

Mr. HALL. It is already a little bit of a low level, and it is a low level because we have an aging population. And the long-term trend actually for that is it is going to go down as people age out. But what will happen from the tax bill is we will get some stimulus; we will have that not decline so fast as it was before. And it will hold up, we think, as a result.

Mr. SMUCKER. I felt, you know, businesses are saying this is a very real problem. They cannot find available spots. Is there an opportunity to build more participation in the labor workforce? I have always felt like we have not made that connection very well, providing the skills, training, and so on to connect people with the jobs that are available. Is there an opportunity for us?

Mr. HALL. Well, I think that is true, yes. Because I do think that the aging population means that if we can focus on the non-aging population and get their participation rates up, that can make a difference. Historically, for some reason, the cohorts below the baby boomers have not participated in the labor force like baby boomers have. And that is a little puzzling.

Mr. SMUCKER. Thank you.

Chairman WOMACK. The gentleman from Michigan, Mr. Bergman.

Mr. BERGMAN. Thank you, Mr. Chairman. And thank you, Dr. Hall. It is always good to see you here. If I was not unquestionably positive about life in general, I may have a darker view of just listening. But let me ask you a question. Considering all the factors that have been discussed today, are we as a country, to use an old quote, damned if we do and damned if we do not?

Mr. HALL. I think there are some important trade-offs that need to be made. I think the debt, the rising debt, is going to be a challenge if it is not dealt with. And in a sense, there is going to be a price to pay in dealing with that.

Mr. BERGMAN. Okay. So, the old saying, life is a series of trade-offs from beginning to end. And kind of rhetorically speaking here for a second, you know, how do we, as the elected, you know, officials, if you will, elected by the people to come here, how do we, in our deliberations and our performance, build confidence in the American people that their government will do the right thing if left to its own devices? Kind of again, you know, rhetorically speaking, you know, T.S. Eliot has got a lot of quotes. But one is that only those who will risk going too far can possibly find out how far one can go.

So, when we talk about the future, we predict to an extent. You just mentioned a second ago about the post-baby boomer generations being less motivated to participate in the workforce. I find that interesting. I was not given an option as a kid of participation. My parents explained to me what my participation would be. They left it up to me to the level and the quality, which they watched very closely. But the future of jobs and careers, who do you think is better at predicting and adapting to the future; government or business, or public versus private sector?

Mr. HALL. In my personal opinion, private sector.

Mr. BERGMAN. Okay. So, when you take something like the Tax Cuts and Jobs Act, and put more money into the private sector hands, how should the government then evaluate that that money that goes back into, if you will? You know, corporate coffers is just one thing. But that small business coffer, how does government then evaluate what they did; what we did?

Mr. HALL. You know, I am not sure I can tell you how to evaluate it. I can tell you that we will do our best to sort of describe what we think is going to happen and what the trade-offs are.

Mr. BERGMAN. And I agree with you, by the way. We cannot really evaluate. But if we have an idea of metrics and milestones that then as we go forward, we go, okay, we were close on this; we were off on that; here was a positive; here was a negative. That is a way for government to, if you will, evaluate its laws and its policies. Because when you make a law, it is for 100 percent. When you make a policy it is for, at best, 84.6 percent on the statistical average, because you have got a bell curve. And that is policy.

You know, the CBO report shows that mandatory spending continues to escalate due to demographic changes and other factors. And in fact, spending on Social Security, Medicare, Medicaid, and debt interest is due to double between now and fiscal year 2028. Can any serious effort to reduce our growing deficit and debt problems exclude reforms to Social Security, Medicare, and Medicaid?

Mr. HALL. Well, that is getting a little dangerously close to recommendations for us. I can tell you, you do need to look at the size of changes you could make. You need pretty significant change. You kind of need to go where the money is.

Mr. BERGMAN. Thank you. I see my time is about to run out. But is it fair to say that everyone needs to have skin in the game in order for us to make the tough decisions? The answer is yes, because anybody who does not have skin in the game is not fully invested. I yield back, sir.

Chairman WOMACK. I will take that. The gentleman from Alabama has reappeared, and he is recognized for 5 minutes. Mr. Palmer?

Mr. PALMER. Can I have 15 minutes? I am kidding. Thank you, Mr. Chairman. A couple of questions, Mr. Hall. I think earlier Congresswomen Black asked about the new baseline being altered with CSR payments.

Mr. HALL. Right.

Mr. PALMER. And I have asked that this be handed out. In June 2017, you were projecting \$44 billion savings. You were anticipating that these payments would be made. When did you change that?

Mr. HALL. I am sorry?

Mr. PALMER. Baseline? You raised the baseline.

Mr. HALL. And this is the direct payments for the CSRs?

Mr. PALMER. Right.

Mr. HALL. Well, that is not the baseline now, because there are no direct payments being made. What we have adjusted is we have adjusted the tax credits that people get because insurance companies, in response to not getting the direct payments, have raised premiums. And now people are receiving increased tax credits. So, that is how the Federal Government is paying for it now.

Mr. PALMER. Section 257 B1 of the Gramm-Rudman-Hollings Act requires budget scorekeeping decisions to assume that funding for entitlements already is adequate to make all payments required by those laws.

Mr. HALL. Right.

Mr. PALMER. In other words, you would have had to of gotten instructions to do that. I do not think you had the authority to do that.

Mr. HALL. Well, we do. Funding for CSR is in our baseline. It is just in a different spot. It is not the direct payments. It is through the higher premiums of the subsidies for those.

Mr. PALMER. All right. I am sorry I have had to miss most of this. I have been trying to keep up with what is going on. And I just got a little bit of Mr. Bergman's questions, your answer to that about skin in the game and where we are in terms of getting to a balanced budget. That is kind of a hot topic today with the balanced budget amendment coming up.

One of the questions I would like to ask you is does the CBO anticipate a reduction in uncollected tax revenues as a result of the tax reform bill that we passed? Because I believe the projection for uncollected taxes last year, or this year. Last year was, like, \$450 billion. I will emphasize \$450 billion, with a B.

Mr. HALL. You know, I do not know offhand. I would have to talk to our tax folks, and maybe I can get back to you about it.

Mr. PALMER. Well, considering that is almost half the deficit, would not that be relevant?

Mr. HALL. Sure. And I am pretty sure it is in our forecast. I just do not know the number offhand.

Mr. PALMER. I would be interested to know if that is in the forecast.

Mr. HALL. Right.

Mr. PALMER. That was one of the objectives of the tax reform was to simplify the tax code; that would substantially eliminate the failure to collect all the taxes that are owed the Federal Government. I just left the hearing in the Oversight Committee on improper payments. That is \$140 billion-plus. It is going up every year. This committee last year included in our budget reducing that by half. That is 700 billion.

The point I want to make is really that we can get to a balanced budget. The issue is do we have the courage to tell the American people the truth about where we are in terms of our fiscal condition and make recommendations that will get us back where we need to be to get our fiscal house in order. That includes collecting all

the taxes. That means taking advantage of our energy resources. That means eliminating improper payments.

I pointed out that in 2015 we collected \$516 billion just in fees. If we could have collected another \$16 or \$17 billion in fines, if we captured just 10 percent of that, that is 50-plus billion per year. Do you believe that we could get to a balanced budget?

Mr. HALL. I think it would take some very difficult decisions and take some planning. But of course, I think it is possible. It is certainly above my pay grade as to how to do that.

Mr. PALMER. If it is above your pay grade, that is kind of depressing. With that, Mr. Chairman, I will yield back.

Chairman WOMACK. Not recognizing anyone that has not had a chance to grill the CBO Director, or at least question him, I am going to yield the remaining time to the gentleman from the Commonwealth of Kentucky, the Ranking Member, Mr. Yarmuth.

Mr. YARMUTH. Thank you very much, Mr. Chairman. Thank you very much, again, Dr. Hall. And you spent a lot of time, you and your team here before this committee over the last few months. We appreciate all of your time and your responses.

I want to talk about your unemployment projections for a minute. The unemployment rate has been steady at 4.1 percent for several months now, which is pretty remarkable stability during a time when we have had strong job creation. And it is a level that not too long ago was thought to be unachievably low. And most people are characterizing us as being at full employment at this level.

But your report forecasts a dramatic reduction to an average of 3.8 percent this year, and 3.3 percent next year. Since we already have one quarter at 4.1 percent, getting to 3.8 percent for the year would require we have about 3.5 percent average for the rest of the year. And one reason we have seen the unemployment rate hold steady, even through strong job creation, is through growth in the labor force, the labor force. Your projections also call for a higher labor force participation rate than you have projected in the past.

And finally, you have the unemployment rate climbing from 3.3 percent to 4.6 percent in 2022, which is a rather unusual rate, it seems like, while the economy continues to expand. So, I am interested, again, not to try to make any point, I am just curious, is if you would walk us through your unemployment projections and explain how and why you would expect the changes that you have projected.

Mr. HALL. Sure. It is the cyclical pattern from the stimulus. We have had a lot a stimulus into an economy near potential. What we are essentially forecasting is that growth will get above potential. And what that means then is employment will actually get above potential. The unemployment rate will get below potential. And by potential we mean sustainable.

So, while the unemployment rate may get to a lower level as we think it will, we do not think that is sustainable. So, we think that will lead to inflationary pressures, pressures to raise interest rates, and that will lower economic growth, slow down wage growth, and make the unemployment rate go back up towards its sort of more permanent sustainable level.

Mr. YARMUTH. Okay. I think you just said a few minutes ago that you are projecting about 1 million new jobs because of the tax cuts.

Mr. HALL. Right.

Mr. YARMUTH. One million new jobs because of the tax cuts. I am curious about the model, because most of the analyses so far done studies of corporate America and so forth, is that the vast majority of the tax cuts given to corporations are going to be spent on dividends, stock buybacks, and mergers and acquisitions, none of which result in additional capital formation. I guess you could argue that dividends might, but probably not. And a very small percentage, about 20-something percent, of all of the corporate tax cuts, the business tax cuts, went to actually go to reinvestment and to employees.

So, I am just curious as to whether those are similar to the way you viewed the way tax cuts are going to be used, or if you had a different analysis of that?

Mr. HALL. Well, we do think that the tax act will lower the user cost of capital, and it will essentially lower the marginal tax on capital. And that will encourage companies to increase their investment. Similarly, we think that the marginal tax on labor will be lower going forward, making it easier for companies to bring labor on. And those are the things that affect our view of potential GDP.

But then, we also have this stimulus coming in. We have a lot of aggregate demand coming in, pushing the economy above its potential for a while. So, for example, if you look at our estimate that employment will be 1.1 million higher over a 10-year period, that is on average over the 10-year period. In fact, the employment level will probably be higher in the middle before the inflationary pressures kick in and interest rates go up. And so, it takes some of that stimulus away.

Mr. YARMUTH. Turning to another subject. Your report includes extensive analysis of the economic impact of the tax bill. And as we just discussed, predicts strong economic growth this year and next year. Of course, we have been experiencing one economic expansion, soon to be the second longest in our history. But too many parts of the country, particularly in rural areas and older industrial cities, have not shared in the benefits of the expansion so far. I think it is a concern that that trend may continue over the next few years.

So, my question is have you done any analysis of whether the near-term economic boost from the tax law will be broadly shared across the country? Is there any reason to think that the laws benefits will make a significant and transformative difference in communities with weaker economies, or is it more likely that the benefits will be concentrated in areas that already have healthy economies?

Mr. HALL. We just have not been able to think about that at all. We have been so focused on the big budgetary impact, the economic impact, that that is significant extra analysis to try to look at that.

Mr. YARMUTH. Got you. Thank you for that. So, as you know, we are going to be debating and voting on the balanced-budget act amendment this afternoon. And one of the things that concerns me about that whole idea is—there are a lot of things—but one of the

things that concerns me most is that if you had that proposal in effect right now, we would be looking at figuring out how to cut roughly \$800 billion worth of Federal spending in the next year; roughly 20 percent cuts in all Federal spending. I am curious as to whether you can make an estimate as to what impact on the economy a loss of \$800 billion in Federal spending, and whether it is in jobs or so forth, what would be the impact of that kind of a cut?

Mr. HALL. Well, of course it depends a lot on the details. You know, how much time and that sort of thing. But certainly, a drop in revenue would be the opposite of stimulus. A drop in Federal spending would slow down the economy; just something that large.

Mr. YARMUTH. And since, you know, in my state, Federal contributions to our state budget amount to about 37 percent. A cut of that magnitude in Federal spending, or anything approaching that, in your opinion, would that have a significant impact on state budgets throughout the country and local budgets as well?

Mr. HALL. Sure. But of course, it depends on how it is done. You know, one of the things that certainly happens with Federal budgets is there is a cyclical aspect to it. So, when you go into recession, revenues go down, spending goes up. And that has an impact on helping stabilize the economy going forward.

Mr. YARMUTH. Yeah. And just to go back to one of the prior questions, you were asked about basically the income-based spending, why it spiked from 2007 for those 10 years. A good portion of that growth in income-based spending would have had to do with the recession, would it not have?

Mr. HALL. Yes.

Mr. YARMUTH. Right. Thank you. I just wanted to clarify that. I have no further questions. Once again, I thank you very much for your efforts and your responses, and I yield back.

Chairman WOMACK. Thank the gentlemen. And we have one other member that has arrived here toward the end of our meeting that I will yield to; Mr. Grothman of Wisconsin.

Mr. GROTHMAN. Okay. Well, thanks for coming over here. A goal of this committee is to propose of discretionary spending. And I believe originally President Trump, last year, proposed about a 5 and one-half percent increase in defense discretionary spending, and a cut in nondefense discretionary spending. Is that accurate?

Mr. HALL. I believe that is right.

Mr. GROTHMAN. Considerable. Instead what happened, in part because of this committee's action, and in part because of pressure from Democrats in the Senate, there was a significant increase in nondefense discretionary spending. Is that accurate?

Mr. HALL. It is.

Mr. GROTHMAN. Significant. Do you know how much more we spent in nondefense discretionary than President Trump originally wanted?

Mr. HALL. I can tell you on our 10-year forecast, because of the three bills, discretionary spending is up by about \$650 billion.

Mr. GROTHMAN. Yeah. And can you tell us what the difference in nondefense discretionary is considered to be now, compared to what President Trump originally proposed a year ago?

Mr. HALL. Yeah. I do not know. I just do not remember what that proposal was that well.

Mr. GROTHMAN. It is a significant cut. Right? About 6 percent. I should not say 6 percent. It is significant. I think all sorts of people have gotten 6 percent cuts all the time. It was about 6 and one-half percent. Right? Could you comment on the, what I think is rather bizarre policy that has grown in Congress that if we needed an increase in defense spending, we have to spend more in non-defense spending to be fair?

Mr. HALL. Well, CBO, we would not want to comment on what is or is not fair.

Mr. GROTHMAN. Well, what do you think is the long-term fiscal effect of the idea that if somehow this body believes that we need to spend more on defense, we have to go up in nondefense as well? Could you tell us what the difference is between what your deficit looks like 5 or 8 years out now, compared to if this body would have gone along with President Trump's recommendation a year ago?

Mr. HALL. I cannot so much. And one of the things that is important about our forecast here is we follow Budget Committee direction on discretionary spending. Because it is discretionary, it is Congress's choice. We make a very mild assumption that discretionary spending grows by inflation, except, of course, with the caps. So, we are really not even forecasting what is going to happen with discretionary spending. We are just making a very—

Mr. GROTHMAN. Are you basing it on, though, the current omnibus, then, plus inflation for the next few years. Is that what you are basing it on?

Mr. HALL. That is right. The current omnibus changes the caps.

Mr. GROTHMAN. Right.

Mr. HALL. And once the change in the caps, once they go back in place, and the caps are holding things back. And once the caps are gone, then we have inflation driving discretionary spending.

Mr. GROTHMAN. So, in other words right now you are anticipating a cut in nondefense discretionary 2 years out?

Mr. HALL. Yes.

Mr. GROTHMAN. Okay.

Mr. HALL. It is one of the reasons why we have an alternative fiscal scenario in here, where we assume roughly rather than constant current law, we have current policy. So, we sort of assume that the caps do not readjust. We assume that the drop in the individual income tax rate does not go back up and give you an idea of what that looks like going forward.

Mr. GROTHMAN. I do not know if you have the numbers in front of you. Let's take a number; 4 years out or whatever. Can you tell us what you are anticipating in both defense and nondefense discretionary compared to the current year? Pick, say, 5 years out.

Mr. HALL. Yeah. Yeah. We have a nice chart that does not put it in dollar numbers, but we have it in terms of percent of GDP. So, right now, for example, defense spending is about 3.1 percent of GDP. And under current law, that is going to go down to 2.6 percent of GDP in 10 years. That is in our forecast. And then, for a nondefense, it goes from 3.3 percent to 2.8 percent. So, we have discretionary spending growing slower than GDP.

Mr. GROTHMAN. I suppose you could if I gave you the time, but you cannot translate that into a nominal dollar amount?

Mr. HALL. No. We can follow up, though, and give you the dollar amounts.

Mr. GROTHMAN. I would like to know that, so we know what we are shooting at. I think President Trump, before he, maybe, listened to the Congress too much, what he would have liked those numbers to be say 5 and 10 years out in nominal terms. Okay. Thank you very much, Mr. Chairman.

Chairman WOMACK. Thank you very much, Mr. Grothman. Because I did not use all of my time in the beginning, I just want to close with a couple of observations. There has been a lot of discussion in here about various impacts of what the Congress does, taxes and so forth. And its implication for the long-term fiscal condition of the country; i.e., deficits continue to rise, debt continues to rise to unsustainable levels as a percentage of GDP.

And there have been attempts made to make the villain in this whole thing the Tax Cut and Jobs Act. And then, occasionally other things, like increases in defense spending, or increases in non-defense discretionary spending. So, I just have a couple of questions for you, Dr. Hall. Is it fair to just basically single out one part of the economic condition and paint with a broad brush on that; i.e., put another way, should not the Congress look at economic output as a whole; i.e. lower taxes, maybe a lower regulatory framework that businesses and industry have to live under?

I mean, it goes without saying that a business or an industry that thinks there is going to be a hyper-regulatory environment is probably not going to want to expand and introduce new products and those kinds of things because of the fear of the unknown, the regulatory pressures that may be coming. Mandates on healthcare certainly impact decisions made about whether to grow or expand an economy. I think that all those things go right to the heart of consumer confidence. And consumer confidence is a big piece of whether people spend money and live their lives in a little different way.

I also believe that the policies of this Congress, particularly those on means tested programs, have an impact overall on the budget. So, I guess the point I am making is this—and some of these things you can score, and some of these things are difficult to score at best—that can we not just say that an economy that is built around a lower tax framework, a lower regulatory environment, fewer mandates from the Federal Government, maybe a little more empowerment to our States to be able to solve some of the problems that we try to solve at the Federal level?

Would that not have a real nice impact on the economic productivity of this country in such a way that it could one day help us rid ourselves of the deficits, particularly if we were able to do things like my friend Gary Palmer suggests; you know, go after a lot of these improper payments, and make people more accountable again?

The unknown about the Tax Cuts Jobs Act that we know that when we simplify that, people then are more predisposed to doing their taxes accurately, so that we do not have taxes that should be

due and payable certainly unaccounted for. Should we not look at that as a whole? Should the Congress not consider that as a whole?

Mr. HALL. Well, I am first going to start by not making a recommendation. But I will say that all of those things do in fact impact the budget outlook and the economic outlook. Those are all important factors that do affect, I think, the outcomes going forward.

Chairman WOMACK. And I think the last thing I want to say is this. And I said this earlier in my remarks. There has been a lot of discussion on both sides of the aisle about the omnibus package, and a lot of comments about discretionary spending. We hear it back in our districts. And sure, they do impact. But overall, as I said earlier, when you see the aggregate numbers on discretionary spending tracking higher, but its percentage of GDP tracking lower, it sends, I think, a very loud and strong message to the Congress that if you are going to get your arms around the deficits and the debt, you are not going to be able to ignore in the process what is going on on the side of the ledger that is by law, that is autopilot, that we call mandatory.

And with that, I will yield back the balance of my time. And thank you, Mr. Hall, Dr. Hall, for your attendance not only here, but for the previous 5 hearings that you and your staff have been available to answer our questions and stand in front of that mic or sit in front of that microphone.

With that, please be advised, members, you can submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing. Any members who wish to submit questions or any extraneous material for the record may do so within 7 days. With that, this committee stands adjourned.

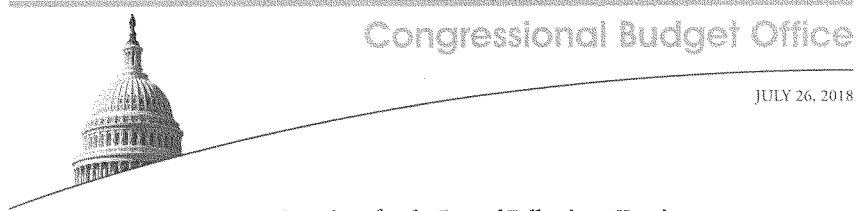
[Whereupon, at 2:05 p.m., the committee was adjourned.]

PALMER Questions for the Record

- How is CBO's new decision to assume funding for cost-sharing reductions (CSRs) "through higher premiums and larger premium tax credit subsidies rather than through a direct appropriation" consistent with Section 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act (BBEDCA), which states that under the budgetary baseline, "funding for entitlement authority is assumed to be adequate to make all payments required" by law?
- Does CBO's new treatment of CSRs assume that Congress will not make a direct appropriation for CSRs?
- How is any potential assumption that Congress will NOT appropriate CSR funds directly consistent with the requirement of Section 257(b)(1) of BBEDCA to assume funding to "make *all* payments?"
- How can the federal government fund CSRs through "larger premium tax credit subsidies" as well as a direct appropriation?
- Please name any other programs, past or present, for which CBO has scored entitlement authority for the purposes of Section 257(b)(1) of BBEDCA as coming from indirect, as opposed to direct, payments.
- Please explain any and all actions CBO has taken to reconcile the discrepancy of the baseline treatment of CSRs with OMB officials.
- Did CBO obtain legal advice from its General Counsel regarding the legality of changing the budgetary treatment of CSRs, and whether the change complies with Section 257(b)(1) of BBEDCA?
- When did it obtain any legal advice regarding the budgetary treatment of CSRs—before or after Director Hall's comments at the January 30 House Budget Committee hearing on "CBO Oversight: Organizational and Operational Structure" that CBO would not take action unless and until directed to do so by the Budget Committees?
- In its October 25, 2017 estimate of the Bipartisan Health Care Stabilization Act, CBO stated that "after consultation with the Budget Committees, CBO has not changed its baseline to reflect the Administration's announcement on October 12, 2017 that it would stop making payments for CSRs." Why did the Budget and Economic Outlook contain no references to subsequent conversations with the Budget Committees regarding CBO's decision to change its scoring methodology?
- Subsequent to its October 25, 2017 estimate, did CBO engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the House Budget Committee, or staff for the House Budget Committee, regarding the budgetary treatment of CSRs?
- Subsequent to its October 25, 2017 estimate, if CBO did not engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the House Budget Committee, or staff for the House Budget Committee, please explain how failing to conduct such consultations—and then subsequently altering the baseline—is consistent with CBO's statement in its August 15, 2017 analysis that, should administrative action on CSRs occur, CBO would "consult with the Budget Committees to decide whether and how to reflect [administrative] action in the agency's baseline and cost estimates?"
- Subsequent to its October 25, 2017 estimate, did CBO engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the Senate Budget Committee, or staff for the Senate Budget Committee, regarding the budgetary treatment of CSRs?
- Subsequent to its October 25, 2017 estimate, if CBO did not engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the Senate Budget Committee, or staff for the Senate Budget Committee, please explain how failing to conduct such consultations—and then subsequently altering the baseline—is consistent with CBO's statement

in its August 15, 2017 analysis that, should administrative action on CSRs occur, CBO would “consult with the Budget Committees to decide whether and how to reflect [administrative] action in the agency’s baseline and cost estimates.”

- At the House Budget Committee’s January 30 hearing on “CBO Oversight: Organizational and Operational Structure,” you were asked whether CBO would score CSRs “as if [President Trump] is ending them or as if he’s continuing them,” to which you replied that “We’ve been treating it as an entitlement, so it’s remained there—unless we get direction to do something different.”
 - From whom did CBO get “direction to do something different” in changing its baseline scoring assumptions subsequent to your comments?
- In its August 15, 2017 analysis, CBO stated that eliminating CSRs would increase health insurance subsidy spending by a net of \$194 billion. However, the line in Table A-1 of the Budget and Economic Outlook regarding Technical Changes to health insurance subsidies includes a net spending increase of only \$44 billion? What accounts for this discrepancy?
- Did CBO also use the line in Table A-1 of the Budget and Economic Outlook regarding Technical Changes to health insurance subsidies to incorporate changes in behavioral assumptions related to the individual mandate, alluded to in CBO’s November 2017 analysis regarding the mandate?
- If CBO did use the Technical Changes line to incorporate changes in assumptions regarding the individual mandate, please provide separate estimates for 1) behavioral changes regarding the mandate; 2) the impact of changes related to CBO’s treatment of CSRs; and 3) any other component changes included in the \$44 billion number in Table A-1.



Congressional Budget Office

JULY 26, 2018

**Answers to Questions for the Record Following a Hearing
Conducted by the House Committee on the Budget
on *The Budget and Economic Outlook: 2018 to 2028***

On April 12, 2018, the House Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about The Budget and Economic Outlook: 2018 to 2028.¹ After the hearing, Congressman Palmer submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/54206.

Question. How is CBO's new decision to assume funding for cost-sharing reductions (CSRs) "through higher premiums and larger premium tax credit subsidies rather than through a direct appropriation" consistent with Section 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act (BBEDCA), which states that under the budgetary baseline, "funding for entitlement authority is assumed to be adequate to make all payments required" by law? How is any potential assumption that Congress will NOT appropriate CSR funds directly consistent with the requirement of Section 257(b)(1) of BBEDCA to assume funding to "make *all* payments?"

Answer. CBO's treatment in the baseline of payments for CSRs both reflects the reality of how the CSRs are being funded and is consistent with the requirements of BBEDCA.

Background. Insurers that participate in the marketplaces established under the Affordable Care Act (ACA) are required to offer CSRs to eligible people. CSRs decrease deductibles and other out-of-pocket expenses like copayments. To qualify for CSRs, people must generally purchase a silver plan through a marketplace and have income between 100 percent and 250 percent of the federal poverty guidelines (also known as the federal poverty level).²

Before October 12, 2017, the federal government reimbursed insurers for the costs of CSRs through direct payments. However, on that date, the Administration announced that, without an appropriation for that purpose, it would no longer make such payments to insurers. Because insurers are still required to offer CSRs and to bear their costs even without direct payments from the government, most have covered those costs by increasing premiums for silver plans offered through the marketplaces for the 2018 plan year, and CBO expects all insurers to do so beginning in 2019.

1. See testimony of Keith Hall, Director, Congressional Budget Office, before the House Committee on the Budget, *The Budget and Economic Outlook: 2018 to 2028* (April 12, 2018), www.cbo.gov/publication/53722.
2. For additional information about CSRs and their budgetary treatment, see Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2018 to 2028* (May 2018), pp. 8–9, www.cbo.gov/publication/53826, and letter to the Honorable Mark Meadows regarding the budgetary treatment of cost-sharing reductions (June 8, 2018), www.cbo.gov/publication/53961.

Budgetary Treatment of CSRs. For the spring 2018 baseline, CBO and the staff of the Joint Committee on Taxation (JCT) project that the entitlement for subsidies for CSRs is being funded through higher premiums and larger tax credits based on those premiums instead of through direct payments. The projections reflect the way insurers are currently reimbursed for the costs of providing CSRs to eligible enrollees in light of the Administration's change in policy. That budgetary treatment took two key considerations into account:

- CBO has long viewed the requirement that the federal government compensate insurers for CSRs as a form of entitlement authority.
- BBEDCA specifies that, in the baseline, funding for entitlement authority should be "assumed to be adequate to make all payments required" by law.

With the federal government no longer reimbursing insurers for the costs of CSRs through direct payments, CBO has continued to treat CSRs as an entitlement and considered two approaches for doing so in its spring 2018 baseline projections:

- Under the first approach, CBO would keep projecting the direct payments for CSRs (which are not being made) and project premiums, enrollment, and government subsidies in the marketplaces as if insurers had not raised their premiums to cover the costs of CSRs. Such projections would not match actual 2018 premiums in the marketplaces. Moreover, the approach would lead to projections of subsidies that were too low, resulting in less accurate cost estimates for proposed legislation.
- Alternatively, CBO would align its baseline projections for 2018 to actual premiums in the marketplaces and cease projecting the direct payments for CSRs. Under the second approach, CBO's projections of premiums, enrollment, and government subsidies in the marketplaces would reflect what is actually happening now—namely, that most insurers have covered the costs of CSRs by increasing premiums for silver plans offered through the marketplaces for the 2018 plan year. Those projections also would reflect CBO's expectation that, in the absence of direct payments for CSRs, they will be funded through premium tax credits in the future.

After following its normal procedures for consultation with the House and Senate Budget Committees, CBO used the second approach. That approach allows the baseline projections to more accurately reflect what is happening in insurance markets. It also will make cost estimates for legislation more useful to the Congress because the approach reflects the reality that the costs of CSRs are being incorporated into premiums and into payments of premium tax credits.

The Consistency of CBO's Treatment of CSRs With BBEDCA's Requirements. BBEDCA specifies that the baseline incorporate the assumption that funding for entitlement authority is adequate to make all payments required by laws providing or creating direct spending and receipts. CBO's budgetary treatment of CSRs in its baseline is consistent with the specifications of BBEDCA for two main reasons.

- Under BBEDCA, the baseline should reflect the payments required by the law as a whole. The ACA directs insurers to provide CSRs and provides that the government reimburse insurers for them (section 1402), requires that taxpayers be allowed to claim premium tax credits (section 1401), and instructs that payments be made to insurers for both CSRs and premium tax credits (section 1412). Although the Administration ceased making direct CSR payments to insurers, the remaining requirements related to premium tax credits (in sections 1401 and 1412) continued in effect. Given the cessation of direct payments, it was unclear how those statutory requirements would be fulfilled, making

how they were implemented even more relevant to the baseline. To reflect all payments required by the law as a whole, the baseline should account for CSR payments once; in practice, they are being funded through premium tax credits.

- Funding through premium tax credits is projected to be adequate to make all payments required to provide the CSRs to which beneficiaries are entitled under the law. BBEDCA does not specify how required payments should be accounted for in the baseline. In CBO's spring 2018 baseline, CSRs are projected to be funded through premium tax credits because they are the means by which the agency expects insurers' costs for CSRs will be recouped. That approach embodies what is currently happening in the marketplaces.

Question. How can the federal government fund CSRs through "larger premium tax credit subsidies" as well as a direct appropriation? Does CBO's new treatment of CSRs assume that Congress will not make a direct appropriation for CSRs?

Answer. To reflect all payments required by the law as a whole, the baseline should account for CSR payments once. In CBO's previous baselines, CSRs were funded through direct payments because that was what was occurring. In the current baseline, they are funded through larger premium tax credit subsidies, which is what is occurring now.

However, if legislation was enacted that appropriated funds for direct payments for CSRs, the agency would update its baseline projections to incorporate those appropriations and to lower its projections of premium tax credits and other effects—because insurers would no longer increase gross premiums for silver plans offered through the marketplaces to cover the costs of providing CSRs.

Question. Please name any other programs, past or present, for which CBO has scored entitlement authority for the purposes of Section 257(b)(1) of BBEDCA as coming from indirect, as opposed to direct, payments.

Answer. The situation in which the means of funding an entitlement has changed from a direct appropriation to a tax credit has not arisen previously.

In some other situations when the source of funding has been at issue, CBO has projected that entitlement payments to beneficiaries may come from sources other than those specified in law. For example, as specified in BBEDCA, Social Security benefits are projected to be paid as scheduled in CBO's baseline despite the fact that Social Security's trust funds are not projected to have sufficient funding to pay for those benefits. The source of that funding outside of the trust funds is not specified in law.

Question. Please explain any and all actions CBO has taken to reconcile the discrepancy of the baseline treatment of CSRs with OMB officials.

Answer. CBO has discussed the issues with staff from the Office of Management and Budget (OMB). The two agencies have come to a different conclusion about the baseline treatment. Such differences occur occasionally. For example, CBO and OMB have treated Fannie Mae and Freddie Mac differently in the baseline since those enterprises entered conservatorship in 2008.

Question. Did CBO obtain legal advice from its General Counsel regarding the legality of changing the budgetary treatment of CSRs, and whether the change complies with

Section 257(b)(1) of BBEDCA? When did it obtain any legal advice regarding the budgetary treatment of CSRs—before or after Director Hall’s comments at the January 30 House Budget Committee hearing on “CBO Oversight: Organizational and Operational Structure” that CBO would not take action unless and until directed to do so by the Budget Committees?

Answer. CBO’s internal discussions of the issues involved with the budgetary treatment of CSRs included its Office of General Counsel throughout. Those discussions began soon after the Administration ceased making CSR payments in October 2017 and continued for months—beginning before the hearing in January 2018 where Director Hall first discussed the issues publicly and continuing afterward.

Question. At the House Budget Committee’s January 30 hearing on “CBO Oversight: Organizational and Operational Structure,” you were asked whether CBO would score CSRs “as if [President Trump] is ending them or as if he’s continuing them,” to which you replied that “We’ve been treating it as an entitlement, so it’s remained there—unless we get direction to do something different.” From whom did CBO get “direction to do something different” in changing its baseline scoring assumptions subsequent to your comments? Subsequent to its October 25, 2017 estimate, did CBO engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the House Budget Committee, or staff for the House Budget Committee, regarding the budgetary treatment of CSRs? Subsequent to its October 25, 2017 estimate, if CBO did not engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the House Budget Committee, or staff for the House Budget Committee, please explain how failing to conduct such consultations—and then subsequently altering the baseline—is consistent with CBO’s statement in its August 15, 2017 analysis that, should administrative action on CSRs occur, CBO would “consult with the Budget Committees to decide whether and how to reflect [administrative] action in the agency’s baseline and cost estimates?” Subsequent to its October 25, 2017 estimate, did CBO engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the Senate Budget Committee, or staff for the Senate Budget Committee, regarding the budgetary treatment of CSRs? Subsequent to its October 25, 2017 estimate, if CBO did not engage in any consultations (either orally, in person, in writing, or via any form of electronic communication) with the Chairman of the Senate Budget Committee, or staff for the Senate Budget Committee, please explain how failing to conduct such consultations—and then subsequently altering the baseline—is consistent with CBO’s statement in its August 15, 2017 analysis that, should administrative action on CSRs occur, CBO would “consult with the Budget Committees to decide whether and how to reflect [administrative] action in the agency’s baseline and cost estimates.”

Answer. CBO did not get direction to change its treatment of compensation for CSRs as an entitlement and did not make such a change. CBO made the change to the projected source of funding for those payments following its normal procedures for consultation with the House and Senate Budget Committees.

CBO discussed the issues involved with the budgetary treatment of CSRs with both budget committees soon after the Administration ceased making CSR payments in October 2017. Those discussions continued for months—beginning before the hearing in January 2018 where Director Hall first discussed the issues publicly and continuing afterward—during which time CBO observed how the government’s operations and insurance markets adapted and how CSRs were being funded through premium tax credits. That

consultation culminated with a blog post on May 3, 2018, in which Director Hall described in detail how CBO was handling CSRs.³

In addition, the question asked at the hearing was about scoring—that is, estimating the effects of legislation on the deficit. If legislation was proposed to appropriate funding for CSRs, what would change is the method of paying for the entitlement; the underlying requirement for payment exists regardless of method. Consequently, and after consulting with the budget committees about the baseline and about cost estimates relative to that baseline, CBO concluded that a cost estimate for such legislation would show no effects on direct spending or revenues. That approach would continue the practice used in past cost estimates for legislation proposing to appropriate funding for CSRs. If such a proposal was enacted, CBO would update its baseline projections to incorporate those appropriations and reflect what was expected to happen under that new law.

Question. In its October 25, 2017 estimate of the Bipartisan Health Care Stabilization Act, CBO stated that “after consultation with the Budget Committees, CBO has not changed its baseline to reflect the Administration’s announcement on October 12, 2017 that it would stop making payments for CSRs.” Why did the Budget and Economic Outlook contain no references to subsequent conversations with the Budget Committees regarding CBO’s decision to change its scoring methodology?

Answer. In the *Outlook*, CBO described its estimates of spending for subsidies for coverage purchased through the marketplaces this way: “Those estimates are preliminary, and CBO will provide further details about them and their implications for future cost estimates in an upcoming report.”⁴ CBO believed that, because there was significant interest in the topic and the issues are somewhat complicated, they were best addressed in publications that focused on health insurance coverage. Those details were provided a few weeks later in the subsequent blog post and in a report.⁵ Both publications mention CBO’s consultations with the budget committees.

Question. In its August 15, 2017 analysis, CBO stated that eliminating CSRs would increase health insurance subsidy spending by a net of \$194 billion. However, the line in Table A-1 of the Budget and Economic Outlook regarding Technical Changes to health insurance subsidies includes a net spending increase of only \$44 billion? What accounts for this discrepancy? Did CBO also use the line in Table A-1 of the Budget and Economic Outlook regarding Technical Changes to health insurance subsidies to incorporate changes in behavioral assumptions related to the individual mandate, alluded to in CBO’s November 2017 analysis regarding the mandate? If CBO did use the Technical Changes line to incorporate changes in assumptions regarding the individual mandate, please provide separate estimates for 1) behavioral changes regarding the mandate; 2) the impact of changes related to CBO’s treatment of CSRs; and 3) any other component changes included in the \$44 billion number in Table A-1.

3. See Keith Hall, “Cost-Sharing Reductions in CBO’s Spring 2018 Baseline” *CBO Blog* (May 3, 2018), www.cbo.gov/publication/53799.

4. See Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), p. 103, www.cbo.gov/publication/53651.

5. See Keith Hall, “Cost-Sharing Reductions in CBO’s Spring 2018 Baseline” *CBO Blog* (May 3, 2018), www.cbo.gov/publication/53799; and Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2018 to 2028* (May 2018), pp. 8–9, www.cbo.gov/publication/53826.

Answer. In the *Outlook*, published in April, the increase in outlays of \$44 billion over the 2018–2027 period reported in Table A-1 reflects the net effect of technical revisions to estimates of spending for subsidies for coverage purchased through the marketplaces established under the ACA and related spending between June 2017 and April 2018.⁶ (That figure, capturing technical revisions, excludes a \$206 billion reduction in such spending arising from incorporating CBO’s estimates of the effects of legislative changes enacted during the same period.)

Two key technical revisions increased projections of outlays for marketplace subsidies and related spending. First, incorporating the reality that the costs of CSRs are being funded through higher premium tax credits stemming from higher gross premiums charged for silver plans offered through the marketplaces increased both the average amount of subsidy per person and the number of people receiving subsidies. Second, revised methods for estimating the effects of eliminating the penalty for not having health insurance diminished the estimated reduction in health insurance coverage and, therefore, increased the number of people projected to receive subsidies through the marketplaces.

Other technical revisions partially offset those increases in outlays for marketplace subsidies and related spending. In particular, administrative data indicated that subsidized enrollment through the marketplaces in 2018 was lower than CBO and JCT had estimated in June 2017—causing the agencies to lower their estimates of subsidized enrollment in all years of the projection period.

CBO and JCT projected the effects of all of the components of the technical changes affecting health insurance subsidies simultaneously and have not prepared separate estimates of the effects of the components individually. Such estimates would depend upon the order in which the components were considered. Other analytical priorities, including development of a new version of CBO’s health insurance simulation model over the next year, currently preclude such an undertaking.⁷

6. Related spending includes spending for the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers. The \$44 billion increase excludes the effect of technical revisions on the portion of marketplace subsidies that are classified as revenues.

7. For information about the development of that model, see Jessica Banthin and Alexandra Minicozzi, Congressional Budget Office, “Updating CBO’s Health Insurance Simulation Model (HISIM)” (presentation at the Bipartisan Policy Center, Washington, D.C., June 19, 2018), www.cbo.gov/publication/54063.