# THE CONGRESSIONAL BUDGET OFFICE'S BUDGET AND ECONOMIC OUTLOOK

## HEARING

BEFORE THE

## COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, D.C., MAY 26, 2022

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# CONTENTS

# THE CONGRESSIONAL BUDGET OFFICE'S BUDGET AND ECONOMIC OUTLOOK

**THURSDAY, MAY 26, 2022**

HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET
*Washington, DC.*

The Committee met, pursuant to notice, at 11:01 a.m., via Zoom, Hon. John A. Yarmuth [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Jeffries, Boyle, Lee, Chu, Plaskett, Scott, Jackson Lee, Peters; Smith, McClintock, Grothman, Smucker, Jacobs, Burgess, Carter, Cline, Feenstra, Good, Hinson, Obernolte, and Carey.

Chairman YARMUTH. This hearing will come to order.

Good morning and welcome to the Budget Committee's hearing on the Congressional Budget Office's Budget and Economic Outlook.

At the outset, I ask unanimous consent that the Chair is authorized to declare recesses of the Committee at any time.

Without objection, so ordered.

Now, before I welcome our witness, I will go over few housekeeping matters. Today the Committee is meeting virtually. Before we begin, I would like to remind Members participating in this proceeding to keep your camera on at all times, even if you are not under recognition by the Chair. Members may not participate in more than one committee proceeding simultaneously. If you choose to participate in a different proceeding, please turn your camera off.

Members are responsible for their own microphones. Please mute your microphones when you are not speaking. This will help prevent feedback and other technical issues. Please remember to unmute yourself when you seek recognition. Note that the Chair or staff designated by the Chair may mute participants' microphones when they are not under recognition for the purposes of eliminating inadvertent background noise. We are not permitted to unmute Members unless they explicitly request assistance. If I notice that you have not unmuted yourself I will ask if you would like staff to unmute you. If you indicate approval by nodding, staff will unmute your microphone. They will not unmute your microphone under any other conditions.

I would like to remind Members that we have established an email inbox for submitting documents before and during committee proceedings. We have distributed that email address to your staff.

Now, I will introduce our witness. This morning we will be hearing from Dr. Phillip Swagel, the Director of the Congressional Budget Office.

I will now yield myself five minutes for an opening statement.

Chairman YARMUTH. Good morning. I want to thank Dr. Phillip Swagel, Director of the Congressional Budget Office for appearing before our Committee today to testify on CBO's newly released budget and economic outlook, also known as the CBO baseline.

Dr. Swagel, your agency is an indispensable partner to Congress and to the House Budget Committee in particular. And I want to thank all your dedicated staff for their hard work in putting out this report.

We are holding this Committee hearing a little later in the year than usual since Congress did not complete the Fiscal Year 2022 appropriations bills until March and CBO needed those final funding levels to finish the outlook. But today's hearing is still a great opportunity for us to examine CBO's new projections for the next decade as Congress begins the Fiscal Year 1923 budget and appropriations process.

When comparing CBO's new outlook with the one published shortly after President Biden took office, one thing is abundantly clear. The American Rescue Plan delivered critical lifesaving and life-changing relief that changed the course of the pandemic, rescued our economy, and helped American families and small businesses stay afloat. The American Rescue Plan helped power a historic recovery, the most equitable in recent memory and contributed to the largest job growth ever in a calendar year. The percentage of people receiving unemployment insurance has now fallen below 1 percent for the first time in more than 50 years. The unemployment rate is currently down to 3.6 percent, a level that prior to the Rescue Plan CBO projected we would not reach during the entire decade. Now, CBO is projecting that the unemployment rate will drop even further in 2023 to 3.5 percent, the lowest rate our country has seen in nearly 70 years.

Small business, which account for nearly half of all American jobs, are booming. Americans submitted 5.4 million applications for new businesses in 2021, the most in recorded history. And small businesses are creating more jobs than ever before.

The Rescue Plan nearly doubled our GDP growth in 2021. As a result, the U.S. was the first major advanced economy in the world to come back above pre-pandemic levels of GDP. Faster economic growth has boosted hiring and wages and powered record deficit reduction. CBO projects we are on track to see the deficit shrink by $1.7 trillion, from $2.8 trillion in 2021 to $1 trillion this year.

All of these indications are evidence of the same truth: our economy is far outpacing what CBO projected without the Rescue Plan. The Rescue Plan laid the foundation for America's unprecedented recovery and economic resilience, and we are in a far better place because of it.

We have made incredible progress, but inflation is our new challenge. I will reiterate what economic experts across the ideological spectrum have said over and over, international supply chain bottlenecks and higher energy costs due to Russia's war in Ukraine are the primary drivers of current inflation. These are global problems, which is why inflation is a global issue. In fact, inflation in the UK hit a 40 year high just last week. The 38 member countries of OECD are averaging an inflation rate of more than 9 percent. Clearly, this inflation is not unique to the United States, but the American Rescue Plan is.

Because we enacted this legislation, American families, state and local governments, and our national economy are facing this new challenge from a position of economic strength. But additional action is necessary to protect Americans from rising costs and keep our economy strong. The Federal Reserve is best positioned to tackle immediate inflation concerns and Congress can and must do everything it can to lower costs to American families overall. The cost of healthcare, housing, education, childcare, the basic needs of American families, have been rising for decades. That is why House Democrats have passed legislation to lower prescription drug prices, expand the supply of affordable housing, cut childcare costs, expand access to higher education, and ensure that big corporations cannot take advantage of American consumers with excessive price hikes. These actions would lower families' monthly costs substantially, and I look forward to discussing this today with Director Swagel.

This is an important hearing and an important time for the future of our nation. I hope that today we can focus on the facts and on solutions that will deliver relief to American families and build a stronger, more equitable, and more resilient economy.

Director Swagel, thank you again for appearing before our committee today and I look forward to your testimony.

With that, I would like to yield to the Ranking Member, Mr. Smith, to unmute his microphone for five minutes for his opening statement.

[The prepared statement of Chairman Yarmuth follows:]

**Chairman John A. Yarmuth**
**Hearing on The Congressional Budget Office's**
**Budget and Economic Outlook**
**Opening Statement**
**May 26, 2022**

Good morning. I want to thank Dr. Phillip Swagel, Director of the Congressional Budget Office, for appearing before our committee today to testify on CBO's newly-released Budget and Economic Outlook — also known as the CBO "baseline."

Dr. Swagel, your agency is an indispensable partner to Congress — and to the House Budget Committee in particular — and I want to thank all your dedicated staff for their hard work in putting out this report.

We are holding this hearing a little later in the year than usual since Congress didn't complete the FY 2022 appropriations bills until March, and CBO needed those final funding levels to finish the outlook. But today's hearing is still a great opportunity for us to examine CBO's new projections for the next decade as Congress begins the FY 2023 budget and appropriations process.

When comparing CBO's new outlook with the one published shortly after President Biden took office, one thing is abundantly clear: the American Rescue Plan delivered critical lifesaving and life-changing relief that changed the course of the pandemic, rescued our economy, and helped American families and small business stay afloat.

The American Rescue Plan helped power a historic recovery — the most equitable in recent memory — and contributed to the largest job growth ever in a calendar year. The percentage of people receiving unemployment insurance has now fallen below 1 percent for the first time in more than 50 years. The unemployment rate is currently down to 3.6 percent — a level that, prior to the Rescue Plan, CBO projected we would not reach during the entire decade. Now, CBO is projecting that the unemployment rate will drop even further in 2023 — to 3.5 percent — the lowest rate our country has seen in *nearly seventy years*.

Small businesses — which account for nearly half of all American jobs — are booming. Americans submitted 5.4 million applications for new businesses in 2021, the most in recorded history, and small businesses are creating more jobs than ever before.

The Rescue Plan nearly *doubled* our GDP growth in 2021. As a result, the U.S. was the first major advanced economy in the world to come back above pre-pandemic levels of GDP. Faster economic growth has boosted hiring and wages, and powered record deficit reduction. CBO projects we're on track to see the deficit shrink by $1.7 trillion — from $2.8 trillion in 2021 to $1 trillion this year.

All of these indicators are evidence of the same truth: our economy is far outpacing what CBO projected without the Rescue Plan. The Rescue Plan laid the foundation for America's unprecedented recovery and economic resilience, and we are in a far better place because of it.

We have made incredible progress, but inflation is our new challenge. I will reiterate what economic experts across the ideological spectrum have said over and over — international supply chain bottlenecks and higher energy costs due to Russia's war in Ukraine are the primary drivers of current inflation.

These are global problems which is why inflation is a global issue. In fact, inflation in the UK hit a 40-year high last week. The 38 member countries of OECD are averaging an inflation rate of more than 9 percent. Clearly, this inflation is not unique to the United States, but the American Rescue Plan is.

Because we enacted this legislation, American families, state and local governments, and our national economy are facing this new challenge from a position of economic strength. But additional action is needed to protect Americans from rising costs and keep our economy strong.

The Federal Reserve is best positioned to tackle immediate inflation concerns, and Congress can — and must — do everything it can to lower costs for American families overall. The costs of health care, housing, education, child care — the basic needs of American families — have been rising for decades. That's why House Democrats have passed legislation to lower prescription drug prices, expand the supply of affordable housing, cut childcare costs, expand access to higher education, and ensure that big corporations cannot take advantage of American consumers with excessive price hikes.

These actions would lower families' monthly costs substantially, and I look forward to discussing this today with Director Swagel.

This is an important hearing and an important time for the future of our nation. I hope that today we can focus on the facts and on solutions that will deliver relief to American families and build a stronger, more equitable, and more resilient economy. Director Swagel, thank you again for appearing before our committee today, and I look forward to your testimony.

Mr. SMITH. Thank you, Mr. Chairman. My opening statement probably couldn't be any more different than comments you had just made.

The Budget and Economic Outlook released by the Congressional Budget Office yesterday shows the impact of one-party Democrat rule in Washington over the past year. And it is not a pretty picture. In short, America's fiscal health is getting worse. And when we compare it to CBO's February 2021 baseline, you can see just how much the nation's budgetary and economic outlook has deteriorated since President Biden and the one-party Democrat rule has taken over.

First, let's look at the data. When President Biden entered office, CBO predicted the government would spend $61 trillion over the next 10 years. Now they say it will be $72 trillion. When Biden entered office, CBO predicted the government would run up just over $12 trillion in deficits over the next 10 years. Now they say it will be close to $16 trillion. When Biden entered office, CBO predicted the government would spend $4.6 trillion on interest payments over the next 10 years. Now they say it will be over $8 trillion. When Biden entered office CBO predicted the average interest to be 2.5 percent over the next 10 years, now they say it will be 3.5 percent. Their prediction for this year has nearly doubled from 1.3 percent to 2.4 percent. The inflation forecast for 2022 and 2023 combined is 64 percent higher than what CBO predicted when Biden entered office. And that might be overly optimistic. After all, CBO projects inflation to be 4.7 percent this year but inflation has already increased by almost 4 percent in 2022. Also, perhaps overly optimist, CBO's economic growth predictions. Real GDP growth is projected to be 3.1 percent this year, but GDP declined by 1.4 percent in the first quarter of 2022.

Under every metric, President Biden has worsened the balance sheet of the federal government, the economic outlook for our country and the fiscal health of American families.

So, how did we get here? Democrats passed their $2 trillion American Rescue Plan even though the economy was well on its way to recovery. Democrats promised it would create 4 million jobs. Instead, job creation was smaller in 2021 than CBO had projected it would be before the passage of the $2 trillion plan. What it did create was the highest inflation in 40 years while spending federal tax dollars on such things as $17 million on a golf course in Florida, $4 million to build beach parking lots in South Carolina, $2 million to plant trees in New York, and $400 billion to pay people to stay at home and not go to work. And yet things could have been even worse. The Washington Democrats' "Build Back Broke" agenda would have added $5 trillion in new spending and $3 trillion in new debt according to CBO.

There is a silver lining in the CBO baseline, though. Thanks to the Republican passed Tax Cuts and Jobs Act, the tax burden on families and job creators fell while federal revenues have grown. This year revenue from corporations and individual taxpayers is up, far exceeding what CBO projected the federal government would collect. Revenues have surged 39 percent over last year and collections are on pace to be the largest share of GDP in American history. As a matter of fact, if current forecasts hold, revenues could very well end up being more than a trillion and a half above what CBO predicted the would be for 2022, after passage of the Tax Cuts and Jobs Act.

The story this baseline tells us is a story of one-party Democrat rule in Washington. After one year, we have trillions more in spending; an explosion of new debt; record inflation; a supply chain crisis; and the highest gas prices ever recorded; and now a baby formula shortage. This is the legacy of President Biden's first year in office.

I yield back, Mr. Chairman.

[The prepared statement of Jason Smith follows:]

HOUSE BUDGET REPUBLICANS

Rep. Jason Smith
**Republican Leader**

# Smith Opening Statement: House Budget Committee Hearing on the Congressional Budget Office's Budget and Economic Outlook

May 26, 2022
*As prepared for delivery*

Thank you, Mr. Chairman.

The budget and economic outlook released by the Congressional Budget Office yesterday shows the impact of one-party Democrat rule in Washington over the past year, and it is not a pretty picture. In short, America's fiscal health is getting worse. And when we compare it to CBO's February 2021 baseline you can see just how much the nation's budgetary and economic outlook has deteriorated since President Biden and the one-party Democrat rule has taken over.

First, let's look at the data.

- When President Biden entered office, CBO predicted the government would spend $61 trillion over the next 10 years. Now, they say it will be $72 trillion.
- When Biden entered office, CBO predicted the government would run up just over $12 trillion in deficits over the next 10 years. Now, they say it will be close to $16 trillion.
- When Biden entered office, CBO predicted the government would spend $4.6 trillion on interest payments over the next 10 years. Now, they say it will be over $8 trillion.
- When Biden entered office, CBO predicted the average interest rate to be 2.5 percent over the next 10 years. Now they say it will be 3.5 percent. Their prediction for this year has nearly doubled from 1.3 percent to 2.4 percent.
- The inflation forecast for 2022 and 2023 combined is 64 percent higher than what CBO predicted when Biden entered office – and that might be overly optimistic. After all, CBO projects inflation to be 4.7 percent this year, but inflation has already increased by almost 4 percent in 2022.
- Also, perhaps overly optimistic: CBO's economic growth predictions. Real GDP growth is projected to be 3.1 percent this year – but GDP declined by 1.4 percent in the first quarter of 2022.

Under every metric, President Biden has worsened the balance sheet of the federal government, the economic outlook for our country and the fiscal health of American families.

So, how did we get here?

Democrats passed their $2 trillion American Rescue Plan, even though the economy was well on its way to recovery. Democrats promised it would create 4 million jobs. Instead, job creation was smaller in 2021 than CBO had projected it would be before that $2 trillion plan was enacted.

What it did create was the highest inflation in 40 years while spending federal tax dollars on such things as $17 million on a golf course in Florida; $4 million to build beach parking lots in South Carolina; $2 million to plant trees in New York; and $400 billion to pay people to stay at home and not go to work.

And yet, things could have been even worse.

The Washington Democrats' Build Back Broke agenda would have added $5 trillion in new spending and $3 trillion in debt, according to CBO.

There is a silver lining in this CBO baseline.

Thanks to the Republican-passed Tax Cuts and Jobs Act, the tax burden on families and job creators fell while federal revenues have grown. This year, revenue from corporations and individual taxpayers is up, far exceeding what CBO projected the federal government would collect. Revenues have surged 39 percent over last year and collections are on pace to be the largest share of GDP in American history. As a matter of fact, if current forecasts hold, revenues could very well end up being more than a trillion and a half above what CBO predicted they would be for 2022 after passage of the Tax Cuts and Jobs Act.

The story this baseline tells is the story of one-party Democrat rule in Washington. After one year we have trillions more in spending; an explosion of new debt; record inflation; a supply chain crisis; the highest gas prices ever recorded; and now, a baby formula shortage. This is the legacy of President Biden's first year in office.

I yield back Mr. Chairman.

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Chairman YARMUTH. I thank the gentleman for his opening statement.

In the interest of time, I ask that any other Members who wish to make a statement submit their written statements for the record in the email box we established for receiving documents before and during Committee proceedings. We have distributed that email address to your staff.

I will hold the record open until the end of the day to accommodate those Members who may not yet have prepared written statements.

Now, once again I want to thank Dr. Swagel for being here this morning. The Committee has received your written record and it will be made part of the formal hearing record.

You have five minutes to give your formal remarks. You may unmute your microphone and begin when you are ready.

**STATEMENT OF PHILLIP SWAGEL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE**

Dr. SWAGEL. Thank you, Chairman Yarmuth, Ranking Member Smith, and Members of the Committee for inviting me to testify on the CBO's Budget and Economic Outlook.

In CBO's projections released yesterday the federal budget deficit in 2022 is $1 trillion. That shortfall represents a substantial reduction from deficits in the past two years as federal spending in response to the Coronavirus pandemic wanes and as the current economic expansion continues.

In our projections, which reflect the assumption that current laws governing federal taxes and spending generally remain unchanged, federal deficits nonetheless remain large by historical standards and generally increase over the next decade. From 2023 to 2032 the annual shortfall averages $1.6 trillion. The projected deficit of more than $2 trillion in 2032 at the end of the budget window would equal 6.1 percent of GDP. That is well above the average for the past 50 years.

Outlays average 23 percent of GDP over the next 10 years and rising interest rates and accumulating debt cause net interest costs to double as a percentage of GDP by 2032. And at the same time, the aging population and the rising cost of healthcare contribute to increased mandatory spending.

In 2022 revenues in our projections reached their highest levels as a share of GDP in more than two decades. They then decline over the next two years, but remain above their long-term average through 2032. Outlays grow faster than revenues over that period, which is why deficits increase.

Federal debt held by the public initially dips to 96 percent of GDP in 2023 and then rises after that. In our projections, the debt ratio reaches 110 percent of GDP in 2032—that is the highest level ever—and then rises to 185 percent of GDP in 2052 at the end of our 30-year long-term outlook.

We aim for our projections to fall in the middle of the range of likely outcomes. Still, they are subject to considerable uncertainty in part because of the ongoing pandemic and because of other world events, such as the invasion of Ukraine and lockdowns in China, and so on. Our estimate of the deficit for 2022 is now $118 billion less than what we had projected last July in our most recent update before this one. In the current estimate for 2022 revenues are 10 percent higher than we had previously projected and outlays are up by 6 percent.

The cumulative deficit over the 2022 to 2031 period is $2.4 trillion more than it was last summer. Newly enacted legislation since last July accounts for most of that increase. There are other changes that boost projected revenues and therefore reduce deficits. Those are mostly offset by economic changes that increase outlays, particularly for interest payments and Social Security payments.

Let me now turn very briefly to the economy. The pace of inflation since the middle of last year has been the fastest in four decades. In CBO's projections, elevated inflation persists in 2022 because of the combination of strong demand and restrained supply in the markets for goods, services, and labor.

In response, the Federal Reserve tightens monetary policy and interest rates rise rapidly. Real GDP, that is GDP adjusted to remove the effects of inflation, grows by 3.1 percent this year and the unemployment rate averages 3.8 percent in our projections. After 2022 economic growth slows and inflationary pressures ease. So CBO has published a great deal of information yesterday about our new projections. Those are online on the CBO website.

And, with that, thank you again. I am happy to answer any questions.

[The prepared statement of Phillip Swagel follows:]

Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress



TESTIMONY

# The Budget and Economic Outlook: 2022 to 2032

**Phillip L. Swagel**
**Director**

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

MAY 26 | 2022

Chairman Yarmuth, Ranking Member Smith, and Members of the Committee, thank you for inviting me to testify. In the Congressional Budget Office's latest projections, released yesterday, the federal budget deficit in 2022 is $1.0 trillion. That shortfall would represent a substantial reduction from deficits in the past two years as federal spending in response to the coronavirus pandemic wanes and the current economic expansion continues.

In our projections, which reflect the assumption that current laws governing federal taxes and spending generally remain unchanged, federal deficits nonetheless remain large by historical standards and generally increase over the next decade. From 2023 to 2032, the annual shortfall averages $1.6 trillion. The projected deficit of more than $2 trillion in 2032 would equal 6.1 percent of gross domestic product (GDP), well above the average for the past 50 years.

Outlays average 23 percent of GDP over the next 10 years. Rising interest rates and accumulating debt cause net interest costs to double as a percentage of GDP by 2032. At that time, the aging population and the rising cost of health care contribute to increased mandatory spending.

In 2022, revenues in CBO's projections reach their highest level as a share of GDP in more than two decades. They then decline over the next few years but remain above their long-term average through 2032. But outlays grow faster than revenues over that period, so deficits increase.

Federal debt held by the public initially dips to 96 percent of GDP in 2023 and rises thereafter. In our projections, it reaches 110 percent of GDP in 2032 (higher than it has ever been) and 185 percent of GDP in 2052. We aim for our projections to fall in the middle of the range of likely outcomes; still, they are subject to considerable uncertainty, in part because of the ongoing pandemic and other world events.

CBO's estimate of the deficit for 2022 is now $118 billion less than it was last July. In that current estimate for 2022, revenues are 10 percent higher than previously projected, and outlays are up by 6 percent.

The projection of the cumulative deficit over the 2022–2031 period is $2.4 trillion more than it was last summer. Newly enacted legislation accounts for most of that increase. Other changes that boost projected revenues—and reduce deficits—are mostly offset by economic changes that increase outlays, particularly those for interest and Social Security.

I will turn now to the economy. The pace of inflation since the middle of last year has been the fastest in four decades. In CBO's projections, elevated inflation persists in 2022 because of the combination of strong demand and restrained supply in the markets for goods, services, and labor. In response, the Federal Reserve tightens monetary policy, and interest rates rise rapidly. Real GDP (that is, GDP adjusted to remove the effects of inflation) grows by 3.1 percent this year, and the unemployment rate averages 3.8 percent. After 2022, economic growth slows, and inflationary pressures ease.

*The Budget and Economic Outlook: 2022 to 2032* is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office produces each year. This testimony highlights key issues in that report.

In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. The report is available on CBO's website at www.cbo.gov/publication/57950. This testimony is available at www.cbo.gov/publication/58063.

Phillip L. Swagel
Director

Chairman YARMUTH. Thank you, Director Swagel, for your opening remarks.

We will now begin our question and answer session. As a reminder, Members can submit written questions to be answered later in writing. Those questions and responses will be made part of the formal hearing record. Any Members who wish to submit questions for the record may do so by sending them electronically to the email inbox we have established within seven days of the hearing.

Now we will begin our questioning.

I now recognize the gentleman from New York, Mr. Jeffries, for five minutes.

Mr. JEFFRIES. I thank the distinguished Chair for your continued leadership and convening this hearing. And, Director Swagel, thank you for your presence and for the work that you do.

I want to associate myself with the comments of Chairman Yarmuth when he made clear that the American Rescue Plan rescued the economy at a time when it was on the brink of collapse and put us into position to achieve some of the significant economic growth measures that have occurred at this particular point in time, as well as the record unemployment.

And so I just want to clarify some things that you have previously testified to. So we got a real understanding as to where things are at right now. And I believe you previously testified that revenues in the CBO's projections would reach their highest level as a share of GDP in more than two decades. Is that right?

Dr. SWAGEL. Yes, sir, that is correct.

Mr. JEFFRIES. And, in fact, they are projected to increase to 20 percent of GDP in 2022, which I believe is up about 17 percent from the previous forecast?

Dr. SWAGEL. That is right. The revenues will reach just slightly under 20 percent, which is up very substantially from our previous projections.

Mr. JEFFRIES. And we are seeing approximately 8.3 million jobs created since President Biden first took office, is that right?

Dr. SWAGEL. Yes, employment has grown, you know, very sharply as the U.S. has come out of the pandemic—as you said, since the beginning of 2021.

Mr. JEFFRIES. And is it your understanding that that 8.3 million jobs that were created, that is a record in American history for a similar point in time in terms of a president's new administration?

Dr. SWAGEL. Yes—yes, that would be the most jobs created in a single year. So that is, you know, over the 2021, the first year of the administration.

Mr. JEFFRIES. Am I correct that the number of people relying on unemployment benefits has dropped to the lowest level since 1970?

Dr. SWAGEL. I am sorry, the number of people collecting unemployment benefits is—it has dropped very substantially. I don't know offhand if it is the lowest, but I suspect it is—it might well be. You know, with the rebound and the very strong very tight labor market, we have seen lots of good outcomes like you just mentioned.

Mr. JEFFRIES. And last year, how many new businesses were created in the United States of America?

Dr. SWAGEL. The rebound from the pandemic has led to a surge in business creation. You know, obviously we saw business go out when the economy locked down, and then a huge number have created. I don't know the number of millions of offhand, but it has been a—this is a historic increase in business formation and entrepreneurship.

Mr. JEFFRIES. It is my understanding that approximately 5.4 million new businesses were created in the last year. As you indicated, a substantial return of American entrepreneurship.

In terms of deficit reduction—because my colleagues on the other side of the aisle I thought were deficit hawks and cared about the deficit. That is all we have heard about certainly during the Tea Party years. Am I correct that in President Biden's first year the deficit was reduced by more than $350 billion? Is that correct?

Dr. SWAGEL. Yes. The deficit has gone down very substantially both, you know, from last year to this year, and compared to what CBO had projected, leaving aside the new legislation that has been enacted.

Mr. JEFFRIES. And what is the projected deficit reduction for this current year that we are in?

Dr. SWAGEL. The deficit is falling by some—I am sorry—$1.8 trillion lower. It is going from—last year it was about $2.8 trillion to a deficit this year of $1 trillion. So that is a reduction of $1.8 trillion from 1921 to 1922.

Mr. JEFFRIES. So thank you for your testimony.

You know, for the life of me, we certainly have issues that we need to deal with in terms of inflationary pressures, which as you have indicated result from an increase in demand—that happens when you have a booming economy—and supply chain constraints—which happens when you have an economy that has to shut down as a result of a once in a century pandemic. These are challenges that of course we continue to work on.

We also continue to work on the issue as it relates to the baby formula shortage. I was shocked that so many of my Republican colleagues chose to vote against the appropriations legislation that was brought to the floor.

But for the life of me, I can't figure out the doom and gloom that is going to be painted by some of my Republican colleagues.

Thank you for your testimony in presenting the facts in a straightforward fashion.

I yield back.

Chairman YARMUTH. The gentleman yields back.

I now yield 10 minutes to the gentleman from Missouri, the Ranking Member, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

To start here for the record, Director, if you can give me these answers as quickly as possible. I want to try to get through as much as possible.

But I want to hit on the deficit reduction that was just before you and the joke of the comments. And I want you to clarify. Is it true that the Fiscal Year 1921 deficit was $517 billion higher than where the Congressional Budget Office projected for the 2021 year?

Dr. SWAGEL. Right, our——

Mr. SMITH. Yes or no.

Dr. SWAGEL. The deficit projection from last July to to this one, yes, is higher.

Mr. SMITH. So that is not a deficit reduction. And Biden's $2.78 trillion deficit in 2021 was the second highest in the history of America, driven in large part by his unpaid for $2 trillion American Rescue Plan. Is that correct?

Dr. SWAGEL. Yes, the emergency spending during the pandemic, including the American Rescue Plan, drove the deficit last year. That is correct.

Mr. SMITH. And so Biden's claimed Fiscal Year 1922 of $1.5 trillion in deficit reduction is only because last year his inflationary $2 trillion ARP, American Rescue Plan, drove government spending to 30.5 percent of GDP, 10 percent higher than the historic average. His latest Fiscal Year 1923 budget proposes annual deficits averaging $1.6 trillion a year.

Director, in February 2021 your baseline showed $61 trillion in government spending over the next 10 years. You now say it will be $72 trillion, correct?

Dr. SWAGEL. Yes, that is correct over the next 10 years.

Mr. SMITH. OK. So that is $11 trillion higher, correct?

Dr. SWAGEL. Yes.

Mr. SMITH. So in February 2021 your baseline showed just over $12 trillion in deficits over the next 10 years. You now say it will be close to $16 trillion in deficits, correct?

Dr. SWAGEL. Yes, that is correct. Yes.

Mr. SMITH. Got it. So, $3.5 trillion more in deficits. And in February 2021 you said the first interest rate hikes wouldn't come until 2024, correct?

Dr. SWAGEL. In our economic projections—a year ago, that is correct.

Mr. SMITH. Yes. OK. Got it. Of course, now we have seen the Fed already increase rates twice in the last six months. And in February 2021 you said the government would spend $4.6 trillion on interest payments over the next 10 years. You now say it will be over $8 trillion, correct?

Dr. SWAGEL. That is correct. It is both interest rates are higher and the amount of debt has gone up as well.

Mr. SMITH. So based on every indicator we are looking at here, the Administration is failing the American people. Your baseline projects inflation to be 4.7 percent this year, but inflation has already increased by almost 4 percent in 2022, making it highly likely we exceed 4.7 percent. To hit 4.7 percent inflation, we could not exceed 1 percent total for the remainder of the year. When were the GDP and inflation projections included in this baseline made?

Dr. SWAGEL. So we locked our economic forecast at the very beginning of March. So the work was mainly done in February then. And, as you said, inflation has turned out to be higher even immediately than we had forecast. And we see that especially in food prices and energy prices. I think all of us see that in gasoline prices. Some of that relates to the Russian invasion of Ukraine, which we had—we had the beginning of it, but——

Mr. SMITH. But it——

Dr. SWAGEL [continuing]. it impacts it much more.

Mr. SMITH. Yes. Director, before the Russian invasion of Ukraine inflation was up 7.5 percent, correct?

Dr. SWAGEL. Yes, inflation last year was up very sharply. Absolutely.

Mr. SMITH. Yes. So given that inflation continues to hover around a 40-year high, not to mention that inflation has gone up 11 percent since President Biden came into office, if you were writing this baseline today, knowing what you know now, how would that affect your projections and assumptions.

Dr. SWAGEL. OK, as I said, it is—inflation in the first couple months of the year has turned out to be higher than we anticipated. It looks like the—you know, the current quarter that we are in is coming in around our projections. The Fed has raised interest rates by more, you know, whereas it has had an impact on financial markets.

So it is as um of each, that inflation has been higher than we anticipated, the Fed's hiking, you know, probably as a result, has been higher, and, of course, we have seen the impact of that on financial markets.

Mr. SMITH. So do you expect that 4.7 percent to be much lower than where actually end up for the year?

Dr. SWAGEL. You know, we don't redo our forecasts just because the way we do our budget——

Mr. SMITH. OK. So, you are saying rest of the year we are going to be at 1 percent? To be able to get the 4.7 percent?

Dr. SWAGEL. To meet our forecast, which, you know—as you——

Mr. SMITH. Wow.

Dr. SWAGEL. There is a risk there. Absolutely.

Mr. SMITH. So, we are clearly—I mean I will tell you right now, if you all think we are going to be at 1 percent the rest of the year, I got some ocean front property in Arizona to sell you, Director.

Let me ask you about your economic growth objectives. Your budget says the economy will grow at 3.1 percent this year. But given that the most recent GDP report actually showed a decline of 1.4 percent, knowing what you know now, how would the current dismal economic numbers affect your projections? Or are you sticking with it like you are the inflation numbers?

Dr. SWAGEL. OK. You know, again, just because the process we have that once we have the baseline, you know, that is locked down, so we are not going to—we don't redo our forecast.

As you said, the first quarter had negative GDP growth. You know, some of that we see unwinding with, you know, changes in inventories and trade. You know, the outlook for the year is—our outlook for the years is based on people come back to the labor force. There has been a million people still on the sidelines who we see as coming back. And that is supporting in part the rebound that we see in the economics over the course of this year.

Mr. SMITH. So let us ask this. Your future year inflation projections are relatively mild compared to where we are actually currently at with inflation—8.3 percent in the most recent year-to-year CPI report and 11 percent since Biden took office. But taking your projections for inflation, which assumes back to more normalized levels of 2 percent in a few years, what is the long-term damage to the U.S. budget and economic outlook of even the so-called short burst in inflation if it is actually short lived?

Dr. SWAGEL. So inflation has a number of effects on the economy and of course on the fiscal outlook. The key risk is interest rates. High inflation leads to high interest rates, both through what the Fed is doing and through market reactions. And then as they debt level has gone up, higher interest rates translate into higher net interest outlays. And so you see that in our projection over 10 years. Net interest outlays as a share of GDP are more than doubling in our projection.

So that is the fiscal risk of high inflation. It comes through high interest rates and high payments to service the U.S. debt.

Mr. SMITH. You know, Director, I am a little concerned with some of the proposals you selected in your alternative fiscal assumptions modeling. For starters, a lot of them seem targeted at tax relief Republicans. When they want to continue to provide—which now has a proven track record of economic growth and historic revenue generation—in your alternative assumptions you do incorporate—do you incorporate say things that the majority has been very clear that they do not view as temporary pandemic policies and they want to continue? Say things like the cost of continuing the student loan repayment moratorium indefinitely, canceling student loan debt altogether, a permanent extension of the child tax credit revision included in the American Rescue Plan that failed to include work requirements, and let us say a continuation of the increased Affordable Care Act subsidies that are set to expire?

Dr. SWAGEL. OK. So thank you for the question. And I know that this is extremely important to you and we are continuing to work on some of these issues. Of course we have done some work for you and for Senator Graham on these expiring provisions. We will continue to do that.

What we have in the report is Chapter 5 in the report is the—you know, the alternative scenarios. Essentially we followed the practice in the past of looking at provisions such as the tax ones that you mentioned that have been in place for several years and continue. And the challenge for us was so much in pandemic related provisions were in the law for maybe a year and then expired—the child tax credit as you mentioned, the expanded subsidies for the Affordable Care Act. We did not—you know, of course we didn't extend them in the baseline because they are not in current law. And then for the alternative provisions, we did not extend those either. You know, again, because they are not—you know, they are not a current law, they are not scheduled to expire in the future. You know, it is analysis that we can do, of course along with the JCT to—you know, to answer the sorts of questions that I know you are very focused on.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. SCOTT. Chairman, you are on mute.

Dr. SWAGEL. Mr. Chairman, you are still on mute.

Chairman YARMUTH. I hit it. I am sorry.

I now yield five minutes to the gentlewoman from California, Ms. Lee.

Ms. LEE. Thank you very much, Mr. Chairman. I have to associate myself with your remarks earlier about the American Rescue Plan.

I just want to remind all my colleagues that this pandemic has taken over a million lives. I shudder to think what would have happened had we not passed the American Rescue Plan and it has saved lives and it has saved livelihoods. And so we can't forget that in terms of the investments that were made.

Let me thank our Director for being here and let me just go right into our questions, because I think you know I am going to ask about the Department of Defense.

It is quite frankly the only cabinet agency not to pass an audit. And I have legislation that would require DoD to pass an audit or face automatic spending cuts.

So how does DoD's failure to pass an audit complicate budget planning from an auditing point of view? How much Pentagon spending is unaccounted for? Why should this Congress continue to add more and more money to the defense top line in the meantime if it can't be audited, if there is no accountability? And what sort of forcing mechanism should we be considering in Congress to get DoD to pass an audit? And this has been supported by my bill, by my colleagues on the other side of the House. What can we do? It is long overdue.

And you also finally—the report—how DoD might save $1 trillion over the next 10 years, it concluded that we can better defend our country by getting more for less money. Can you talk a little bit about that?

Dr. SWAGEL. Yes. I would be glad to talk about this.

And the problems you are pointing to are a challenge for us as well, that we aim for our baseline that we provided yesterday to inform policymakes, to inform you and your colleagues. And when the information that we get from the executive branch is—you know, I guess imperfect is the nice way of putting it, that means our baseline isn't as informative as it should be. And so absolutely, we are there and better information from DoD and from others would help us serve the Congress with our mission.

In terms of the defense budget going forward, you know, of course CBO doesn't provide policy recommendations, but we have done a number of studies that help policymakers look at different choices for the defense. We recently put out a tool that is actually online on different force structures that, you know, you and your staff could go through and say, if we change the services in different ways what would be the fiscal implications of that. Of course we are not saying do this or do that, but you can see the—you know, basically how much money is saved by different choices on the national security side.

Ms. LEE. Well, let me ask you though, it has failed to pass an audit. What do we do? You know, if a business fails to pass an audit, it gets dinged, there are penalties. Agencies have penalties, people have penalties. Why does the defense department get away with unaccounted spending? It boggles my mind. There is no accountability there.

So I know you can't suggest policies, but tell me how inappropriate it is for our budgeting process to go forward without a clear picture? I mean we need to know what is—you know, the hand needs to be shown in terms of what you are dealing with. Otherwise it is not a good mechanism for us to make forecasts or for us to make decisions on our spending if we let agencies just run amok with the resources that we appropriate.

Dr. SWAGEL. Right. And of course most of the national security spending is appropriations. And so we support the Appropriations Committees in both the House and the Senate as they take up the Fiscal Year 1923 appropriations. And you are absolutely right, the imperfect information means that we are not able to support them in the way that we need to.

Ms. LEE. So how do you audit—OK, so what do you do? What would your suggestions be on any agency that is not auditable?

Dr. SWAGEL. No, it is—you know, it is a difficult question for us because we provide information to the Budget Committee to enforce the budget rules and it is really GAO that does the auditing. Of course, it has very substantial expertise in auditing. So really they are the—and they would put forward policy recommendations. So they are the ones who would, you know, go out and say here is how the situation can be improved.

Ms. LEE. Well, with your new—OK, CBO baseline, it is a real shame and disgrace that you all aren't working together and you are not suggesting it impairs your ability to be accurate and forecasting if they don't insist on an audit. But in terms of the baseline dealing with inflation, how does the Pentagon's budget assumptions fit into that in term of CBO's baseline?

Dr. SWAGEL. OK. OK. No, absolutely. And essentially it goes both ways, that, you know, the fiscal spending has an impact on inflation and of course the decline in, you know, spending from last year to this year will alleviate some of the inflationary pressures going forward. But of course it is in the other direction as well, that inflation affects military spending. You know, the military is the—as I understand it, the largest purchaser of jet fuel, for example. So energy costs will affect—you know, affect them as well.

So it definitely—there is an impact on inflation—between inflation and national security spending that goes in both directions.

Chairman YARMUTH. The gentlewoman's time has expired.

I now yield five minutes——

Ms. LEE. Thank you, Chairman.

Chairman YARMUTH [continuing]. to the gentleman from California, Mr. McClintock.

Mr. MCCLINTOCK. Thank you, Mr. Chairman.

You know, I find it astonishing that the Chairman would tout the so called American Rescue Plan as a success. Even Democratic consultants like Steve Rattner and Larry Summers were warning that it was so irresponsible that it would trigger a crippling inflation. Mr. Chairman, it turns out all the free checks you sent out were actually very expensive and Americans are paying them back every day at the grocery store, the gas station, the tax collector—everywhere they spend money. I have seen a report costing average families about $5,000 for their purchasing power.

My god, before the lockdowns took a wrecking ball to the economy, you know, we had the lowest unemployment rate in 50 years, the lowest poverty rate in 60 years, the fastest wage growth in 40 years, and it was working class families gaining the most. The gap between rich and poor was actually narrowing for the first time in our lifetimes. We were energy independent for the first time in our lifetimes. Inflation was around 1 percent, interest rates were near all-time lows. That didn't happen by accident. The Republican tax cuts produced one of the biggest economic expansions in history, an expansion that was so great we ended up taking in more revenues after the tax cuts than we had received before them. We saw the biggest regulatory roll back in history that freed up American energy resources, it brought companies back to America for oversees. All you had to do was continue those policies that produced this prosperity, and instead you did the opposite. You spent trillions of dollars we didn't have, you started what Mr. Biden just called an incredible transition away from fossil fuels by imposing the highest gasoline prices in American history. You have admitted into our country an impoverished population the size of West Virginia that American taxpayers have to now support, and you have the audacity to try to tell us that the economy is doing great? You know, just a word of advice, you can't spin the economy. Every person knows how the economy is doing because they are living it every day. And that is what makes the old Reagan question so devastating to you and your party—are you better off today than you were four years ago. Everybody knows the answer to that in their own lives and they can see clearly who is responsible for it. You are not fooling anyway.

Now, Mr. Swagel, I want to begin with three numbers that describe the fiscal reality we face—28, 76, and 89. According to our calculations, 28 percent is the growth in population and inflation combined over the last 10 years—28 percent. 76 percent is the growth in revenues, which means that revenues are growing at nearly three times the rate of inflation and population over the past 10 years. That is after the tax cuts. 89 percent is the increase in spending and spending is the fine point of the matter.

It seems to me there are only three ways to pay for it—by taxes. Personal taxes decrease the purchasing power of families in the present. Business taxes are passed through to consumers as high prices, to employees as lower wages, and to investors as lower earnings. That is one way you can do it. The second way is to borrow from capital markets. But of course this reduces the capital available to finance construction and consumer spending and home and automobile purchases and business expansion. And of course borrowing is paid back through future taxes and it generates additional interest costs along the way. And the third way is to borrow from ourselves, essentially printing money, which is the direct cause of inflation. Too many dollars chasing too few goods.

So it follows then that it is excessive spending that is driving all three drags on the economy. To paraphrase the Clinton era maxim, it is the spending stupid.

Mr. Swagel, am I missing anything?

Dr. SWAGEL. No. I mean you have—I think you have got it, right. The inflation we are seeing is the combination of very strong demand and, you know, much of that is driven by—you know, by fiscal policy. Certainly there is a recovery from the pandemic combined with the supply constraints, and those are driving inflation.

Mr. McCLINTOCK. Well, let us talk about that inflation rate for a second, 8.3 percent as I understand it. So does that mean if I manage to put away $100,000 in my retirement fund, does that mean I just lost $8,300 in purchasing power over the last year?

Dr. SWAGEL. That would be one implication, that—right, the number you gave is the most recent 12 months of inflation. It means that Americans—nominal wages are up, but real wages are down for most Americans. So, yes, it is a challenge for families and a challenge for the economy. And a fiscal challenge as well.

Mr. McCLINTOCK. And isn't the classic definition of inflation too many dollars chasing too few goods? So if you flood the economy with dollars while you raise taxes on productivity, you get more inflation or less inflation?

Dr. SWAGEL. Right. I mean we have very strong demand and, you know, serious constraints on supply. And those dollars chasing the inadequate supply, that leads to higher inflation.

Mr. McCLINTOCK. Thank you.

Dr. SWAGEL.

Chairman YARMUTH. The gentleman's time has expired.

I now yield five minutes to the gentlewoman from California, Ms. Chu.

Ms. CHU. Dr. Swagel, thank you for being here with us today.

As a Member of the Ways and Means Committee I have made it my mission for years to lower the cost of prescription drugs. It is unconscionable that Americans pay the highest prices in the world for the exact same drugs. People with diabetes have to pay triple the cost for insulin compared with those living in countries like Canada. And now one in five seniors struggle to afford their medications. That is why it was so significant that when the House passed the budget reconciliation bill it included provisions to lower prescription drug costs by allowing Medicare to negotiate prices for certain high cost drugs. And it also penalized drug makers for hiking prices faster than inflation and it lowered out-of-pocket expenses for seniors and capped the price of insulin at $35 for those covered by Medicare and private insurance.

While the CBO estimated that these provisions would result in nearly $80 billion of savings to Medicare and would reduce the federal deficit by nearly $300 billion, so Mr. Swagel can you explain how these provisions would not only reduce federal spending but also lower prescription drugs for Americans?

Dr. SWAGEL. Yes, of course. And this is first from our cost assessment for H.R. 3 and then, as you said, inside the Build Back Better Act. The provisions in the Build Back Better and H.R. 3 would set up a system of negotiation between the secretary of HHS and drug companies. The secretary would have very substantial leverage in the form of an excise tax. We have done substantial modeling to that. We put out working papers that explain the technical details. We find that that would lower drug prices. The lower drug prices would have many effects. Some of them would be health. People would take more medicine and have healthier impacts, so save money on doctors and hospitals. The lower drug prices would save money for the federal government because the cost of health insurance would be lower and the federal government subsidizes health insurance through a variety of ways, employers, the ACA, Medicaid, and others.

So the system in that bill, by lowering drug prices, would both make people healthier and save money for the federal government.

Ms. CHU. Thank you.

And now I would like to ask about paid family leave. As you know, the U.S. is the only country among 41 nations that does not mandate any paid leave for new parents, according to data compiled by the Organization for Economic Cooperation and Development. Democrats in the House tried to rectify that by passing a national paid family and medical leave program. Your analysis of that proposal found some important things. First, having access to paid family and medical leave could improve physical and mental health for some workers. Second, while some employers might reduce their company paid leave policies and shift to the federal program, that is not a bad thing for workers. Employees would still get paid leave and you found that employers would increase pay or provide other benefits to attract good workers.

Could you expand on how a federal paid family leave program might help increase pay for workers?

Dr. SWAGEL. No, that is right. You know, we have done a lot of work on this, including a set of slides in 2021 that went through the various dimensions in which paid leave would affect workers and effect the, you know, fiscal situation. And, as you said, that might lead some people to come back into the labor market, people for whom—you know, who are taking care of family members or loved ones, parents. And the availability of paid leave would make it possible to come back into the labor market.

For people already working it would give them added flexibility. It might change the—you know, the way they are compensated. So there would be lots of different economic effects. We had that in the cost estimate for Build Back Better. For the Build Back Better Act as passed by the House of Representatives, we had that as costing the federal government $200 billion over 10 years, that is from 2022 to 2031. So there would be a fiscal cost and, as you said, there would be, you know, implications for families and for the economy.

Ms. CHU. And just quickly, one of the drivers of increasing deficits and debt over the decade is the aging of the population. How would immigration reform help keep our promises to our seniors?

Dr. SWAGEL. So, as you said, as the decade goes on, as we get out into the long-term outlook, the aging of the population becomes an important driver of, you know, the fiscal challenge, both through Social Security and through Medicare. Immigrants make substantial contributions to the U.S. economy, the immigrants who are here and new immigrants. You know, people of working age come in, they would tend to pay into the trust fund supporting Social Security. And Medicare, they get benefits, those would be off into the future. They boost growth, they boost innovation, they boost our society in other ways.

So of course it is up to policymakers. CBO doesn't perform policy recommendations, but increased immigration has many effects on the economy and on the fiscal trajectory.

Ms. CHU. Thank you.

I yield back.

Chairman YARMUTH. The gentlewoman's time is expired.

I now yield five minutes to the gentleman from Wisconsin, Mr. Grothman.

Mr. GROTHMAN. Thank you much.

I was trying to scramble here and find a Ronald Reagan quote. I couldn't find it in time, so I am going to have to kind of guess a little bit.

Our forefathers didn't come here to copy Europe. And I always run into people, you know, who came here from England, came here from Germany, came here from a variety of European nations. I am sure occasionally somebody goes the other way, but largely everybody wants to come here and I would suggest that is in part because we have less government and government does less in America than it does in Europe.

Now, I would like to talk a little bit about the overall level of spending and the effect of two bills, the American Rescue Plan, which I thought was about the most fiscally reckless thing I have ever seen, and the Bipartisan Infrastructure Bill.

I think we already saw that—I would even argue the CARES Act was somewhat excessive. I know it happened under President Trump, I know it was negotiated by Treasury Secretary Mnuchin, who was a Democrat—kind of looked like it. But in any event, I would like to ask you in your 10 year deficit projections, how much is the legislation enacted so far by this Congress affected them, including the American Rescue Plan and bipartisan infrastructure framework?

Dr. SWAGEL. OK. No, absolutely. As I said, I am holding up your report. It is on page 30 of our report, figure 2–2. Goes through and shows the impact of the major legislation. And so you can see that the—you know, the early pandemic legislation, you know, especially the CARES Act was—it contributed over $2 trillion to the deficit last year and another roughly half trillion this year, and so on. And you can see in there the American Rescue Plan Act also was over $1 trillion in 2021 and then about, you know, $400 billion this year.

Now, since February 1921 overall the legislation that has been enacted has increased spending by $3.4 trillion. And of that, $2.4 trillion was since our July 2021 update. So it is $3.4 trillion in legislation since February 2021.

Mr. GROTHMAN. Already?

Dr. SWAGEL. Already. That is right. And that is under current law. Of course that would not include Build Back Better since that is not part of current law.

Mr. GROTHMAN. OK. Now, I will give you another question. There have been a lot of actions with the Biden Administration and quite frankly I think the high unemployment, which began in the CARES Act, was to a certain extent extended by President Biden, I think that encourages people not to work. You made the assumption in your presentation today that unemployment is going down because the pandemic is ending and less people are sick or whatever. Do you think part of the reason unemployment is going down is we need to peel off those excessively high unemployment benefits? Could that be one of the reasons why more people are getting back to work? We no longer bribe people quite as much not to work?

Dr. SWAGEL. You know, that is certainly part of it. And one of the things that we see today as compared to our—you know, our economic projections a year ago is that there has been a million—just over a million—it is like 1.1 million people who are still out of the labor market who we thought a year ago would be back.

Mr. GROTHMAN. What do you attribute that? Too generous government benefits or what?

Dr. SWAGEL. You know, it is a mix. In part we think it is the—you know, the effects of unemployment insurance and the other transfers last year had some impact. It is also health concerns, it is childcare. You know, I think we all understand that, you know, the federal government hasn't given clear guidance to childcare providers. I mean it affects me, the 276 people I work with here. You know, there are childcare providers.

Mr. GROTHMAN. I want to give you another question along that vein. Since January 2021 the Biden Administration has spent hundreds of billions of dollars without congressional approval through various executive actions. And a lot of these programs are programs in which we pay people not to work. It includes the higher SNAP benefits, about 250 million student loan repayment moratoriums, dropping previous actions related to strengthening work requirements in welfare programs, which I think, you know, is clearly you don't want people to work, you want them to depend on the government. Total cost of Biden Administration's executive actions could be half a trillion dollars or more.

CBO's budget outlook provides information on how much the deficit is increased due to the laws passed by Congress. Do you think you should also include how much it is increased due to the impact of executive actions?

Dr. SWAGEL. No. And we try to provide as much information as we can. And some of this is in the baseline. For example, you mentioned the Thrifty Food Plan update that increased SNAP benefits. So that is in the baseline. That is roughly $225 billion over the—you know, for 2022 to 2032. There are other executive actions that we can't quantify. There is the EO 13990 relating to the climate change. We just—you know, we can't pinpoint where that enters in the budget. There is just not enough specificity for us to say what is the impact on the budget.

So when we can, we certainly try to provide that information and sometimes, you know, it just a little bit too amorphous for us to pinpoint.

Mr. GROTHMAN. Well, thank you very much and thank you for the extra time, Mr. Chairman.

Chairman YARMUTH. That is all right. That was Dr. Swagel's answer.

The gentleman's time is expired.

I now yield five minutes to the gentlewoman from the U.S. Virgin Islands, Ms. Plaskett.

Ms. PLASKETT. Hi. Good morning. I am sorry, I was having some technical difficulties here.

Thank you, Chairman Yarmuth, and to the Ranking Member for holding today's hearing on the Congressional Budget Office's Budget and Economic Outlook.

I would also like to extend my gratitude to Director Swagel for appearing before us today and providing insight into the year's Budget and Economic Outlook.

I believe CBO is invaluable to our work here in Congress and the release of this report will help us begin the conversation on addressing fiscal issues.

The National Oceanic and Atmospheric Administration's Climate Prediction Center recently announced that they are predicting an above normal Atlantic hurricane season. The Virgin Islands, specifically, is still recovering from Hurricanes Irma and Maria.

Could you tell me how our climate related disasters and storms are expected to affect the federal budget and economic outlook?

Dr. SWAGEL. Yes, Representative Plaskett.

So it is something that we have done a lot of work on and that is embedded in the economic baseline that we produced yesterday. So we look at the effects of climate over time affecting the economy and affecting fiscal situation, both through the effects on, you know, things like agriculture and construction and then through disasters, through, you know, wildfires, which is very important right now, and hurricanes. And those both have a measurable impact that reduce GDP and therefore reduce revenues over the forecast. And that is in our baseline.

Ms. PLASKETT. Great. Thank you for that.

You know, we hear a lot of discussion surrounding inflation. And it is of course something that Congress cannot ignore, although we recognize that this is a global issue that is occurring. Prices for groceries, housing, gas, and other forms of energy are steadily rising. As you saw, the House recently passed a bill with no Republican support to lower gas prices by cracking down on the alleged price gouging by energy companies. The House and Senate both passed versions of a bipartisan U.S. competitiveness bill that will strengthen supply chains and lower costs for American consumers.

What additional acts can Congress take to mitigate the effects of inflation? We cannot just complain about it, we have to do something about it. I know that my side of the aisle is working steadily to do that and are trying to work in a bipartisan. What are some of the suggestions you have for us to do that?

Dr. SWAGEL. OK. And I should just preface what I will say, is that CBO—you know, we provide analysis and not policy recommendations. So I will give you some examples of supply constraints that are affecting inflation and just please, you know, be aware that this is not my saying you should do this. I am just—I am answering the question.

Ms. PLASKETT. I love your disclaimer. Very smart.

Dr. SWAGEL. OK.

Ms. PLASKETT. Thank you.

Dr. SWAGEL. You know, it is really the key to this organization, as set by Alice Rivlin from the beginning, that we don't provide—you know, we don't tell Members what they should do. So, but, you know, there are supply constraints affecting the economy and labor markets and product markets, international, right. So one is tariffs.

And we have a write up of that in the report that, you know, tariffs are raising the price of, you know, many products. Anything with steel, anything with aluminum. We have a tariff on infant formula. You know, the CBP until recently was—I guess bragging is the word—is the right word, if keeping out infant formula. And obviously that has changed, but that is the sort of impediment of trade policy. So that is one.

We talked about the immigration before. I mentioned childcare. Just I think—you know, again, I am speaking a little bit for on behalf of CBO employees getting clear guidance on, you know, childcare and the pandemic and the virus would be helpful. And then energy. And you mentioned energy. There is energy transportation, the—you know, the Jones Act. This raises costs for transporting, you know, goods and service and energy is part of that. There are other provisions that could be taken.

So, you know, again, CBO wouldn't say what to do, but there is—you know, anything on the supply side would help reduce inflation.

Ms. PLASKETT. Thank you. Thank you very much for that answer.

And with so little time I just want to yield back. And thank you again, Mr. Chairman for holding this hearing. And thank you so much to the witness for answering the questions and being a policy advisor, letting us know what policies affect those issues.

Thank you.

Chairman YARMUTH. Thank you. The gentlewoman yields back.

I now recognize the gentleman from Pennsylvania, Mr. Smucker, for five minutes.

Mr. SMUCKER. Thank you, Mr. Chairman. Appreciate that.

You know, I want to concur with the comments of Mr. McClintock earlier. I found the comments by the Chairman, with all due respect, and by Mr. Jeffries to be astounding when they talked about the health of this economy. And I can tell you that that is not what my constituents are experiencing. They are experiencing massive price increases at the pump, they are making tough decisions about whether they can buy gas or go buy food. They are deferring retirement. It goes on and on.

And so I don't know that I have ever felt the comments that were so out of touch with what my constituents are feeling. And, frankly, it is why Democrats are in big trouble in the upcoming Midterm elections, because of that out of touchness that we are hearing today.

The other thing I want to say, Mr. Swagel, the argument that you sort of concurred with in regards to Ukraine causing the inflation, but then in the next sentence you admitted that inflation was 7.2 percent, or something like that, before Ukraine started. So how can you—tell us how you can reconcile those two statements.

Dr. SWAGEL. Yes, I know—OK, no, it is an important question. And so inflation was high before the invasion——

Mr. SMUCKER. Yes.

Dr. SWAGEL [continuing]. of Ukraine. And——

Mr. SMUCKER. So it was not caused by Ukraine?

Dr. SWAGEL. No, no. Inflation was high and——

Mr. SMUCKER. Yes. OK. I——

Dr. SWAGEL. You know, this wasn't only in the U.S. The Ukraine shock was a global shock. And so now we see inflation around the world go up.

Mr. SMUCKER. But inflation here was not caused by Ukraine? Would you concur with that?

Dr. SWAGEL. Oh, absolutely. Inflation was high in the U.S.——

Mr. SMUCKER. Yes.

Dr. SWAGEL [continuing]. before Ukraine. It has gotten higher because of the effects of the invasion of Ukraine.

Mr. SMUCKER. Yes. Then one other thing you said, you talked about sort of the classic economic formula. And I am not an economist, but, you know, you increase demand, you decrease supply, you are going to have inflation. That is what happened here.

What are you talking about when you say increase demand?

Dr. SWAGEL. So increase demand, we think of that as spending by families, by households.

Mr. SMUCKER. Yes, yes.

Dr. SWAGEL. But this is——

Mr. SMUCKER. So it is the trillions of dollars that was inserted into the economy by Democrat spending that increased demand and caused inflation, correct?

Dr. SWAGEL. That would be certainly a contribution to it, was the fiscal——

Mr. SMUCKER. It was the——

Dr. SWAGEL. The inflationary impact of fiscal policy.

Mr. SMUCKER. The biggest part of it, right?

Dr. SWAGEL. I mean it is—you know, it is a little bit—there is both because you had this supply——

Mr. SMUCKER. So the American Rescue Plan caused the inflation that we were seeing? That we are seeing now?

Dr. SWAGEL. I would say it definitely contributed to it. The fiscal policy. The economy was really——

Mr. SMUCKER. Most economists that I talk to believe that it was the primary factor in causing inflation that we are seeing. Are you disagreeing with that?

Dr. SWAGEL. No, you know, I am not disagreeing. I am just trying to say that there is two——

Mr. SMUCKER. OK, thank you. I appreciate it. I am sorry, I am going to keep going.

Dr. SWAGEL. No, no, of course, of course.

Mr. SMUCKER. Because I think it is really important that we come to an understanding about what has caused some of these disastrous economic situations——

Dr. SWAGEL. Mm-hmm.

Mr. SMUCKER [continuing]. that we are in for our constituents. So I appreciate the answer to those questions.

Dr. SWAGEL. Mm-hmm.

Mr. SMUCKER. The Democrats talk about reducing deficits in this budget—in their budget, which is pretty bizarre when you look at the numbers. And I want to see if you agree with me on this as well.

They are estimating a $1.6 trillion in average federal deficits over the next decade. Is that right?

Dr. SWAGEL. That is right. That is the 10 year average.

Mr. SMUCKER. Do you know what the average was in the 10 years prior to COVID? Like we all know it was an anomaly during COVID, what was the average in the 10 years prior to COVID.

Dr. SWAGEL. Yes, it is a good question. I don't have that offhand. Just before COVID——

Mr. SMUCKER. It was $829 billion average.

Dr. SWAGEL. OK.

Mr. SMUCKER. So in the 10 years prior, not even looking at any, you know, numbers going up and down, they are doubling in the 10 years coming up compared to the 10 years prior to COVID. The year before COVID the deficit was $984 trillion. So how could the Democrats possibly credibly be saying that they are reducing deficits in any way?

Dr. SWAGEL. So that—right. I mean the deficit is coming down this year as the emergency standing of the pandemic——

Mr. SMUCKER. But that is only because we spent trillions—it is because they spent trillions and trillions of dollars more and now they claim that they are reducing deficit. It makes absolutely no sense and I think everyone can easily see that.

How concerned are you with our debt-to-GDP? If you give us a little bit of history on where we are in debt to our gross domestic produce.

Dr. SWAGEL. Right. So the debt-to-GDP ratio is just under 100 percent this year.

Mr. SMUCKER. How does that compare to historical average?

Dr. SWAGEL. It is essentially, you know, right up there near where we were at the peak when we were paying for World War II.

Mr. SMUCKER. And currently it is projected to keep increasing. Are you concerned about that?

Dr. SWAGEL. That is right. I am concerned that the debt ratio by the end of the 10-year window goes up 120 percent, higher than ever, and the service cost more than doubles. So goes up to 3.3 percent of GDP just to do the annual servicing. And that is if interest rates are still pretty moderate by historical standards.

Mr. SMUCKER. It is why this budget is so irresponsible, and I thank you for pointing that out.

Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time is expired.

I now recognize the gentleman from California, Mr. Peters, for five minutes.

Mr. PETERS. Thank you, Mr. Chairman. Thank you very much for holding this hearing. Dr. Swagel, thanks for being here.

Let us start with the good in this report.

Despite the havoc the pandemic wreaked on our economy, the economy is fairly strong if you look at higher wages and lower unemployment rates. In San Diego our unemployment rate sits at just 3.5 percent.

Your testimony notes that the size of the labor force, which in early 2022 remained 1 million people below its pre-pandemic level, is expected to keep increasing, exceeding that level by the end of 2022. And what is driving the recovery in the labor force participation rate?

Dr. SWAGEL. You know, so it is a mix. It is got to be large part of that is the reopening of the economy and scientific progress. You know, progress with the virus. There is probably the strong—you know, the tight labor market and rising wages are leading people to come back in. It could be high inflation, and so this is pushing people who need more income to come back in as well.

Mr. PETERS. And I suppose over time that that will serve to address some of the supply issues in the labor market that are driving inflation? Don't you agree with that?

Dr. SWAGEL. That is right. And that is essentially why we have—part of why we have inflation moderating over the next couple of years.

Mr. PETERS. Well, let us turn to some of the bad things in the report. You estimate inflation will remain elevated through 2022 and the Federal Reserve will hike interest rates to fight inflation. And I commend the Fed for doing that. But at the same time we have to confront the consequences of rising rates.

I am serving currently as the Vice Chair of Policy for the New Democratic Coalition and I helped start an inflation working group to identify solutions to ease inflation and ease the effects of inflation on families. I want to just note, you have mentioned immigration, you have mentioned tariffs. I also note that the—my colleagues on the other aisle, when they had control of all three branches lowered taxes for wealthy people in the middle of a booming economy. I am happy to work with any of my colleagues on anything they want to do, on any of those things, to get a fairer tax system, to cut back on the Trump tariffs, and to deal with immigration, which they have really left the building on. And I hear a lot of criticism, but what I don't hear from the other side of the aisle is answers on what they would like to do about this.

Dr. Swagel, based on the Fed's current trajectory, do you predict inflation will slow in 2023 and 1924, but spending on interest payments will grow each year for the next decade? Can you describe in a little bit more detail on how interest payments will rise substantially over the next 10 years and how that compares to previous outlooks as a share of our total budget?

Dr. SWAGEL. I can. So interest payments rise both with higher interest rates and with the increased debt. And the challenge is that that the—you know, the debt level has gone up by so much that even a pretty modest increase in interest rates will have a, you know, an outsize effect. You know, it is not immediate because, you know, we are not funding the U.S. debt with like 30 days T-bills. So, you know, there is some time period over which those debt payments go up.

It is at 1.6 percent of GDP for net interest outlays today. You know, the 50 year average is like 2 percent. So we are actually below the 50 year average just because interest rates still remain moderate. And that is the challenge, that we are going up. We are going up to like 3.6 percent by the end of the 10 year window, both because the debt is going up, but also because interest rates are going up. And interest rates in our projection go up kind of moderately. So that is—you know, essentially if interest rates go up even more than the net interest payments, the challenge there would get even sharper.

Mr. PETERS. I have a personal concern as a policy matter about continuing to spend more on interest than on the future of our children. Are there budget consequences for doing that?

Dr. SWAGEL. Absolutely. And I mean the choice that you highlighted, I mean that is the choice, right. I mean we are going to pay the interest payments on our debt, right. And that is since Alexander Hamilton, that is part of the country. But that crowds out other priorities or it means that policymakers must put in place more revenue provisions.

So it is rising interest rates and rising debt payments, you know, pose a challenge and a choice for policymakers.

Mr. PETERS. Mr. Chairman, I appreciate very much this hearing. And I would just say to my colleagues on the other aisle, they all know that I am interested in the deficit and working with them on the deficit. I would invite them to work with us on immigration, on the Trump tariffs, and on a tax system that funds this government in a way that is good for our fiscal health as well as for our children.

And with that, I yield back.

Chairman YARMUTH. The gentleman yields back.

I now yield five minutes to the gentleman from Georgia, Mr. Carter.

Mr. CARTER. Thank you, Mr. Chairman, and thank you Mr. Swagel for being here.

You know, I want to build off of what some of my colleagues have been talking about the deficit. Here we have the 2021 deficit, the second highest in American history, was $517 billion over CBO's estimate. Yet the Biden Administration is trying to tout this as a deficit reduction. I mean, honestly and sincerely and seriously, do you think we are stupid?

Dr. SWAGEL. I don't think I should answer that question.

Mr. CARTER. OK. Well, don't answer it then, but we are not, I will tell you. It is just ridiculous.

You know, here we have the $2.78 trillion deficit. That is almost three times the average trillion-dollar 10-year average deficit. And yet, they are saying it is a deficit reduction. It just baffles me that someone could possibly even think that or say that.

But let me ask you this. What was the largest contributor to the deficit growth between last year's projection and this year's?

Dr. SWAGEL. So, there was some legislation that was enacted. It was both the Investment Infrastructure and Jobs Act and then the Fiscal Year 2022 appropriations that were passed earlier this year. And so that was new spending. Some of that shows up this year. And that was offset by increased revenues and then, of course, the pandemic-related spending that fell away. So, that is where the—I will just say that is why the deficit falls from—it was $2.8 trillion last year to $1 trillion this year, the combination of essentially the pandemic spending falling away and then some increased revenues.

Mr. CARTER. OK. Well, let me ask you this. Has the Administration or the Democratically controlled Congress, either one of them, have they taken any steps to stabilize our debt or to deal with the dramatic disparity that we are witnessing right now between our growing spending and the revenues that fail to cover that spending?

Dr. SWAGEL. I mean, the fiscal trajectory is challenging and so that, you know, that is essentially I think the message of the report we released yesterday, that choices need to be made. It is not—you know, not that this year there is going to be crisis. Maybe not even by the end of the 10 years. But the trajectory is challenging and will drive the need for choices to be made.

Mr. CARTER. We all know that inflation has gone up every month—every month—since this President has been in office. I guess you could make the argument maybe a tick down a couple of points or a couple of tenths of a point last month. It went from 8.5 to 8.3, but I can assure you, you are going to see it go back up again this month. But every month. When Joe Biden went into office, when this President went in office, the inflation rate was 1.7 percent. Now here we are at 8.3, 8.5 percent.

You know, we don't have a revenue problem. What we have got is a spending problem. But let me ask you this. How much do you think we need to reduce the deficit to stall inflation?

Dr. SWAGEL. So, some of that is in the works with the reduction in—you know, the falling of pandemic-related spending. And the amount in substance of contractionary, you know, impulse that is needed to reduce inflation, it is going to depend on the success of the Fed's efforts and also on the supply constraints falling away.

So, it is not clear. I can't give you a single number of what needs to be done on the fiscal side because it depends on the Fed and on what happens with the supply side.

Mr. CARTER. Let me ask you something. Inflation was at 7 percent in 2021 and it was at 8.3 percent over the last 12 months and it is running at an 11 percent pace so far this year. The last time we experienced this kind of inflation, the effective interest rate on the debt was 10.8 percent. How does that limit our ability to reduce our debt?

Dr. SWAGEL. No, it is an important challenge that as interest rates go up, given the increase in the debt level, that means that net interest outlays will rise as a share of the budget and a share of the economy. And that is going to crowd out other things or require action to raise revenues. And so we have a pretty moderate increase in interest rates and that already has a pretty substantial rise in spending to service the debt.

Mr. CARTER. And correct me if I am wrong, but we had a .5 percent increase in the interest rate by the Federal Reserve, which resulted in $29 billion interest, an increase of $29 billion interest just like that.

Dr. SWAGEL. Right.

Mr. CARTER. And don't think that the interest rate isn't going to go up again. It is probably going to go up two or three more times at that rate. And how much is that going to cost us?

Dr. SWAGEL. And we have——

Mr. CARTER. I am sorry, I am out of time. But what is it going to take? What is it going to take to get people's attention at what is going on here?

Chairman YARMUTH. Is that a rhetorical question of the gentleman?

Mr. CARTER. No, no, it is a real question. And maybe you could followup in writing for me. Tell me what it is going to take because I really need to know.

Mr. Chairman, I appreciate your indulgence and I yield back.

Chairman YARMUTH. That is all right. The gentleman's time has expired. I now recognize the gentleman from Pennsylvania, Mr. Boyle, for five minutes.

Mr. BOYLE. Thank you, Mr. Chairman. I know it is tempting to get into the usual partisan food fight and score points. I am going to use my precious five minutes that I have with someone as esteemed as you for perhaps a better purpose.

And I am struck, Mr. Swagel, that whenever I am with colleagues of mine, fellow parliamentarians from around the world, especially in Europe, obviously right now the Russian invasion and attack on Ukraine is paramount, but a close second to that is every one of my colleagues is speaking about the inflation going on in their country. It is pretty much a worldwide issue, so hardly something we are dealing with in the U.S.

So, I was wondering if you could take a step back and maybe just give us the lay of the land internationally, and especially in other Western democracies, at what inflation looks like for those countries.

Dr. SWAGEL. OK. No, very good and I can speak to that. And that affects the U.S. because the, you know, the condition of foreign countries affects us, you know, both China and their lockdowns there and what it does to our supply side and then demand in other countries for U.S. exports. So, other countries are suffering from some of the same factors as we are. And I talked about earlier that the Ukraine-related shock on food and energy, and, of course, Europe is much more affected by the negative effects of the energy shock there.

So, inflation has risen for all countries. You know, for the U.S., I mean, the U.S. is first, so it does look like we had something different last year: the combination of the supply issues in the U.S. and the demand in the U.S. It made us go first. And so, you know, that is a factor and more recently all countries are facing similar challenges together.

Mr. BOYLE. Yes. My Belgian colleagues tell me theirs is over 8 percent. A French parliamentarian who I am friends with I think pegged it at 7 ½. So, obviously, this is a challenge worldwide.

Do you think one of the lessons coming out of COVID is—well, you will see this is a bit of a leading question, but something I have been pushing for a number of years now is to increase domestic manufacturing both for economic reasons, but also in terms of our national security. Do you believe now that coming out of the COVID experience the argument for that is strengthened? And maybe you could even talk about some other critical parts of our supply chain that we now realize are really at risk, and COVID helped expose that.

Dr. SWAGEL. Right. I can talk about a couple dimensions and, of course, there are many dimensions to this. It is almost the closer you get to it, the more dimensions there are. It is fractal I think is the word for that.

And so we have seen the supply chain issues that bedeviled the U.S. economy even from the very beginning of the pandemic. And, of course, items produced in the U.S., those supply chains have been more resilient. But even there, you know, issues with the labor supply have affected the U.S.

I think we all understand now the impact of, you know, some of the critical supply chains, like in medicine and, you know, other critical issues, relying on foreign countries is difficult. And, of course, not every foreign country is the same, so there is an important discussion to be had there about, you know, about our trade alliances.

And then last, obviously, what has happened with infant formula, right, there is ample supply, global supplies of safe and nutritious formula. It is the U.S. that, in some instances, you know, we have inflicted the problem on ourselves. And so it is—you know, it is sort of—it is just a different wrinkle on the supply chain.

And so absolutely, it is coming out of the pandemic. I think we all understand we need to focus on this more as an economic impact, a fiscal impact, and, of course, the impact on families.

Mr. BOYLE. Yes. One thing, in speaking to a pretty prominent economist, Ian Stephenson, he believes that inflation is going to be a challenge for the rest of the year, beginning to come down next spring. And once it drops, dropping pretty precipitously, you talked about this way back in the beginning, but I was wondering if you could just kind of offer your thoughts on that timetable, where you agree, disagree.

Dr. SWAGEL. Yes. So, we the supply issues facing the country generally waning over the course of this year. I talked earlier about the labor supply, that is one. We see some of the trade supply issues, the situation at some of the key U.S. ports looks to be getting better. You know, the China lockdowns don't yet seem to be affecting their exports too much, so that is supporting our expectation that inflationary pressures will diminish over the course of the year.

And then, of course, you know, as we have discussed a couple times, the, you know, demand side pressures driving inflation will diminish as well, both from what the Fed is doing and from fiscal policy, the pandemic spending falling away.

Mr. BOYLE. Well, thank you. It is always a pleasure to be with you. Thank you.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Virginia, Mr. Cline, for five minutes.

Mr. CLINE. Thank you, Mr. Chairman. I want to thank Director Swagel for being here today as well.

Despite the last update of inflation being 8.3 percent, CBO's new economic baseline projects a rate of only 5.1 percent in this quarter. I think everyone would prefer if inflation really were only 5.1 percent. Obviously, however, CBO is underestimating the level of inflation.

We all know that the assessment of our fiscal future is sensitive to inflation. You have inflation going down over the next year quite a bit. Can you talk about if inflation does stay at the rates that we are seeing now, the impact that that would have on families, particularly, you know, those who are working on fixed incomes?

Dr. SWAGEL. Absolutely. The inflation we have seen already poses an important challenge for families. It means that family incomes just don't go as far. And so even though wages are up, nominal wages are up, crises are up by more, and so most Americans over the past year have seen their real take-home pay go down. And if that continues, as you say, that would continue to pose an important challenge for families.

Mr. CLINE. Now, we are expecting federal deficits to exceed $2 trillion by 2031 and 2032, going on in perpetuity. The President's budget does nothing to address these deficits going forward, does nothing to move us toward fiscal responsibility or a balance in any way. And this represents a huge crowding out of private investment and economic growth. How would you say that that, these recurring deficits, are going to impact the fiscal futures for American families as well?

Dr. SWAGEL. Oh, it is through the mechanism that you have highlighted is an important one, that the deficit over time, as it gets larger, crowds out private spending, private investments. And that leads to higher interest rates. And otherwise, that affects American businesses, American families, it affects job creation, it affects productivity.

You know, again, in our forecast it is not a crisis. We don't have a recession in our forecast. But it is more like a slow undermining of the foundation of success for the American economy.

Mr. CLINE. And CBO is also expecting the Fed to reduce its holdings of federal debt by roughly $2 trillion over the next three years. This would also contribute to that crowding out of private investment. The last time the Fed promised to reduce its holding of federal debt it only offloaded about $750 billion, leaving its assets 300 percent larger than before the 2008 financial crisis.

Do you really think that the Fed will reduce its assets by this much and stop facilitating massive federal deficits?

Dr. SWAGEL. So, in our economic forecast, we have the Fed, as you said, reducing, you know, its asset holdings. Essentially it is going from quantitative easing to quantitative tightening, and that is pushing up long-term interest rates. I mean, and essentially that is by design. The Fed is trying to reduce demand in the economy to reduce inflationary pressures. But, you know, that has an impact. It has an impact on families and on businesses.

And, you know, of course, the challenge for the Fed is getting that right and reducing inflation without excessive negative effects on families and businesses.

Mr. CLINE. You know, the government is repositioning and implementing more of this pseudo socialist ideology that the current Administration and the current congressional leadership is promoting. The government right now spends $4 on wealth redistribution for every dollar that it spends on government services. This uptick represents, as I said, a decades-long shift of the government moving closer to this pseudo socialist dystopia of the left.

Does the CBO have a position on this trend and increasing use of government to redistribute wealth as opposed to support economic growth?

Dr. SWAGEL. OK. I would say that the transfers that you are pointing to are part of the fiscal challenge, that, you know, as we go out further, right, we have debt-to-GDP going to 110 percent by the end of the 10-year window, to 185 percent out in 30 years. And that is driven overwhelmingly by mandatory spending, by Social Security and Medicare.

Now, of course, CBO doesn't have a position on what the right spending is, you know, how much or for what. But it is just the budget arithmetic that the fiscal challenge is being driven by mandatory spending.

Mr. CLINE. And does the budget do anything to address this increase in mandatory spending?

Dr. SWAGEL. No, our projection is current law. So, current law has this very challenging fiscal trajectory.

Mr. CLINE. And that is the greatest tragedy of this Administration. Thank you. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Iowa, Mr. Feenstra, for five minutes.

Mr. FEENSTRA. Thank you, Chairman Yarmuth and Ranking Member Smith. And I want to thank Dr. Swagel for being here.

My question is on pages 31 and 32 of your analysis you mention that "the expiration of the temporary provisions of the 2017 tax act, including the expiration of most of the provisions affecting individual income taxes at the end of 2015 and the phaseout of bonus depreciation by the end of 2026, is projected to temporarily slow down the economic growth." That is a real concern to me.

Looking at the economic growth rates, you project after 2025. Do your projections consider the damage to the economic growth and opportunity that would accompany an increase in the federal tax burden from the expiration of these tax and job cuts? Could you answer that?

Dr. SWAGEL. Oh, yes, we do. So, we have the 2018 CBO's analysis showed the impact of the 2017 tax act in boosting economic growth, boosting business investment and growth, and concomitantly the expiration of the individual side provisions, we had that as reducing growth. That economic growth and job creation, that is in our baseline.

Mr. FEENSTRA. OK. So, that is very significant. I mean, if those go away, if those tax cuts go away, I mean, this could be a pretty significant reduction in economic growth. Is that fair to say?

Dr. SWAGEL. There is a slowdown. In our baseline we assume that the Fed would react to it and cut interest rates. So, that is why the, you know, the baseline has some sort of, you know, a modest slowdown. That is because we are anticipating that the Fed would react to it, that the Fed would see it coming and react to it in part.

Mr. FEENSTRA. Right.

Dr. SWAGEL. But there would be an economic impact.

Mr. FEENSTRA. Yes, thank you. I am glad you said that. There would be truly an economic impact.

I want to transition over to the forecast that you stated on our trust funds. And they are set to expire in the next several years. We have got some real problems. And I understand the CBO is required by law to assume that the trust funds will make full payments after they expire. However, on page 127 of your report, it notes all active trust funds, including Social Security, Medicare

Part A, and highway trust funds, are projected to ultimately increase the debt by $14 trillion over the next 10 years.

Director Swagel, can you explain to the committee the seriousness of not mitigating the spending costs of these programs and the catastrophic effects that could exist if we don't start looking at these programs and how to fund them as we move forward?

Dr. SWAGEL. No, absolutely. And in substance the trust funds represent the fiscal challenge not being over the horizon, but really right in front of us. Right? The trust funds in some sense are accounting devices that redeem the special purpose bonds. And the trust funds, the Treasury has to raise revenue just in the same way it does to fund any other spending. And so that is—that table is table B–2 on page 127. As you mentioned, that shows the, you know, the deficit impacts of the trust funds over the next 10 years and it is $14—it is nearly $13.8 trillion, nearly $14 trillion.

Mr. FEENSTRA. Yes. This to me is so serious. And unfortunately, the Administration and the majority party are not even taking a look at this. And it is something that we just got to get our arms around.

One other thing, it was stated yesterday that the U.S. economy contracted 1.5 percent on its annualized basis in the first quarter of this year. The downgrade revision of the GDP to me is very concerning. And it was noted that the contraction was partially attributed to the U.S. spending more on imports with us reducing U.S. exports, or on domestic goods. The Administration has clearly shown that trade is not a priority. It has not filled a lot of the trade positions and, in that sense, has not effectively completed any unilateral or bilateral trade deals.

Can you explain how critical trade is to our economic growth as we move forward?

Dr. SWAGEL. No, absolutely. And trade is a critical part of our economy, as you said. You know, it is important factor in what happened in the first quarter.

We see some of that unwinding over the rest of the year. We expect a bit better growth in other countries. That should boost our exports. But over time, trade is a critical factor in the U.S. in supporting growth, in leading to lower inflation, and also boosting productivity. Right? Larger markets mean—you know, through trade, help American firms, whereas, you know, a greater variety for American households, you know, boosts their choice and lowers their prices. And that is trading.

Mr. FEENSTRA. Absolutely. And I appreciate, Director, what you are saying. I mean, trade is so critical. And just again, it doesn't seem like this Administration has a handle on it, doesn't care about it, doesn't fill positions. It is not doing any bilateral or unilateral trade deals. I am just so disappointed there.

So, thank you and I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Virginia, Mr. Good, for five minutes.

Mr. GOOD. Thank you, Mr. Chairman. Thank you for your testimony, Director Swagel. Thanks for your appearance today.

I find it interesting, if not surprising, that not many of our members in the majority want to participate today and defend the disastrous economic record of this Administration, let alone its proposed budget, which it obviously exacerbates the problems we have. It is interesting the only call for bipartisanship I have heard from Democrats in my first term is during this hearing because they don't want to hear from Republicans on the disaster that they have created economically.

Director Swagel, if Democrats were trying to ruin the economy, if they were trying to do that, what would they have done differently on spending, on energy, paying people not to work, growing the welfare state, firing people for not getting vaccines, closing or making it hard for businesses to operate, suspending rent and student loan payments, and continuing other COVID mandates and so forth? What might you do differently if you were trying to ruin the economy over the past year and a half?

Dr. SWAGEL. I mean, in our baseline you can see the effect of the supply challenges that are facing the economy. And, you know, with the labor participation, people not coming back, you know, in part that is because of health reasons. And so anything that would get people to come back into the labor force, that would support greater supply and a stronger economy with lower inflation.

Mr. GOOD. Yes. I just can't imagine you doing anything differently if you were trying to ruin the economy than what they have done this past year and a half. Do you think Americans can afford the President's continued pursuit of his Build Back Bankrupt plan? Or maybe said differently, how much worse off would we be if they were successful in passing the unprecedented $5 trillion worth of spending last fall?

Dr. SWAGEL. You know, of course, CBO won't, you know, won't evaluate the merits or demerits of policy. We won't tell Members what to do. The deficit reduction we have seen this year is under current law. And so if there is additional spending that would go in the other direction of deficit reduction.

And now that could have implications for inflation as well that, you know, has been widely understood, that, you know, the lower deficit means some fiscal constraints and that is reducing inflation along with the actions of the Fed. And so additional spending would go in the other direction. Of course, the details would matter, but, broadly speaking, that would have an effect on inflation as well.

Mr. GOOD. Thanks for bringing up the deficit. I know others have talked about that already today. But, you know, the Administration is claiming a deficit reduction, as you know, of a trillion dollars or so. But, as you know, they are not going to stop with the spending. The Democrat majority here is not going to stop with the spending. There are going to be more they are going to try to get through, to try to get more of the Build Back Bankrupt plan through piecemeal or what have you.

But last year's deficit was $2.8 trillion. Obviously, an abnormally high number under the disastrous American Rescue Plan. Do you think it is physically

[sic] responsible to overspend by a trillion dollars even what they are projecting even right now?

Dr. SWAGEL. I mean, the deficit is large under current law and that has important economic effects. Right? That leads to higher interest rates and higher inflation and that would, you know—a wider deficit would make those challenges even greater.

Mr. GOOD. During the State of Union the President said that to combat inflation that businesses should just lower their costs, demonstrating I think a fiscal or economic illiteracy there. He has also accused them of price gouging, businesses are just price gouging and that is what is causing inflation. He and members of the Administration have said that.

Do you think that businesses—do you hold the view that businesses are really kind of too dumb to understand that they should be trying every day to lower their costs and they don't really do that? Or do you think that they don't understand that they compete by the lowest cost possible? Do you hold to that view that has been expressed by the President and some members of the Administration?

Dr. SWAGEL. So, I would tell you our baseline projection assumes that businesses—builds in the assumption that businesses are doing their best. They are trying to lower costs, they are trying to sell more, and help their customers. And so we don't have price gouging in our baseline. That is just not——

Mr. GOOD. Thank you. I wouldn't think that you would and I appreciate that answer on that.

Do you think that the—can you confirm the overspending doesn't contribute significantly to inflation in your view?

Dr. SWAGEL. You know, there I would have to go back to what I said before, that it is a mix. It is together it is the, you know, the substantial demand, including for fiscal policy, together with the supply constraints.

Mr. GOOD. Let me interject just for a second because, as you know, the President's budget has proposed a massive increase over the next 10 years on spending, admittedly. What is that going to do to inflation and prices going forward? And I will just let you finish with that.

Dr. SWAGEL. OK, sure. No, I see the clock. I will be quick.

You know, we have inflation coming down in our forecast with, you know, fiscal constraints, with the actions of the Fed, and supply challenges waning. Deviations from that would feed into higher inflation. We haven't yet analyzed the President's budget. We will actually have that later in the summer, so, you know, stay tuned.

Mr. GOOD. Well, we look forward to that analysis, but thank you. Thank you, sir. Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentlewoman from Texas, Ms. Jackson Lee, for five minutes. Unmute, please.

Ms. JACKSON LEE. I did it again, as they say. Let me—Mr. Chairman, thank you.

Chairman YARMUTH. I have already done it once during the hearing myself, so.

Ms. JACKSON LEE. I did hear, so I feel like I am in good company. But let me thank you for this hearing and as well thank the budget Director, Dr. Swagel.

Let me indicate to my colleagues I am actually in the middle of a memorial for Uvalde. We are all overwhelmed here in Texas, so it is not that you live in Uvalde. It is that you live in Texas. And we are all broken and we know the nation is praying for these families. So, I thank you for yielding to me at this time.

Dr. Swagel, I am going to ask one-answer questions, so that I can get an overview of the direction in which I wish to go. First of all, let me ask the question in your economic life have you seen the economic impact of a pandemic? Have you been through, have we been through in the last 50 years, short of wars, a pandemic of this sort where the economy was practically shut down?

Dr. SWAGEL. This is—the pandemic is unprecedented in our lifetimes.

Ms. JACKSON LEE. So, we are looking at an economy that is now in the midst of or in the aftermath of an unprecedented moment in history and an economic unprecedented moment. Is that not—yes or no?

Dr. SWAGEL. Oh, I think that is fair to say, absolutely.

Ms. JACKSON LEE. And then is the economy performing better than previously assumed in comparison to—as it relates to the baseline in comparison to the February 2021 baseline?

Dr. SWAGEL. Yes, the output is higher and the unemployment rate is lower than what CBO had previously had in our last update.

Ms. JACKSON LEE. And that was before—that baseline was before the American Rescue Plan?

Dr. SWAGEL. That is correct.

Ms. JACKSON LEE. And so projections on growth and employment now, are you assessing that they are more positive?

Dr. SWAGEL. Yes, we have stronger economic. We have increased employment. There is also high inflation, so, yes, the picture is complex. But the American Rescue Plan certainly contributed to stronger growth and stronger employment gains.

Ms. JACKSON LEE. And have we had more jobs created in the last year? My understanding is 8.3 million jobs created since President Biden took office.

Dr. SWAGEL. Oh, yes, the rebound from the pandemic over the last year has meant, again, an unprecedented number—an unprecedented increase in employment in the U.S. economy.

Ms. JACKSON LEE. Let me quickly move to a history lane. One, the Bush tax cut that came after President Clinton and now the tax cut that was done under President Trump, did that create an increased deficit in spite of the celebratory attitude of my Republican friends? Did that Trump cut in particular create a deficit?

Dr. SWAGEL. Yes, the CBO analysis from April 2018 goes into the fiscal and economic impacts of the 2017 tax act. And we had that as increasing the deficit.

Ms. JACKSON LEE. Is the good news is that in 2022 we expect a trillion-dollar deficit down from $2.8 million
[sic] in 2021?

Dr. SWAGEL. That is right, down from $2.8 trillion. It is a $1.8 trillion decrease in the deficit from last year to the current year.

Ms. JACKSON LEE. And in spite of the issue of inflation, which we are concerned about for my families, my working families, we are not ignoring it, the economy is moving along? What is your assessment?

Dr. SWAGEL. Yes. So, we have a continued recovery from the pandemic that real economic growth and job creation is very strong with the tight labor market this year.

Ms. JACKSON LEE. Let me just ask an employment question and that is we have jobs. Let me mix this with have you give an assessment. So, let me ask, I would like an assessment of a comprehensive immigration program, meaning legislation that Congress would have to plan for, access to citizenship, for green cards, et cetera. Have you had that analysis done? I am asking that analysis be done on a comprehensive immigration plan as to its infusion of dollars into the economy and also employment. Would it impact employment negatively? Do we have jobs in the United States now?

Dr. SWAGEL. You know, it is important question. The CBO did a fiscal analysis for the immigration provisions in the Build Back Better Act. That was narrow relative to your question because we focus on the fiscal impacts. And it has been some time since CBO did the wider economic impact and, you know, the contributions of immigrants to the economy to jobs, to, you know, to culture and society, entrepreneurship, innovation. That is something we can do. We haven't done it for a while, though.

Ms. JACKSON LEE. Are you saying it would have a positive impact? I didn't get your point.

Dr. SWAGEL. It would, yes. Yes. And this is—CBO's past analysis has shown this, that immigrants contribute to the economy both economically, fiscally, through, you know, through innovation, entrepreneurship. They create businesses, they hire other people. Their children make contributions, their grandchildren. And that is—those are effects that CBO has analyzed in the past.

Ms. JACKSON LEE. So, as President Biden, we have managed to survive an historic moment that we have never expected that we would be in. Dr. Swagel, as my time closes, Dr. Swagel?

Dr. SWAGEL. Yes.

Ms. JACKSON LEE. Can you——

Dr. SWAGEL. It has been an absolutely unprecedented moment. I am in solid agreement with you.

Ms. JACKSON LEE. OK.

Chairman YARMUTH. The gentlewoman's time has expired. I now recognize the gentlewoman from Iowa, Ms. Hinson, for five minutes.

Mr. HINSON. All right. Thank you, Mr. Chairman, for holding this hearing today. And I apologize if you are hearing some banging. We are finally having work done on our house two years after a major storm, so.

Director, thanks so much for the work you do. The CBO obviously provides such an important role for us as Members of Congress with the legislation that we are considering. And with the runaway spending coming out of this Congress combined with the historically expensive proposals that we have seen from the Biden Administration, I know you have had your work cut out.

The baseline in front of us today makes it very clear. Under this Administration costs are on the rise. Our debt has surpassed $30 trillion. Interest rates are rising. Your baseline projection back in February of last year was 2 percent average inflation. And as you know, we are well past that today. Democrats to say the solution to this is to just spend more money and grow government. Well, President Biden wants to spend another $4.9 trillion on the Build Back Better agenda. It is Build Back Broke. And the out-of-control spending is why we are seeing the numbers in front of us today.

I have held a town hall in each of the 20 counties that I represent in Iowa and there was a common theme across all of Northeast Iowa. It is that rising costs are the number one concern that I hear from my constituents here in Iowa.

Families are truly struggling to make ends meet and we have to get our fiscal house in order. You know, working moms that have to choose right now between filling up their tank and putting food on the table; the restaurant owner who is seeing those chicken wings rise in price, double in price, and they have to pass that on to their customers. Grandparents are on a fixed income. They are worried about making rents. And those folks have been left behind by what is happening with our economy, which is, again, a direct result of the decisions made by the majority party in Congress and the President in White House.

When OMB Director Young testified in front of this Committee on the President's budget I asked her last year were they thinking inflation was going to be transitory. She said yes, and they weren't considering the impacts of inflation.

Then I asked her this year how they are projecting 2.3 percent inflation in 2023 and beyond. And the Administration believes that, again, it would be transient and did not need to be accounted for the longer term.

Well, clearly, it has not gone away. Your baseline does say that that will continue into 2023, but what does CBO account for here as far as inflation goes that the Administration is ignoring?

Dr. SWAGEL. So, our baseline is based on current law. So, we have, you know, just the fiscal policy in place. Additional fiscal action would, you know, put additional upward pressure on inflation. And so that is the thing that we don't have.

Mr. HINSON. So, you know, when you talk about this, this is a miscalculation and I think the American people—if a small business had to budget this way, they would be out of business. And so when I look at this miscalculation by OMB, it really does affect their ability to make accurate projections and so that is a huge concern for me.

So, I would ask you what measures of the economic outlook does inflation impact the most?

Dr. SWAGEL. Oh, OK. No, it is important question. So, there is three measures. So, first is on the spending side, there is, you know, both what we call the primary deficit, so spending on—you know, everything the federal government spends on, Social Security benefits, I talk about jet fuel for the military, you know, home healthcare aides, all the things that the federal government directly or indirectly spends on, inflation raises the cost of that.

Inflation raises the cost of the net interest payments as well, the government servicing its debt. You know, higher inflation means higher interest rates, higher payments to the federal government.

Inflation does also mean more revenue. And so, you know, because we tax, we tax essentially nominal, inflation translates into higher revenues. The net is interest. The net shows that the interest rates are the—this is the danger, that higher inflation leads to a worsening deficit because of the higher interest rates and higher interest payments.

Mr. HINSON. So, because of these changes and fluctuations in the economy, they have, in essence, impacted your projections, I am assuming, with your last baseline. So, can you kind of delve into that a little bit, how those have changed?

Dr. SWAGEL. OK. No, absolutely. Compared to—you will see that over the 10-year outlook, the 10-year outlook has gone from—it is just over $12 trillion to over $14 ½ trillion, and so revenue has gone up. So, this is, again, looking at 10 years, we see it as revenue, you know, going up on more than—it is like $3.4—an initial $3.4 trillion. Its outlays go up by more. And part of that is legislation, part of that is the economic effects, such as higher inflation. And that is what is driving the increase on deficits going from $12 trillion to $14 ½ trillion over the 10-year horizon.

Mr. HINSON. All right. Thank you, Director. And I see I am out of time. Mr. Chairman, I yield back. Thank you.

Chairman YARMUTH. The gentlewoman's time has expired. I now recognize the gentleman from Texas, Dr. Burgess, for five minutes.

Mr. BURGESS. Thank you, Chairman. And, Director Swagel, thank you for being here today. Thank you for talking to me earlier this year. In fact, the Chairman mentioned that the budget that we have before us, the subject of this hearing is late this year. He has described it as a little late. Three months is probably significantly late in anyone else's book. Tell us again why the delay for the CBO baseline this year.

Dr. SWAGEL. OK. No, very good. So, essentially it has three different pieces to it.

One was that we normally would have done an update in January. The people who would have done that were busy with the analysis on Build Back Better. And just between those two priorities we could not do the update in January.

Mr. BURGESS. May I just interrupt you there?

Dr. SWAGEL. Yes. No, please, please.

Mr. BURGESS. It seems like that would be—if you were primed to properly price and project the cost of a major spending bill, a major spending reconciliation bill, you would at least want to have your baseline set or you would at least prioritize to continue to work on setting the baseline before you proceeded with another massive spending project if you were truly concerned about the effect of—or the budgetary impacts of what you were doing. Would I be wrong to make that sort of assumption?

Dr. SWAGEL. I mean, you know, of course, the latest information would be helpful and we try to be as helpful as we can to policymakers. But that Build Back Better delay, that is the first event. There is three components to the delay that we faced. I can go into the other two quickly.

Mr. BURGESS. Can you do it briefly?

Dr. SWAGEL. Oh, yes, very quickly I will say it. So, the second is the Fiscal Year 2022 appropriations, that those were delayed as well. And then the third is that the President's budget, the submission of that was delayed and so we get information on last year's actual spending when the President releases the budget. And so it was those three—those three components pushed our baseline—our economic update back until yesterday.

Mr. BURGESS. So, two on the White House and one on the Congress that kept you from begin able to do your job. But when we spoke earlier in the year, you suggested to me that the strength of the economy going into the pandemic was much stronger than you had anticipated. Did I understand that correctly?

Dr. SWAGEL. That is correct, that the economy in early 2021 as compared to the forecast that we put out in early 2021, the economy is stronger, that people are coming back into the labor market and the impact of the fiscal policy that had been undertaken I think is more impactful than we understood at the time.

Mr. BURGESS. And just to be clear, this is fiscal 2021, so actually starting October 1st of 2020?

Dr. SWAGEL. That is right. I am thinking of there is a CAA that—an appropriations act that was enacted at the end of 2020 had essentially more economic impact payments, the rebate checks put back some—expanded unemployment insurance and some other things like that.

Mr. BURGESS. Another thing you related to me was that the amount of tax collections were stronger than you had anticipated and it looks like from your report that you are delivering us today that that has continued. Is that correct?

Dr. SWAGEL. That is right. That continues to be the case as both from the economy is stronger. There is some timing shifts that, you know, with the pandemic legislation, you know, delayed some taxes. We are seeing some of that come back now. You know, even beyond that, tax revenue is strong.

Mr. BURGESS. Well, let me ask you this. When you report a reduction in the deficit is that largely because the strength of the income tax collections were stronger than what you anticipated?

Dr. SWAGEL. You know, it is a mix that compared to our previous analysis that——

Mr. BURGESS. But how much of that mix was increased tax revenues? We were all told that it was a trillion-dollar giveaway to the millionaires and billionaires according to Chairman Sanders. So, what is the deal here?

Dr. SWAGEL. So, I will tell you, in our—if you compare the projection we made in 2020—for 2022, right, so we are saying it is a trillion dollars is what we are saying now, we previously thought it would be $1.2 trillion. And that is the mix that revenue is about $400 billion stronger than we anticipated, spending is——

Mr. BURGESS. Yes, it is an important number, $400 billion stronger.

Dr. SWAGEL. That is right.

Mr. BURGESS. And that is pretty significant. Look, do you stress test this stuff? We require banks to stress test their projections, their balance sheets. Does any of your modeling require stress testing, what is happening with the United States economy, with the spending of the Biden Administration?

Dr. SWAGEL. No, absolutely. And it is something that we think about, I think about, in terms of what could go wrong? And we have done some of this work. We had recent work that we did for Senator Crapo and the Finance Committee on what is the effect, the physical effect, of higher inflation? We looked at two different scenarios. We are continuing to do some of that. What is the effect of higher inflation and higher interest rates? What would it mean for the economy and what would it mean for the fiscal situation? I am hopeful that we will have more on that later this year.

Mr. BURGESS. Well, I hope to followup with you on that. Thank you very much. I just wanted to ask.

Chairman YARMUTH. Yes. The gentleman's time has expired. I now recognize the gentleman from California, Mr. Obernolte, for five minutes.

Mr. OBERNOLTE. Thank you, Mr. Chair. Dr. Swagel, thank you for the update on the outlook. I would like to talk about some of the alternative policy solutions that you have examined in the outlook and how those fit into the long-term budgetary and economic outlook that the CBO issued a few months ago.

Now, in the long-term outlook, if I am recalling correctly, you expressed some grave concerns that by the end of the forecast period on the path that we were on that net interest outlays would exceed 8 percent of GDP, would consume over half of all federal tax revenue, and that if interest rates increased in response to inflation, that would get much worse. And that sometime between now and then something would have to be done to get the deficit under control. Am I understanding that right?

Dr. SWAGEL. No, that is right that the fiscal trajectory is, you know, is challenging now, but the longer we go—the further we go out, it gets more challenging. We will have another update of that at the 30-year horizon later this summer, I am hoping in July. It will get more difficult, honestly, but we will argue that.

Mr. OBERNOLTE. OK. So, in this outlook that we are discussing in this hearing you examine a couple of different policy alternatives and you analyze their impacts on the deficit. And you have got a table that summarizes it, the ones that increase the deficit, the ones that reduce the deficit. Can you tell me which of those policy scenarios actually have a—result in a declining deficit over the course of the forecast period?

Dr. SWAGEL. So, we did, you know, we did a range of alternative scenarios, some with higher spending and some with lower spending. One of the ones that has a lower path of spending freezes appropriations at the current level, and that reduces the deficit. You know, we looked just—in that, that was just appropriations, which, of course, is not the biggest part of the——

Mr. OBERNOLTE. It is discretion——

Dr. SWAGEL [continuing]. deficit challenge.

Mr. OBERNOLTE. Yes, discretionary spending I think you call it in the document.

Dr. SWAGEL. Yes, exactly, exactly.

Mr. OBERNOLTE. OK. But if I am reading it right, although it reduced the deficit over the baseline, it did not reduce the deficit on an absolute basis. Is that correct?

Dr. SWAGEL. No, that is correct.

Mr. OBERNOLTE. OK. So, let me ask again. Which of these, on an absolute basis, which of the policy scenarios that you have laid out here in the outlook actually reduce the deficit, you know, on an absolute basis?

Dr. SWAGEL. OK. There is one other one we did here. I will mention two things. One we did in this report and then one we will have later, you know, by the end of the year, is we looked at the spending in the Infrastructure Investment and Jobs Act. By the budget rules, that gets extended out through the budget window. There is a box on page 77 of the report, which is Box 3–4, that goes through and shows the fiscal impact of that. And it is just mechanical through budget rules, and so if that doesn't get extended, that would be substantial enough to reduce the budget deficit. You know, that is the not the long-term——

Mr. OBERNOLTE. OK, but not on an absolute basis. So, that change, if I am understanding right, would not result in the budget deficit decreasing over time instead of increasing. Is that right?

Dr. SWAGEL. Oh, that is correct, absolutely.

Mr. OBERNOLTE. OK. So, here is——

Dr. SWAGEL. I am talking relative and you are thinking absolute.

Mr. OBERNOLTE. Here is the crux of what I am asking here is why are we not examining policy alternatives that result in an overall decline in deficit instead of an increase in deficit over time if, as you say, we should be so concerned about this increasing deficit?

Dr. SWAGEL. No, no, I agree. It is a grave concern and we will have that for you later this year. So, it is probably December we will have a new edition of our budget options volume that goes through a wide range of policies. And we will provide information on policies that change the course, instead of just change the shape of the river, that really make a big impact on the deficit.

Mr. OBERNOLTE. Great. OK. Well, I mean, I wish that every outlook that you gave us with these policy alternatives would include those alternatives just to illustrate the gravity of the problem and the magnitude of the changes that are going to be required to effect, you know, that trajectory.

So, you know, along those lines let me ask about something Congressman Feenstra mentioned, the trust fund and the declining balances in the trust funds. And you go over that on page 125 and 126 of your outlook.

You say that the outlook was prepared under the assumption that mandatory spending would continue regardless of the balance in the trust funds. But you also say on the previous page that the government has no legal authority to continue to expand anything when the balance of the trust funds is exhausted other than the revenue that is coming in. So, are those two statements your intention? And I am wondering why do we do it that way? Because we are contradicting ourselves, you know, in the span of one page.

Dr. SWAGEL. No, I agree. There is a tension there. And we are following the budget rules. And in terms of stats for that it is tables B–1 and B–2 around the chapter that you showed. It is trying to provide that information and it is the Deficit Control Act that requires us to do it that way. And so we are trying to provide as complete information as we can to follow the law and then provide the additional information to show the impact of that tension that you mentioned.

Mr. OBERNOLTE. All right. Well, I would encourage you to do that in the future. I see my time has expired. But, you know, please, in the previous outlook you had made plain that just attacking discretionary spending is not going to be sufficient to solve this problem and that is vital, you know, regardless of your political party or political, it is going to be vital for us to get this under control.

So, we are going to have to take a look at those trust funds and what we are going to do as those balances decline and are exhausted. And I would like to encourage you to please include those scenarios. As uncomfortable as that conversation might be, please include those scenarios in future outlooks.

Thank you, Mr. Chair. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now yield five minutes to the gentleman from New York, Mr. Jacobs.

Mr. JACOBS. Well, thank you very much, Mr. Chairman. And thank you for being here. I do have to shake my head that there has been a lot of celebration of a trillion-dollar deficit. I want to say I am not celebrating that we at a trillion-dollar deficit, which is one of the highest deficits we have ever had. So, only in Washington.

But I wanted to first ask you, as we talk about the issue of inflation and the multitude of impacts it has, you know, we talk about the fact that the Fed is now in an effort to combat inflation begun raising interest rates and the expectation is they will continue to do so. So, the CBO projects that net interest payments on the debt will be $8.1 trillion over 10 years. And that would be $1.9 trillion higher than previously or due to the increase in inflation that is projected. So, that in my mind is, you know, money that is essentially wasted because we have to pay because the rate of inflation increases.

I also wonder as we talk about inflation, and certainly our priority as representatives is the price that our citizens are incurring when they go to the pump, when they go to the grocery store, et cetera, but what is the delta, if you have one, on the increased cost on running our government and the cost that we the government has on buying everything now due to this information that if inflation was at its previous level several years ago we wouldn't have had to factor?

Dr. SWAGEL. No, it is an important one and the U.S. Government buys, you know, a wide range of goods and services. You know, it pays salaries, it buys jet fuel, you know, buys everything. And so that has an important impact on spending.

You know, there is a revenue impact as well. The tax code is based on nominal wages. And then net interest payments go up, so that inflation has an important impact on the government. I guess we haven't looked at just that in isolation. You know, we have looked at the net of all these things.

Mr. JACOBS. OK. Just back on the—you know, certainly related to the two things that, inflation and the interest rate increases, given the most recent economic data, what do you feel the likelihood of a recession is later this year or next year?

Dr. SWAGEL. OK. So, we don't have a recession in our projection; that, you know, today the challenge is in some instances the demand is too strong relative to supply. Right? It is both supply and demand, but we have very strong demand.

Now, of course, as the Fed tightens, we have seen the impact already in financial markets and wealth is down. And, of course, there is always the possibility, you know, of a recession. You know, we don't have it in our projection. We try to be in the middle of the range of possibilities and so certainly, you know, at one side is the possibility.

Mr. JACOBS. OK. All right. Thank you. I thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman yields back. And now it is up to me. I yield myself 10 minutes for my questions and comments. And first of all, once again, Dr. Swagel, thanks so much for being here and for your responsiveness and the information.

One thing that I think may be important to have as a part of the record is for you to briefly explain what this forecast, what this outlook is used for, why it is important. And there is also, I kind of inferred a sense that some members, particularly on the Republican side, think that you work for Democrats. Because there were some pronouns, and maybe the pronouns were used accidentally, but talk just in general about this process and why it is so important and what its purpose is.

Dr. SWAGEL. No, thank you. So, we serve the Congress. We work for the—you know, for both chambers and both sides. We are nonpartisan. We work through the Budget Committees and for the Chairs and Ranking Members of Committees in jurisdiction.

The baseline update, once the Budget Committees adopt the work as a new baseline, provides a foundation for policymakers to look at the impact of a fiscal policy, whether on spending or on revenue. So, that is why we do it the way we do it. We try to look ahead under current law as best we can, so that you have the foundation on which to evaluate fiscal policy.

Chairman YARMUTH. And I know you constantly give disclaimers about, you know, the uncertainty of these projections. I remember several years ago when Tim Geithner was Secretary of the Treasury and appeared before the Committee and I think Paul Ryan was Chairman at that point. And I asked—he was showing all these charts going out to 2075 and so forth. And I asked the Secretary at that point how reliable, given the pace of change in the world and all the dynamics that it involved in the world economy, how reliable do you think projections going out 30, 40, 50 years are? And he said to me, I don't think projections going out more than five years are reliable.

And so I just want when we are talking about these 10 years, I know you have to do it, but would you agree that there is a great variation in the possibilities relative to your projections at this point?

Dr. SWAGEL. No, absolutely. And as you said and as Secretary Geithner said, the difficulty, you know, it grows, you know, as we go out over time. And we understand that, we acknowledge that. I mean, even, you know, nominal dollars, comparing a dollar in year 10 against a dollar in year 1, right, we do it because that is useful to the Congress. But, of course, policymakers understand that, you know, 10 years from now is different than this year.

You know, the other thing we do also is we keep the baseline constant just so that you have a constant benchmark. You know, as I said before, we know our inflation forecast is too low, right, and there is—we locked in at the beginning of March. Subsequent events showed it was higher. We are still going to keep the baseline, the economic projection constant so that this is a consistent benchmark to evaluate all proposals, you know, both sides, both chambers. That is the key to what we do is to be consistent so that, you know, you and your colleagues can evaluate the merits or not of legislation.

Chairman YARMUTH. Thank you. I want to talk about inflation for a little bit because I think when we hear these numbers, 8.3 percent the most recent one, your projections for this year a little bit lower than that. And the comment made, you know, it is a $5,000 tax increase for the average family. Well, it really depends on what het average family does and how it is—what it is composed of. I mean, the impact of inflation on a family of six or eight is a lot different than the impact on a family of two. Food prices are different.

If you are going to—at one point I know that it was estimated that a third of the inflation rate was due to the price of used cars or the growth. Well, if you are not buying a car that portion of the inflation rate doesn't affect you. So, it is really kind of—it is individual circumstances that are going to determine the impact of increased prices on everyone.

Now, we know everybody eats and food prices are up and we have to respond to these as we can. But we generalize because that is what we do.

But one of the questions, you know, I know, for instance, you know, everybody is saying, well, the price of eggs have gone up. Well, they had to kill 5 million hens because the avian flu. That is not anything that had to do with anybody's policy. Right? That was an unfortunate act of nature that resulted in the price of eggs.

When the pandemic started lumber manufacturers stopped producing lumber because they thought there wouldn't be a demand for it. Well, it turns out there was a huge demand for it. They weren't supply it. The price of lumber went up five or six times. Now it has come back down to about a third of its highest level.

But all of these components make it really difficult to—not just to figure out what happened to cause the inflation, but also to deal with it. Because a lot of it is the actual marketplace and decisions that producers made, the shipment of computer chips and so forth, impacted a lot.

But Republicans want to say that the American Rescue Plan was largely responsible for this. And my question is have you done any analysis of to what extent the American Rescue Plan contributed to inflation? You said it was a factor, but have you done any analysis of to what extent it was a factor?

Dr. SWAGEL. No. so, we haven't. We haven't tried to parcel that out, you know, between the mix of demand, you know, the strong demand and strong—you know, not strong, the oppositive of strong, the supply impediments. And it is both. And that is one of the challenges is that there are so many things going on, changes in the economy and the labor market, you know, from health and scientific reasons with the virus, and we have not disentangled that.

You know, at some point in the future people will go back and disentangle that.

Chairman YARMUTH. Right. Well, some have. I mean, I think Moody's Analytics said it was about a half a percent or a third of a percent of the total of inflation. The Fed in San Francisco came up with a similar number. I think Goldman Sachs came up with less than 1 percent. And, you know, Larry Summers predicted that, is now taking credit for having predicted this inflation rate based on the American Rescue Plan, but he basically said there was a third possibility. It would be significant inflation, a third would be moderate, and a third would be none. So he tried to cover his bases totally at the time and now he is taking credit for it. But there are not a lot of economists who are saying that it is the lion's share of inflation that we are seeing now.

And what people tend to forget is that about 25 percent of the American Rescue Plan was essentially a tax cut. It was $1,400 checks to almost every citizen in the country. In every congressional district, on average, there was sent by the federal government $900 million of disposable income. And I think we can argue over whether that was justified or not or whether it was needed or not, but I don't think many of the hundreds of millions of Americans who got that $1,400 check sent it back. They were very grateful for it and I think you can make a strong case that that had a large—played a large role in actually helping the economy recover, saving businesses all over the country and saving lives.

And the other thing I would say is that, and I will ask you for this, we talk about deficits. And obviously, we can argue about how bad they are, what we need to do to dissolve them, what we—if and whether we do. But by and large, isn't it true that when the government runs a deficit, that the American people run a surplus?

Dr. SWAGEL. Oh, I see. I mean, right. The government is running the deficits and the funds are going somewhere. So, the American Rescue Plan Act was an illustration of that; that that contributed to a wider deficit and that was used for a variety of purposes, the rebate checks to American families, you know, combating the virus, unemployment insurance, and aid for state and local governments. So, absolutely, the money is, you know, recycled is a good term here, you know, used throughout the economy.

Chairman YARMUTH. When the government runs a surplus, it is taking money out of the economy and, therefore, from people. When it runs a deficit, it is putting money into the economy and into people's pockets. And the question is, you know, what other impacts doe that have? And that is obviously what we are trying to discuss here.

I am not going to use the last 20 seconds except once again to thank you for being here today. Thank you for your work. Thank you for your responses today. And we look forward to hearing from you again in the not-so-distant future.

And unless there is any further business, this hearing is adjourned.

[Whereupon, at 1:18 p.m., the Committee was adjourned.]

**Budget Hearing: CBO's Budget and Economic Outlook**
**Opening Statement**
**Michael C. Burgess, M.D.**
**May 26, 2022**

Thank you, Mr. Chairman and Ranking Member Smith for holding this hearing today. I am disappointed that we are receiving this budget baseline three months late, largely due to the Democratic effort to push through partisan reconciliation legislation; however, I look forward to discussing our nation's economic outlook.

The 2017 Tax Cuts and Jobs Act was blasted as a handout to the rich. But the tax cuts allowed companies to provide pay increases to their employees, invest in their businesses, and make sizeable donations to charity. We are now experiencing record tax receipts, of which 97% is borne by the top 50% of earners – the Tax Cuts and Jobs Act is working.

Despite the benefits we saw from the tax law, we did not anticipate the strength of the economy going into the Covid-19 pandemic. As a result, Democrats pushed through trillions of dollars of emergency pandemic relief that has now left us with record inflation.

Let me be clear, I believe the aid provided during the initial stages of the pandemic was necessary, and I voted in favor of the CARES Act. But subsequent spending in the American Rescue Plan Act only served to spark an overheating economy.

According to the Congressional Budget Office, in April of this year, the Federal government realized a surplus of $308 billion. Why then is our deficit projected to be $1 trillion in fiscal year 2022?

The answer is that we have a spending problem, and you cannot tax your way out of excessive Federal spending.

To get our inflation under control, the Federal Reserve has now raised interest rates, with further increases likely coming this summer. But increased interest rates will make paying down our debt more expensive. The only way to bring our economy back into balance is to control spending.

I yield back.

**Committee on the Budget**

**Hearing on the Congressional Budget Office's Budget and Economic Outlook**

**May 26, 2022**

**Questions for the Record Submitted by Representative Michael Burgess (TX-26)**

**Mr. Swagel,** we require banks to undergo stress testing.

> **Does any of CBO's modeling undergo stress testing to determine what is happening to the economy, particularly with the excessive spending in the last year?**
>
> **When do you anticipate being able to provide to Congress updated information on the fiscal effect of higher inflation and higher interest rates?**

**Mr. Swagel,** the Tax Cuts and Jobs Act was decried as a handout to the rich. According to Internal Revenue Service data analyzed by the Tax Foundation for the 2019 tax year, the top 50% of taxpayers paid 97% of all individual income taxes, and the bottom 50% paid only 3% of all individual income taxes. According to the new CBO baseline released yesterday, tax receipts are up by 39% - borne mostly by the rich. And yet, our deficit is projected to reach $1 trillion in FY2022.

> **Why does our budget deficit continue to grow despite record tax receipts and an inflated economy?**

**Mr. Swagel,** according to the Congressional Budget Office's monthly budget review for April 2022, net outlays for interest on the debt increased by $54 billion, or 25%, largely due to higher inflation this year. The Federal Reserve has now raised interest rates to try and get this inflation under control. The CBO baseline shows that spending for interest payments on the debt will increase from 1.6% of GDP to 3.3% of GDP.

> **Is it possible that payments for interest on the debt will continue to increase beyond this projected level?**
>
> **What factors could lead to this outcome?**

Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

# ANSWERS TO QUESTIONS FOR THE RECORD

Following a Hearing on

## *The Budget and Economic Outlook: 2022 to 2032*

Conducted by the
Committee on the Budget
U.S. House of Representatives

JULY 18 | 2022

*On May 26, 2022, the House Committee on the Budget convened a hearing at which Phillip L. Swagel, the Congressional Budget Office's Director, testified about the agency's report* The Budget and Economic Outlook: 2022 to 2032.[1] *After the hearing, Congressman Burgess submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/58223.*

**Question.** Mr. Swagel, we require banks to undergo stress testing. Does any of CBO's modeling undergo stress testing to determine what is happening to the economy, particularly with the excessive spending in the last year? When do you anticipate being able to provide to Congress updated information on the fiscal effect of higher inflation and higher interest rates?

**Answer.** CBO continually evaluates and updates its models to understand the effects of changes in the economy.[2] CBO expects to release updated budget and economic projections in January 2023. Those projections, like the ones in *The Budget and Economic Outlook: 2022 to 2032*, which was released on May 25 and discussed at the hearing, will provide information about the effects of higher inflation and interest rates on the budget.

In response to interest from lawmakers, CBO is developing the capacity to provide additional information about those topics. For example, to illustrate how recent changes in economic conditions might affect its baseline budget projections, the agency examined an economic scenario based on information from the May 2022 Survey of Professional Forecasters (SPF). That survey, which reflects economic developments that occurred after CBO completed its latest economic projections on March 2, 2022, shows that, on average, forecasters expect inflation and interest rates to be higher than the agency currently projects, particularly over the next three years. To construct the SPF-based scenario, CBO began by setting values of economic variables—including several measures of real growth (that is, growth adjusted to remove the effects of inflation), inflation, and interest rates—equal to the average values published in the SPF. Then, to specify values for additional variables needed to project budgetary outcomes, the agency used a statistical model that draws on historical correlations between macroeconomic variables.[3] To estimate the budgetary implications of the SPF-based scenario, CBO used approaches based on its budgetary feedback model and its baseline net interest outlays model.[4]

As a percentage of gross domestic product (GDP), projected deficits under the scenario that incorporates information from the SPF are larger than deficits in CBO's baseline projections. As a result, debt as a percentage of GDP in 2032 is slightly higher under the SPF-based scenario than it is in CBO's baseline projections, even though GDP is greater in the SPF-based scenario. Net outlays for interest, which are 1.6 percent of GDP in CBO's baseline projections, are 1.7 percent of GDP under the SPF-based scenario in 2022, primarily because of that scenario's higher interest

1. See testimony of Phillip L. Swagel, Director, Congressional Budget Office, before the House Committee on the Budget, *The Budget and Economic Outlook: 2022 to 2032* (May 26, 2022), www.cbo.gov/publication/58063.

2. For an example of CBO's using stress testing in its analyses, see Congressional Budget Office, *Financial Regulation and the Federal Budget* (September 2019), www.cbo.gov/publication/55586, which incorporates a benchmark financial crisis projection to account for policy changes' effects on the likelihood and severity of a financial crisis.

3. This scenario is anchored by the average values of variables in roughly 30 forecasts from the SPF. See Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters: Second Quarter 2022* (May 13, 2022), https://tinyurl.com/2p87bj3y. The variables used as anchors were real gross domestic product (GDP), real personal consumption, real nonresidential fixed investment, payroll employment, the unemployment rate, the interest rates on 3-month Treasury bills and 10-year Treasury notes, the GDP price index, and the consumer price index for all urban consumers. The anchors were for each quarter. For the second quarter of 2022 to the second quarter of 2023, SPF values were quarterly. For the third quarter of 2023 to the fourth quarter of 2025, quarterly values were interpolated from the annual values published in the SPF. (Annual values for those years were not available for all variables.) For 2027 to 2032, CBO used its baseline projections of real GDP, the unemployment rate, and the interest rates on 3-month Treasury bills and 10-year Treasury notes as anchors. For more information about the underlying analytical approach, see CBO's Economic Scenarios and Budgetary Implications Team, *Budgetary Implications of Economic Scenarios With Higher and Lower Interest Rates*, Working Paper 2022-04 (Congressional Budget Office, March 2022), www.cbo.gov/publication/57908.

4. For a description of the budgetary feedback model, see Nathaniel Frentz and others, *A Simplified Model of How Macroeconomic Changes Affect the Federal Budget*, Working Paper 2020-01 (Congressional Budget Office, January 2020), www.cbo.gov/publication/55884. For a discussion of CBO's projections of net interest outlays, see Congressional Budget Office, *Federal Net Interest Costs: A Primer* (December 2020), www.cbo.gov/publication/56780.

rates. In 2032, net outlays for interest are the same in both sets of projections—3.3 percent of GDP. From 2022 to 2032, nominal federal debt held by the public grows by 66.4 percent in CBO's baseline projections and by 69.4 percent under the SPF-based scenario. Nominal GDP grows by 48.5 percent over that period in CBO's baseline projections and by 51.4 percent under the SPF-based scenario. As a result, by the end of 2032, debt is 109.6 percent of GDP in CBO's baseline projections and 110.1 percent of GDP in the agency's projections for the SPF-based scenario.

CBO has also recently published an updated edition of a recurring report about how changes in economic conditions might affect the federal budget, as well as the accompanying interactive workbook that allows users to analyze the budgetary implications of alternative economic scenarios by specifying differences in the values of four economic variables—productivity growth, labor force growth, interest rates, and inflation.[5] In CBO's analysis, if inflation was higher than it is in the agency's forecast, the increase in revenues would roughly offset the increase in noninterest spending. But inflation can also affect net interest costs through its effects on nominal interest rates. Interest rates higher than those in CBO's baseline projections would boost net interest outlays, deficits, and debt. The workbook can be used to assess the magnitude of such possible changes.

**Question.** Mr. Swagel, the Tax Cuts and Jobs Act was decried as a handout to the rich. According to Internal Revenue Service data analyzed by the Tax Foundation for the 2019 tax year, the top 50% of taxpayers paid 97% of all individual income taxes, and the bottom 50% paid only 3% of all individual income taxes. According to the new CBO baseline released yesterday, tax receipts are up by 39%—borne mostly by the rich. And yet, our deficit is projected to reach $1 trillion in FY 2022. Why does our budget deficit continue to grow despite record tax receipts and an inflated economy?

**Answer.** Although in CBO's projections deficits initially shrink as a percentage of GDP in 2022 and 2023, they remain large by historical standards and generally increase over the next decade.[6] From 2023 to 2032, the annual shortfall averages $1.6 trillion. The more than $2 trillion deficit projected for 2032 would equal 6.1 percent of GDP, significantly larger than the 3.5 percent of GDP that deficits have averaged over the past 50 years.

In CBO's projections for 2022, revenues and outlays measured in relation to GDP are higher than their historical averages, but the deficit is large by historical standards because outlays are up by more than revenues. Revenues reach 19.6 percent of GDP this year—the largest that receipts, measured as a share of the economy, have been in more than two decades. Excluding shifts in the timing of some outlays, total federal outlays in 2022 equal 23.5 percent of GDP—above the 50-year average of 20.6 percent. Spending exceeds its historical average because of increases in mandatory spending due in part to legislation enacted in response to the coronavirus pandemic. As a share of GDP, the other major components of federal spending are estimated to be below their 50-year averages.

Over the next 10 years, outlays—which average 23.2 percent of GDP—grow faster than revenues in CBO's projections, so deficits increase. Rising interest rates and accumulating debt cause net interest costs to double as a percentage of GDP from 2022 to 2032. The aging population and the rising cost of health care drive up outlays for Social Security and health care programs. Meanwhile, revenues decline over the next few years but average 18.1 percent of GDP over the 2023–2032 period—above their 50-year average of 17.3 percent of GDP. Although revenues remain high by historical standards, they are exceeded by outlays throughout the projection period.

**Question.** Mr. Swagel, according to the Congressional Budget Office's monthly budget review for April 2022, net outlays for interest on the debt increased by $54 billion, or 25%, largely due to higher inflation this year. The Federal Reserve has now raised interest rates to try and get this inflation under control. The CBO baseline shows that spending for interest payments on the debt will increase from 1.6% of GDP to 3.3% of GDP. Is it possible that payments for interest on the debt will

5. See Congressional Budget Office, *How Changes in Economic Conditions Might Affect the Federal Budget: 2022 to 2032* (June 2022), www.cbo.gov/publication/57979, and "Workbook for *How Changes in Economic Conditions Might Affect the Federal Budget: 2022 to 2032*" (interactive tool, June 2022), www.cbo.gov/publication/57980.

6. For the agency's most recent baseline projections, see Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), www.cbo.gov/publication/57950.

continue to increase beyond this projected level? What factors could lead to this outcome?

**Answer.** Even if federal laws remained unchanged for the next decade, actual budgetary outcomes, including interest costs, would differ from CBO's baseline projections because of unanticipated changes in economic conditions and in a host of other factors that affect federal spending and revenues. Moreover, outcomes will also depend on future legislative action: New laws that significantly altered federal taxes and spending could be enacted.

A number of factors could lead to interest rates, and thus interest costs, that are higher or lower than CBO projects. Monetary policy—the federal funds rate set by the Federal Reserve and the pace at which the Federal Reserve reduces the size of its balance sheet—could differ from CBO's projections. Another source of long-term uncertainty is the global economy's longer-term response to the substantial increases in budget deficits and debt that occurred as governments spent significant amounts in an attempt to mitigate the impact of the pandemic and the economic downturn it caused. A significant increase in the extent to which national governments, financial institutions, and other entities hold other nations' debt could raise the risk that financial stress in one country would affect the financial stability of other countries. In addition, changes in foreign demand for U.S. assets or the international role of the dollar would affect interest rates. Factors such as increased foreign and domestic saving, slower growth in total factor productivity, and lower labor force participation have contributed to the downward trend in interest rates over the past several decades. How much those factors will continue to weigh on interest rates over the next several years remains uncertain. In addition, the extent and timing of upward pressure on interest rates stemming from increased federal borrowing are highly uncertain.

To show how variations in economic conditions could affect its budget projections, CBO analyzed how the budget might change if values of key economic variables differed from those in the agency's forecast.[7] For example, if all interest rates—including both the rate on 3-month Treasury bills and the rate on 10-year Treasury notes—were 0.1 percentage point higher each year than they are in CBO's economic forecast, deficits would increase progressively over the projection period by amounts that would rise to $41 billion in 2032, all else being equal. The cumulative deficit for 2023 to 2032 would thus be $285 billion larger than it is in the agency's baseline projections.

7. See Congressional Budget Office, *How Changes in Economic Conditions Might Affect the Federal Budget: 2022 to 2032* (June 2022), www.cbo.gov/publication/57979.