S. HRG. 118–387

EXAMINING CBO'S UPDATED 2024–2034 BUDGET AND ECONOMIC OUTLOOK

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

July 9, 2024

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C O N T E N T S

TUESDAY, JULY 9, 2024

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EXAMINING CBO'S UPDATED 2024–2034 BUDGET AND ECONOMIC OUTLOOK

TUESDAY, JULY 9, 2024

COMMITTEE ON THE BUDGET,
U.S. SENATE,
Washington, DC.

The Committee met, pursuant to notice, at 10:03 a.m., in the Dirksen Senate Office Building, Room SD–608, Hon. Sheldon Whitehouse, Chairman of the Committee, presiding.

Present: Senators Whitehouse, Murray, Van Hollen, Luján, Padilla, Grassley, Johnson, Romney, Marshall, Braun, Kennedy, and R. Scott.

Also present: Democratic Staff: Dan Dudis, Majority Staff Director; Tyler Evilsizer, Senior Budget Analyst; Sion Bell, Tax Policy Advisor.

Republican Staff: Chris Conlin, Deputy Staff Director; Krisann Pearce, General Counsel; Erich Hartman, Director of Budget Policy and Review; Nic Pottebaum, Professional Staff Member; Ryan Flynn, Budget Analyst.

Witness:

The Honorable Phillip Swagel, Ph.D., Director, Congressional Budget Office

OPENING STATEMENT OF CHAIRMAN WHITEHOUSE [1]

Chairman WHITEHOUSE. This hearing of the Senate Budget Committee will come to order. I'm pleased that we are joined by Director Swagel today, to discuss the Federal Government's fiscal trajectory. My Republican colleagues complain that I, and my Democratic colleagues, aren't concerned about our nation's fiscal situation because they can't acknowledge the well documented fiscal dangers of climate havoc, and they won't fix our corrupted tax system to require billionaires and mega corporations to pay fairer taxes.

We can at least talk about healthcare delivery system reform, as a remedy for our fiscal trajectory. One out of three ain't bad. As we've noted at prior hearings, more than $10 trillion, about 35 percent of our national debt stems from two economic shocks to the economy: the 2008 financial crisis, and the COVID pandemic.

As we've heard over and over again at our hearings, the economic shocks from climate change may well be worse. I suspect that Director Swagel would be the first to agree that his 10-year baseline projections are shot if we experience another massive shock to the economy.

[1] Prepared statement of Chairman Whitehouse appears in the appendix on page 28.

Ignoring looming, systemic economic shocks to the economy would be imprudent, even dangerous. Prior to the 2008 financial crisis, the Committee held no hearings on brewing trouble in the mortgage markets, nor did this Committee hold a single hearing on the economic risk from global pandemics.

If this Committee, or any Committee had warned effectively of those looming shocks, and Congress had then acted to better regulate mortgage markets, to invest in vaccine development, and pandemic preparedness, lives would have been saved, and trillions in economic harm avoided.

In the first hearing we held under my Chairmanship, I spoke about science as the headlights for humanity. A well run Committee can shine the headlights of knowledge, including knowledge about climate havoc, into the future, to head off dangers lurking there.

Our national debt is not only the result of those two economic shocks, of course. It is also the result of repeated rounds of Republican tax cuts that primarily benefited giant corporations and very, very wealthy individuals. The Bush and Trump tax cuts, skewed to the wealthy and big corporations, have added another $10 trillion to the national debt.

If not for those tax cuts, the debt to Gross Domestic Product (GDP) ratio, our best fiscal safety metric, would be declining in perpetuity. Helping the wealthy avoid taxes is such an infatuation that House Republicans even brought the United States to the brink of default trying to prevent the IRS from cracking down on wealthy tax cheats.

The third great driver of our fiscal perils is an aging population. As our population ages, we spend more on Social Security and Medicare. Add in the developed world's most inefficient healthcare, and you've got a huge fiscal cost. The Congressional Budget Office (CBO) has found that reforming how we pay for healthcare, and increasing participation in Accountable Care Organizations (ACOs), and other value-based care enterprises can save money without cutting benefits.

Indeed, CBO found that actual and projected federal health spending over the 2010 to 2033 period was $6.3 trillion, $6.3 trillion lower than predicted, which I attribute to improving quality, and moving to value-based care. I am pleased to be working with Ranking Member Grassley, and other Republicans on delivery system reform proposals to do more of that.

Democrats have always pledged to protect and preserve Social Security and Medicare. For years Republicans sought to cut both programs. Now they say they don't. If so, that is wonderful news, and I applaud it. If we all agree that we're not cutting Social Security and Medicare, and we all agree that their trust funds become cash insolvent in approximately 10 years, there's only one solution left. Raise new revenues to fund Social Security and Medicare.

We can do this by de-corrupting the tax code, so that big corporations and billionaires don't pay less in taxes than nurses and firefighters. My Medicare and Social Security Fair Share Act will protect Social Security and Medicare forever, or at least for as far as actuarial science can see. Imagine if American families could erase from their list of worries what if Social Security and Medicare won't be there for me?

What a blessing that would be. For 18 months we've heard a steady chorus of Republican voices expressing alarm about debt and deficits, and calling for this Committee to focus on its "real job". It's hard to reconcile that with Republicans voting for the 2017 reconciliation bill, that cut taxes for the wealthy and large corporations and blew a $2 trillion hole in the deficit.

It is hard to reconcile that with Republican plans to extend those cuts, and add almost $5 trillion more to the deficit. And it's hard to reconcile that with Republican calls to spend an extra $6 trillion on defense with no proposed offset. And what is the Republican plan for the looming insolvencies of the Social Security and Medicare trust funds?

Make America Great Again (MAGA) Republicans live in a fantasy world of a balanced budget, with extended Trump tax cuts, and funded Social Security, Medicare, defense and veteran's programs. Can't happen. CBO says it's arithmetically impossible, even if Republicans cut everything else to zero in the entire budget.

To get real about debt and deficits we have to avert climate driven shocks, and persistent climateflation, we have to de-corrupt the tax code, so that big corporations and billionaires, are no longer a favored, free-riding elite, and we have to bring down healthcare costs without cutting benefits with common sense delivery system reforms, which is why I focus on those things. Senator Grassley.

OPENING STATEMENT OF SENATOR GRASSLEY [2]

Senator GRASSLEY. Before I read my statement, I want to comment on what you said about Social Security and Medicare, and I'm not criticizing what you said. I'm going back to this comes up why can't you guys do something about saving Social Security and Medicare?

And I'll use history as an example. I always start out by saying you know why nothing gets done in Washington, D.C. about Medicare and Social Security now? There's no Reagans and Tip O'Neill's in this town anymore. Because they found where we're going to be in 10 years on these two programs, they were right there in 1983, or '84, or whenever it was.

And they raised taxes. They cut benefits. They changed formulas. They probably did a whole lot of other things that I don't remember. And they probably thought they were doing something for 20 years, I tell my constituents, but they did something for 50 years now if we still go to 2033.

And they did it because they got together and said, you know, Social Security was so important we can't let it go broke. And they built up a surplus that we're still using of trillions and trillions of dollars, and that's going to be spent down by 2033, and if we don't do something, Social Security is going to be cut.

It's going to be cut by I guess 23 percent or something. So, I guess I'm trying to if there's any comment that I'm trying to make to you, it is that they didn't just raise taxes. They got together in

[2] Prepared statement of Senator Grassley appears in the appendix on page 30.

a program that was bipartisan and passed the Senate 90 to 10. I voted for it.

Well, Mr. Chairman, I thank you for agreeing to my request for today's hearing, with Director Swagel. It's been nearly 4 years since the CBO Director last testified before the Senate Budget Committee on the nation's budget outlook. That's far too long for what's traditionally been a routine occurrence in the Budget Committee, particularly given the budget hole we've dug ourselves into.

Federal Reserve Chairman Powell stated earlier this year that it's, "past time to get back to an adult conversation among elected officials, about getting the Federal Government back on a sustainable fiscal path." Today in the Budget Committee that conversation is finally taking place.

Director Swagel, thank you for coming, and I think you're going to tell each of us things that we'd rather not hear, but that's part and parcel of having what Powell called, "an adult conversation". So, in moving beyond the partisan blame game of who is most at fault for our fiscal mess, President Biden tried to play this game at the recent Presidential debate in an attempt to claim the mantel of fiscal responsibility.

The reality is that President Biden has been dragged kicking and screaming to agree to even modest spending restraints, as part of last year's Fiscal Responsibility Act. The fact is our nation's debt will soon top 35 trillion. Next year's interest payments will exceed $1 trillion, and in 10 years Social Security will go broke, if we don't take bipartisan action to save it.

I shouldn't say go broke, because you're still going to have the revenue coming in that will pay 77 percent of what benefits are today. CBO has warned Congress for decades that we'd face a fiscal reckoning due to ballooning mandatory spending. That reckoning is now at our doorstep.

Absent action, rising debt will leave future generations facing higher interest rates, lower incomes, greater inflation, and the risk of full-blown fiscal crisis. Avoiding this requires a robust discussion of revenue and spending. As I've said in previous hearings, I have a record of going after genuine tax loopholes, and wasteful carveouts, and I'm open to reviewing tax subsidies. Now, a very good place to start is with those in the so-called Inflation Reduction Act, which CBO has said actually increases inflation. Ending the law's subsidies for luxury Electric Vehicles (EVs), and other regressive giveaways that have exploded in cost could net hundreds of billions of savings.

Contrary to claims from the left, taxing the so-called rich is no silver bullet to our fiscal outlook. Even confiscating, I want to emphasize confiscating, not taxing, all income over $1 million wouldn't close our $2 trillion deficit. History proves that high tax rates fail to raise significant revenue. So, I'm repeating something I've said here a couple meetings ago. Taxpayers and workers, and investors are smarter than we are in the United States Senate, because we've had 93 marginal tax rates.

Then 70 percent marginal tax rates, 50 percent, 30 percent, back up to 40 percent, and you can go on and on. But regardless of the rate, we've brought in about the same amount of revenue as you can see from this chart.[3] So, we ought to stop to think that we Senators are not smarter than the taxpayers.

Rather than punish success, tax reform should focus on incentivizing work, savings, and investment, and that's exactly what Federal Reserve Chairman Volcker advised Congress in the 1980s at a similar time of large deficits and inflation. It was a recipe for success then, and it can be a recipe for success at this point.

Most importantly, we must have a frank discussion about Washington's spending addiction. Whereas, revenues are in line with historical levels, federal spending relative to the size of our economy is at heights previously reserved for wars, and recessions, and still growing.

Record spending is driving up unprecedented debt and deficits, which fuel more spending in the form of ballooning interest payments. Interest costs are rapidly become one of the largest line items in the federal budget. Next year, we'll see a new record as a share of our economy.

No single chart can capture the size and scope of our fiscal mess, but the closest to it is a depiction of federal debt relative to the size of our economy. We're on track to set a new record high by 2027, exceeding the World War II era record.

While debt to GDP declined quickly after World War II, today our debt is infinitely projected to grow faster than the economy, and that's the definition of unsustainable. Yet, President Biden continues to use his pen and phone to spend trillions, particularly on student loan bailouts, and in these unprecedented fiscal times that's the height of recklessness.

We must stop digging ourselves into an ever deeper budget hole, and I think the budget agreement reached between McCarthy and Biden a year ago starts us down that track, maybe not as aggressively as we should, but it's still a start. We must find common fiscal goals that can serve as a catalyst for continuing that bipartisan action.

Can we agree that debt to GDP can't increase forever, without consequences? Can we agree to a debt to GDP level that we mustn't cross? One last note, this week marks the 50th Anniversary of the Congressional Budget Act, which created CBO, and the Budget Committee.

A lot has changed since 1974, from the way Congress operates, to the size, the scope of the federal budget. Updating the Budget Act for the 21st Century is a shared goal worth continuing to work towards. So, once again, thank you, Mr. Chairman, for this meeting, and welcome to you, Director Swagel.

Chairman WHITEHOUSE. Thank you very much, Senator Grassley.

Your mention of can we agree to a debt to GDP level provokes me to remember my work with Chairman Enzi to find a safe debt to GDP level, a glide slope to get there, and guardrails to assure that we're not cheating on it, and I think that that matrix still remains a smart one.

Our witness today, to speak about his agency's latest economic and budgetary projections is Dr. Phillip Swagel, Director of the

[3] Chart submitted by Senator Grassley appears in the appendix on page 32.

Congressional Budget Office. Prior to his appointment to lead CBO in 2019, Swagel was a member of the Council of Economic Advisers during the Bush administration, and served as Assistant Secretary of the Treasury for Economic Policy from 2006 to 2009.

Director Swagel, welcome. Please proceed with your statement, your entire testimony will be made a matter of record.

STATEMENT OF THE HONORABLE PHILLIP SWAGEL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE [4]

Director SWAGEL. Okay. Thank you. Thank you, Chairman Whitehouse, Ranking Member Grassley, and members of the Committee. Thank you for inviting me to testify about the budget and economic outlook. In the projections we released last month, the projected deficit grows from nearly $2 trillion this year, to $2.8 trillion in 2034.

Measured in relation to economic output, deficits during the coming decades are about 70 percent larger than their historical average over the past 50 years. We project the deficit this year to equal 7 percent of GDP, with deficits projected to remain over 6 percent into the future.

Such large deficits are historically unusual outside of a war, the financial crisis, or the pandemic. Net interest costs are a large and growing contributor to the deficit. By the end of the 10-year budget window, net interest costs are roughly 1.5 times larger than either defense or non-defense discretionary (NDD) spending.

Also boosting deficits, are two underlying trends, the aging of the population, and growth in federal healthcare costs per beneficiary. Those trends both put upward pressure on mandatory spending. In relation to economic output, federal debt held by the public rises from 99 percent in 2024, to 122 percent in 2034, and as you both said, that surpasses its historical peak.

From 2024 to 2034, the 10-year budget window, the deficit is 11 percent larger than we projected in February, primarily because the appropriations enacted in March and April, including both the fiscal year 2024 appropriations, and the $95 billion security supplemental, those get extended out in our budget projections by statute.

The additional funding increases projected discretionary spending by $1.3 trillion. But of course, the actual spending in the future is up to the decisions of future Congresses. Including the added debt service, the legislative changes increase deficits by $1.6 trillion through 2034, and all changes increase projected deficits by $2.1 trillion.

In our projections, a larger labor force stemming from the surge of immigration that began in 2021, reduces deficits by about $900 billion over the 2024 to 2034 period. Revenues are about $1.2 trillion greater, than they otherwise would be because of higher individual income and payroll taxes paid by the larger labor force.

Outlays would be $278 billion greater, of which $194 billion is greater spending, mostly for benefit programs, and $84 billion is higher interest payments. We estimate that the larger labor force from the immigration surge will lead GDP to be nearly $9 trillion greater than it would otherwise be.

[4] Prepared statement of Hon. Swagel appears in the appendix on page 36.

Now, these effects of the immigration surge on the federal deficit do not include effects on discretionary spending. Those effects depend on the decisions that will be made by Congress in the future. We're working to provide additional information on the potential impacts of the immigration surge on discretionary appropriations.

And the surge in immigration will also effect the budgets of state and local governments, and we are currently examining those effects, and those are not included in the budget update. Let me finish by just going back to the beginning to say that the fiscal outlook is daunting.

The United States faces a budget trajectory with deficits of more than 6 percent of GDP into the future. Our projections suggest that changes in fiscal policy must be made to mitigate adverse consequences of high and rising debt. Let me stop there, and I'm happy to take your questions.

Chairman WHITEHOUSE. Thanks very much, Director. The CBO about 2 months ago released new estimates that project that an extension of the 2017 Trump tax cuts would add $4.6 trillion to the debt over 10 years. Is that correct?

Director SWAGEL. Yes, that's correct.

Chairman WHITEHOUSE. And, does CBO believe that the original 2017 Trump tax cuts paid for themselves, and does any CBO data support that extension of these tax cuts would pay for themselves?

Director SWAGEL. No. There was an effect to the tax cuts on the economy and back to revenues, but by far it did not pay for itself, and the same would apply for the extension of the 2017 Act.

Chairman WHITEHOUSE. CBO's long-term budget projections back in 2012 were the last time that CBO showed debt declining as a share of GDP. Since then Congress has cut taxes numerous times, including extending most of the Bush tax cuts, and then piling on the 2017 Trump tax cuts.

Is it a fact, Director Swagel, that projected primary spending, that is federal non-interest spending, is now lower than it was projected to be in 2012?

Director SWAGEL. That's correct, and the interest payments have gone up, but as you said the non-interest payments have gone down.

Chairman WHITEHOUSE. So, let me just to put this into context, take a look at this graphic here, which shows from 1994 to 2054, how revenue and spending have worked.[5] Social Security has gone up, and is that consistent with an aging population?

Director SWAGEL. That's right. That results from the aging population.

Chairman WHITEHOUSE. And healthcare spending has gone up even more. Does that also relate to an aging population?

Director SWAGEL. Right. It's both the aging population, and rapid growth in health costs.

Chairman WHITEHOUSE. So, other mandatory spending had a huge surge right here. Can you explain what that was? Was that COVID?

Director SWAGEL. That's COVID, and you know, the spending because of you know, the Senate rules, the spending in the reconcili-

[5] Chart submitted by Chairman Whitehouse appears in the appendix on page 69.

ation bill, I'm sorry, the COVID spending, and then the 2021 reconciliation spending was all mandatory.

Chairman WHITEHOUSE. Yes. And then here's defense discretionary spending, and then this is non-defense discretionary spending, which as you can see has been fairly constant over all of those years. This is the place where our Republican friends want to focus all of their attention related to debt and deficits.

But I think as we can see, even if you zeroed that out, we still wouldn't get out of our problems, correct?

Director SWAGEL. No. That's correct. That even if discretionary spending was entirely eliminated, that wouldn't take the deficit to zero.

Chairman WHITEHOUSE. Great. And then as has been pointed out, interest costs are what are going up. That's the biggest number. And is it true that tax cuts have an effect on the interest obligations of the country?

Director SWAGEL. That's right. The rising interest payments, as you noted, reflect both higher interest rates, and also more debt, and the tax cuts lead to less revenue, which mean more debt.

Chairman WHITEHOUSE. Yep. So, what I've added here, this is what our actual revenue has looked like if the Bush tax cuts had not been extended back in 2012, here's what our revenue would look like. We'd be darn close to operating in an effective way. So, you can ascribe an enormous amount of our problem to the extension of the Bush tax cuts, according to—are these numbers correct? Can you vouch for the extension of the Bush tax cuts having that much of an effect on revenues?

Director SWAGEL. You know, I'd have to look at it. I just I haven't, you know, from this distance I can't see it.

Chairman WHITEHOUSE. Okay.

Director SWAGEL. But, certainly the 2012 extension of the 2001 and 2003 Tax Acts, had an effect on revenues as you've said.

Chairman WHITEHOUSE. A pretty massive effect on debt and on deficits because of lost revenues, correct?

Director SWAGEL. That's right, yes.

Chairman WHITEHOUSE. And then one other one I wanted to show you. If you look at what's been added to the national debt, this is Trump time, $3.6 trillion was added, and that was COVID relief, so we can understand that was a little bit of an emergency. But $4.8 trillion was non-COVID added to the debt.

By contrast, there's still $2.1 trillion left under Biden, but $2.2 trillion in non-COVID, so does the math add up that under Biden the addition to the debt is less than half than under Trump?

Director SWAGEL. I mean, you know, I would have to look at the numbers, but as you said the debt, dollars in debt, and the debt ratio went way up, especially during the pandemic, but even before that the debt ratio went up.

Chairman WHITEHOUSE. Senator Grassley.

Senator GRASSLEY. Mr. Chairman, you referred to analysis claiming to compare Trump and Biden fiscal records. I've criticized both Presidents for not doing enough to control spending and deficit, but I don't put much stock in a study of Biden's fiscal records that leaves out hundreds of billions of dollars of unlawful student loan giveaways, or that stubbornly assumes Democrat's inflation enhancing Reconciliation Act is going to reduce deficits despite all the evidence to the contrary.

I'm glad that your party is willing to at least move away from the delusional claim that President Biden's agenda has reduced the deficit, even if the $4 trillion that they're now pointing to is a serious under estimate of how much Biden has added to the deficit.

Mr. Swagel, as I said earlier, I'm willing to consider putting certain tax breaks on the chopping block, if it is part of a deal to reign in spending and deficits, but taxes on the so-called wealthy alone aren't enough to dig us out of the fiscal hole that we're in. Democrat proposals is to tax the rich, either barely, make a dent in the deficit, or they're designed to sneakily tax a lot more than just the rich.

So, my question, has CBO analyzed any legislation, or determined it would put the debt on a sustainable course just by increasing taxes on those at the top 1 percent?

Director SWAGEL. No. CBO has not analyzed any legislation that would do that.

Senator GRASSLEY. Okay. If you were to stabilize the debt solely by increasing the tax rate on incomes above $400,000, how high would the rate have to be?

Director SWAGEL. You know, we haven't done the analysis of how high, but it would have to be a substantial increase on such a narrow base.

Senator GRASSLEY. Okay. And wouldn't the tax rate required have significant behavioral effect, and serious negative consequences for the economy?

Director SWAGEL. Yes. You know, a much higher tax rate like that would have macroeconomic feedback that would effect growth and job creation.

Senator GRASSLEY. Recently the Wall Street Journal published an essay discussing historical examples of fiscal mismanaging contributing to the downfall of once great powers throughout history. The Historian Niall Ferguson noted how the general rule of history has been that, and I quote him, "any great power that spends more on debt service than on defense, will not stay great for a long time, a very long time."

According to CBO, we just crossed this fiscal Rubicon, the U.S. will spend more on interest than on defense this year, and every year onward. In your view, do rising debt service costs pose a threat to economic stability, and what is historical lessons can you inform our current fiscal situation?

Director SWAGEL. Yes, they do. And in a sense, that's the near-term fiscal risk, is the rising interest payments. That you know, again, it's both higher interest rates, and more debt, leading to those higher interest payments, and that affects all the other choices that U.S. policymakers want.

If you want more spending on something, or tax relief on something, the rising interest payments crowd that out, and then have effects on the private economy, that there's less, you know, fewer resources available for the private sector, less private investment and job creation and so on.

Senator GRASSLEY. The Constitution gives the power of the purse to Congress, but the current administration has rules, regulations and other executive actions to make major policy changes with unprecedented consequences for the federal budget, and all of this without a single vote of Congress.

How have executive actions changed CBO's budget projections since the agency's February 2021 baseline?

Director SWAGEL. Yes, sir. So, we track those, and those go into the baseline. I'll list a couple of the largest ones. The executive actions, and you mentioned student loans, that's a total of about $560 billion, so more than $0.5 trillion, in additional outlays so far.

And then there's more court cases, and more announcements, so that's as of say 2 weeks ago. So, that's one. The second is the Thrifty Food Plan that redefined the basket used in the Supplemental Nutrition Assistance Program (SNAP) Program. That, along with higher food prices, led to about $200 to $250 billion of higher costs.

There are Medicaid executive actions to streamline enrollment, that was about $164 billion. There are others.

The Environmental Protection Agency's (EPA) Tailpipe Rule will have costs as well, since that interacts with the provisions in the Inflation Reduction Act that subsidize electric vehicles (EVs).

And the Tailpipe Rule will push consumers toward EVs.

There's Affordable Care Act (ACA) regulations, addressing the so-called family glitch, extending subsidies to Deferred Action for Childhood Arrivals (DACA) recipients, and more. I should mention that some of the administration's actions have reduced the deficit. They had a rule that changed the payments to Medicare Advantage plans, and that reduced the deficit.

So, it's a bit of both, but as you've said, it's mainly on the outlay side.

Senator GRASSLEY. Thank you.

Chairman WHITEHOUSE. Senator Murray, Distinguished Chairman of Appropriations.

STATEMENT OF SENATOR MURRAY

Senator MURRAY. Thank you, Chair Whitehouse. I really appreciate you holding this hearing. Director Swagel, good to see you again. Thank you to you and all your staff at CBO for the critical work you do for our Congress. You know, Mr. Chairman, my dad actually ran a five and dime store, you nodded and just gave away your age, but he ran a five and dime store. And my mom worked as a bookkeeper when we were growing up.

But you know, you don't have to run a cash register, or be an accountant to understand the really basic fact that when it comes to our national budget, spending is just half of the equation. There is also revenue. And I mention this because when our Republican colleagues talk about debt and deficits, they tend to discuss only that one side of the ledger, which is spending.

So, I want to focus on something that goes overlooked, or rather goes unsaid by my Republican colleagues. Because while they love to talk about reigning in spending, as the Chairman just talked about, which in my mind actually means the investments that we make for families and working people, I don't hear the same concern regarding the huge tax breaks that go to mostly billionaires.

We need to get one thing clear, despite all the bogeymen that Republicans like to point to, to driving the national debt, the reality is that the single biggest driver of our national debt since 2001 has been Republican tax cuts. The Trump and Bush tax cuts have cost our nation over $10 trillion and counting.

And what do Republicans want to do if they return to power? What's at the top of the Trump economic agenda? Do they want to solve the childcare crisis? Do they want to extend healthcare credits that are saving millions of families thousands of dollars? Of course not.

They want more tax cuts for the ultra-wealthy and biggest corporations. Republicans' big economic vision is to extend their horribly one-sided Trump tax cuts. If Republicans are so concerned about the national debt, why is it that every time they get the chance they start giving away cash, and writing tax loopholes for mega corporations?

So, we've got to get real. There's no reason that investors on Wall Street should pay less in taxes than a firefighter in Spokane, Washington, or a nurse in Seattle, or that companies making billions in profits should pay less than mom and pop shops in Washington State.

And there's every reason for us to ask the wealthiest people in our country to pay their fair share, so we can make this country stronger for everyone. So, for parents back in Washington State, for working families, they don't want us to invest in the richest people in the world, they want us to invest in our roads, and schools, and healthcare and security, and ending the childcare crisis, things that actually make their lives better.

You have to be kind of out of touch to miss that. That is, for my colleagues to know, why Vice Chair Collins and I have both worked together to reach a bipartisan agreement to increase both defense and non-defense discretionary funding as part of our Fiscal Year (FY) '25 appropriations process, so we can invest in our security, and in our working families, and our communities, not just to throw money away at billionaires.

Now, Director, I have talked at length about the hardship and pain capping non-defense discretionary spending puts on Americans, yet Republicans only insist on those caps. They also put outside focus on the spending as it relates to the deficit.

Current NDD spending as a percentage of GDP has declined from the long-term average, and NDD spending accounts for less than a single percent of the increase in spending since the start of the pandemic in 2019, which are the spending levels Republicans want us to return to.

Director Swagel, beyond emergency pandemic spending, what are the significant drivers behind our country's deficit over the last decade?

Director SWAGEL. Yeah. It's, I would point to three things. You know, one is rising interest payments. Two is rising healthcare costs, and then three is rising spending on other benefit programs, Social Security is the largest of them. And so, it's the aging of the population, it's healthcare cost growth, and it's interest costs.

Senator MURRAY. And revenue?

Director SWAGEL. And revenue has not kept up, and you can see that in the charts put up by both the Chair and the Ranking Member, that legislation action has made it so that, you know, rather than rising, revenue as a share of GDP has remained flat. So, as spending has gone up, revenue has not kept up.

Senator MURRAY. Okay. And there was one legislative change since your last projection in February, the effective revenue. The Internal Revenue Service (IRS) rescission. According to your report, these rescissions accounted for a $32 billion reduction in projected revenue. The IRS and Treasury project six-fold returns for every dollar spent on tax informant.

Yet we continue to hear from our Republican friends that we should target IRS funding as part of the increasing deficit. So, last question, how does the rescinding funds provided to the IRS under the Inflation Reduction Act, impact revenue and deficits?

Director SWAGEL. So, in our calculations, $1 that goes to the IRS results in an additional $2 of revenue, so for a net of one. So the rescissions on net increase the deficit.

Senator MURRAY. Thank you, appreciate that.

Chairman WHITEHOUSE. Senator Marshall is up now. Senator Padilla has to go and preside, so I think with Senator Luján's permission, we will reverse, so the order will be Marshall Padilla, the next Republican, and then Senator Luján.

Senator MARSHALL. I'm happy to yield to Senator Padilla if he needs to scoot.

Chairman WHITEHOUSE. Do you want to go ahead, Alex? Don't worry, you'll be next. That's kind of you, thank you.

STATEMENT OF SENATOR PADILLA

Senator PADILLA. Thank you both for your accommodation, and your consideration. Thank you, Mr. Chair, for this opportunity. Mr. Director, how are you this morning?

Director SWAGEL. Yeah, thank you, very well.

Senator PADILLA. Good. Thank you for being here. I'm pleased to have this opportunity to talk to you about a subject that I've been familiar with for a long, long time, and I'm speaking specifically to the dynamic of immigration, and its impact on our economy.

Coming from the state of California, not just the most populous state in the nation, the most diverse state in the nation, home to more immigrants than any state in the nation, and it has the largest economy of any state in the nation, as well. So, we know full well that immigration, the contributions of immigrants, is critical to the economy, and critical to the growth of the United States.

And now, thanks to the hard work of the CBO, you've all crunched the numbers, and now project that U.S. revenue will be $1.2 trillion higher over the next 10 years because of the impact of migrants, and migrants in the workforce, as you see it today.

And I would imagine that given my Republican colleagues' obsession with our debt, that they would welcome the news that CBO also found that this increased immigration, migrants, and their impact on the workforce, leads to lower deficits. So, it seems like it's something that we ought to embrace.

So, would you please speak to how the CBO was able to quantify the economic benefits of immigration, and what the impact would be on revenues to the federal treasury if more than 10 million undocumented immigrants, many of the workforce, were to be deported?

Director SWAGEL. Ah, yes. So, we haven't analyzed the deportation, but there's a sense in which it would be the opposite of the immigration increase that you mentioned, and so we said there's about a $9 trillion increase in GDP from the immigrants coming in, they add to the labor force, they pay taxes, they, you know, they fill jobs.

And the deportation would in some instances reverse that, that there would be a big negative hit to GDP, the labor force would shrink, and revenue would go down.

Senator PADILLA. That seems pretty logical to me, so thank you for that. I know you're from the CBO, not the Department of Labor, but I also think if we look at the data that is out there, even with the level of migration we've seen in the course of the last decade, we are experiencing record, sustained low levels of unemployment.

And wages continue to rise. So, for those concerned, those who spread the false rhetoric that immigrants are taking American jobs, or they're a downward force on wages, that has proven to be false. Do you have any data that would suggest otherwise?

Director SWAGEL. That's right. There's a sense in which the immigration surge explains how our economy continued to grow rapidly, and create jobs, even when the labor market say, 2 years ago, looked to be tight. It's the added—the immigrants adding to the labor force, these are additional jobs and additional income.

Senator PADILLA. All right. So, I also want to ask about a related dynamic that is a priority concern for this Committee. We've—I see Senator Braun has joined us, and he's always one of the first, if not the first, to raise concerns about the debt. We're talking about the contributions of immigrants to the workforce, and to the economy, and the net benefit that there's been on revenues, debt reduction, et cetera.

But we're also speaking in this Committee regularly about the solvency of our social safety net programs, particularly Social Security and Medicare. Between 2010 and 2020, the U.S. saw its lowest population growth of any decade since the 1930s, and it presents a huge challenge to the social safety net programs that rely on current workers to fund the benefits for America's retirees.

And we know that immigrants help sustain the programs like Social Security and Medicare, even though they don't benefit from those programs themselves. In 2022 alone, immigrants paid over $570 billion in federal, state, and local taxes, so would you please discuss the impact on the solvency of our social safety net programs if due to potential change in our immigration policies, that we would realize a significant reduction in our workforce?

Director SWAGEL. Yeah. And so, we looked carefully at the composition of the immigration surge, and they're very heavily skewed toward working age adults. These are immigrants that have a high propensity to work, and they have a strong incentive to work on the books once they receive authorization, generally within 6 months.

You know, many of them will face, you know, a hearing in 7 to 10 years, and working on the books will let them demonstrate attachment. So, all of that means more revenue for Social Security, it increases the financial—improves the financial situation of the Social Security system, and yeah, then that's again it's just like the overall revenue, some of it goes to Social Security.

Senator PADILLA. Okay. Couldn't have said it better myself. Thank you very much. Thank you, Mr. Chair.

Chairman WHITEHOUSE. Thank you, Senator Marshall, for your courtesy to Senator Padilla. It is now your floor.

STATEMENT OF SENATOR MARSHALL

Senator MARSHALL. Thank you, Mr. Chairman, and welcome Dr. Swagel. If there's one thing clear from this meeting it's that my friends across the aisle have promised that they will raise your taxes. That that is their solution to everything is to raise your taxes.

Folks, we don't have a taxing problem in this government, we have a spending problem. The Trump tax cuts demonstrated that if you lower taxes, it grows the economy and increases the tax revenue. It's a rising tide, raising all boats. I think it's quite evident. No one could argue that. It's unarguable.

But what's not arguable is that indeed that these tax cuts indeed have worked in the past. Dr. Swagel, let me ask you, do you ever review your work in the past? Do you go back and look at the last 10 years and say what percentage were we off on our scores?

Director SWAGEL. We do. We go back for major legislation, and analyze what, in terms of what we got right, and what we got wrong.

Senator MARSHALL. Over the last 10 years what does your score sheet look like in speaking in general?

Director SWAGEL. So, we compare ourselves to other major forecasters, and we do pretty well. There's somethings that we've——

Senator MARSHALL. No. You don't do well. You just missed the deficit this year by $0.5 trillion. That's not doing well. I just—I mean don't you think you're off 10, 20, 30, 40 percent on most of the big numbers?

Director SWAGEL. Right. So, from February to June the deficit went up by 27 percent, mainly because of actions taken by the administration. And so, the student loans, the Federal Deposit Insurance Corporation (FDIC), actions on Medicaid, that we're providing you with the current law——

Senator MARSHALL. So, through executive fiat they added goodness, 3 or 4, oh goodness, I guess it's about $1 trillion.

Director SWAGEL. That's right. Between student loans and the other pieces, there's several hundred billion dollars.

Senator MARSHALL. Would you have the ability to score, if we did our job, if we followed the Budget Act of 1974, and all the additions where the President submitted a budget on time. If we did a meaningful bipartisan budget resolution, and we went back to regular order, and the House did their job, if we did a real budget, would that have impact on how much money we spend, and is that something you could help generate a CBO score for?

Director SWAGEL. I mean we would certainly support the Congress in doing that. It's hard to say what the outcome would be, you know, of regular order, would certainly be a change, but I can't tell you, you know, what the fiscal outcome would be.

Senator MARSHALL. It's certainly works in the private sector to do a meaningful budget, and then use that as a blueprint, and not allow an administration to tack on, like you just mentioned, almost $1 trillion of unsuspected spending through executive fiat, and which is unconstitutional the way they did it.

As we've mentioned before, the 2024 budget deficit is going to be $2 trillion. We're going to spent 2 trillion more than we take in this year. The administration added $2.1 trillion with the American Rescue Plan, another $800 billion with the Inflation Simulation Act.

People call it the Inflation Reduction Act because it's actually inflationary, as well as over another trillion unilaterally as you mentioned through executive actions. The student loans $400 billion. They redefined the thrifty plan with another $300 billion, and then they did some voodoo with the ACA, and another $300 billion as well. I want to talk about SNAP for a second. We're in the middle of trying to write a farm bill, and I'm concerned about the politics at play in scoring a piece of legislation that's extremely important to everybody.

You know, a farm bill, 85 percent of farm bill is SNAP payments, nutritional programs. The largest part of the farm bill also has the highest fraud rate in the error rate. There has been an annual repayment rate of 10 percent. Stopping the error rates, stopping the fraud, stopping the overpayments that result in nearly $100 billion in savings to the SNAP program over the next 10 years.

So, if we get rid of the fraud and the abuse and errors, it would save $100 billion over 10 years. Do you believe that fixing the error rate in SNAP would be a cut to the program?

Director SWAGEL. It would make sure that the beneficiaries who are supposed to get the benefits are getting them, and you know, not other people.

Senator MARSHALL. Okay. The bipartisan Farm Bill was passed out of the House Ag Committee, has a provision in the nutrition title which preserves SNAP benefits, and ensures that benefits can modestly increase with the cost of living. Now, my friends across the aisle instead are calling these provisions the largest cut to SNAP in history. In your opinion, do you consider this a cut?

Director SWAGEL. So, you know, after we saw what the administration did with changes to the Thrifty Food Plan, we then had to assume that in the future there could be such large increases again, and I said before that was about 200 to $250 billion of additional costs. And so that gets built into the baseline. What the House has done is scale that back, and so there's a sense in which they're preventing a future administration from doing the kind of increase that we've done.

Senator MARSHALL. But net at the end of the day, we're going to be spending more money on SNAP in the future than we are today?

Director SWAGEL. That's correct, yeah.

Senator MARSHALL. Thank you. I yield back.

Chairman WHITEHOUSE. Thank you again for your courtesy, Senator Marshall, and thank you Senator Luján for your courtesy to your colleague. You are recognized.

STATEMENT OF SENATOR LUJÁN

Senator LUJÁN. Thank you very much, Mr. Chairman. Director, the Radiation Exposure Compensation Act (RECA), this program was created to provide compensation and justice to those Americans who suffered devastating health impacts of nuclear weapon development and testing.

Despite being treated 34 years ago, people in states like New Mexico, which is where the first nuclear bomb was tested without warning to people in these communities were left out of the program.

Even the author of this legislation, may he rest in peace, the former Senator from Utah, Warren Hatch, he referenced this before he passed away about the mistakes that were made in this legislation, and how New Mexico is one of those mistakes not being included, not including post 1971 workers, which are uranium mine workers that worked in the mines after 1971, side by side with people that qualified for the program doing the same jobs.

These Americans, many of whom were the unwilling and unknowing victims of radiation exposure have waited too long for justice. The Senate has now passed my bill to strengthen RECA with Senator Crapo and Senator Hawley twice, but we have yet to get a full analysis of the impact of the program.

Meanwhile, the House has refused to act. As a result, the clock ticks on, and Americans continue to wait, from those from New Mexico to Utah, to Idaho, and many other states have fought cancer, too many have died, and watched family die alone, being ignored, all without recognition from the government that made them sick.

Now, Dr. Swagel, as you worked to get that full score, I would like you or your analysts, and preferably all of us to get together in a room to meet with me and my staff, walk me through the state by state breakdown of who would benefit from this improved RECA program. Will you commit to securing that meeting?

Director SWAGEL. Yes, sir. Because of the path that the legislation took to the Senate floor, as you said, you didn't get a full cost estimate from CBO. We've given some rough guidance on the cost, but you have my commitment that we'll come to you, and take you through the estimate. You know, a challenge for us is the state by state part, just because we're set up to do federal costs.

And so, instead of just analyzing one state at a time is a challenge, but we will come and do as much as we can to make sure you get the information you need.

Senator LUJÁN. Have you done state by state analysis before?

Director SWAGEL. You know, not of the RECA program. We have of some programs, but not of this one.

Senator LUJÁN. Doctor Swagel, have you conducted analysis for Wyoming?

Director SWAGEL. For, I'm sorry, say it again?

Senator LUJÁN. The state of Wyoming as it pertains to RECA?

Director SWAGEL. Oh, no we haven't.

Senator LUJÁN. Yes, the CBO has, and have you done it for New Mexico?

Director SWAGEL. Not separately.

Senator LUJÁN. So, I've been told because the mistake that was made by CBO with the initial—I wasn't planning on getting into this, but if I'm going to—if there's going to be something included in the record as to what the capabilities are or are not, Wyoming and New Mexico had to be reviewed because there was a mistake of including analysis of Wyoming, when Wyoming was not included in the original bill, and New Mexico was.

And so CBO had to look at that initially from its initial score to where we are. The score the CBO came out with, with the initial draft was $160 billion, $150 billion. This program was started back in 1990. It's cost us a lot of money, $2.2 billion.

It's hard for me to understand without seeing disaggregated data how the program grows exponentially from 2.2 over a 30 year period to 75 percent higher, so I think it's important for us to get there. I think the other offices would also be very interested in presenting the facts to the Congress, to my colleagues, to the American people about what this is, and what this is not.

I very much appreciate what the Ranking Member shared about Tip O'Neill and President Reagan. That was a time when people in this town could still stipulate the facts, and they would negotiate, but they could stipulate to facts, what the receipts were.

And I just want to make sure that we have the correct receipts in this place, so that we can have an honest conversation about the policy, and get help to a whole bunch of people across America who this country owes a liability to, owes an apology to, and quite honestly, cost them their lives in many instances, and the cancer that they're still going through today, so I very much look forward to that.

And Mr. Chairman, I have other questions. I'm going to submit them into the record to be respectful of my colleagues today as well, but very much appreciate the agreement to be able to secure a meeting, and have a thorough conversation about this package, this legislation for myself, and there may be other offices that want to be included, so thank you.

Chairman WHITEHOUSE. Thank you, Senator Luján, and if we can help facilitate that meeting, don't hesitate to ask. Senator Braun.

STATEMENT OF SENATOR BRAUN

Senator BRAUN. Thank you, Mr. Chairman, and thank you for having the discussion on budget here today. Dr. Swagel, you and I have had many conversations since I've been here 5.5 years ago, and I look at your basic one pager here, and some things stand out to me, and that is how stubborn revenue generation has been.

You compile statistics that show that revenues from '94 to '23 have averaged 17.2 percent of GDP, correct?

Director SWAGEL. That's right.

Senator BRAUN. And actually, in '23 and '24, '23 was lower, '24 is going to be slightly higher, but when you look at the stubbornness of that figure, and the fact that even in your own projections, you see it staying flat generally around 18 percent, is that what you've got here in terms of basing long-term forecasts on?

Director SWAGEL. That's right, and '23 was lower because there was some revenue that got pushed from '23 into '24, the disaster declarations, especially in California, for example. The corporate minimum tax wasn't implemented, so that's why '23 is a bit lower, but as you said it's——

Senator BRAUN. But it's been a stubborn range of between 17.5 and 18.5?

Director SWAGEL. And 18, that's right, yes.

Senator BRAUN. And most of the 18.5 is projections into the future, so I want to then go to outlays. And for nearly 30 years those were average around 21 percent of GDP, and those culminated in recent years in the trillion dollar structural deficits. Is that correct, give or take?

Director SWAGEL. That's right.

Senator BRAUN. Yes.

Director SWAGEL. Especially on the mandatory side.

Senator BRAUN. And now that has doubled to about $2 trillion, give or take, in the present?

Director SWAGEL. That's right.

Senator BRAUN. So it gets bleaker as you make projections into the future, and revenue has been stubbornly consistent regardless of tax rate. Is that correct?

Director SWAGEL. That's right. And you know, there has been legislative changes as revenues have gone up that have taken them back down, so there is some legislation there.

Senator BRAUN. But generally that would mean once you cut taxes you're depriving the treasury in the short run. You might get a little better economic growth generally as you go into years two, three and four. And the reverse is true, you know, when you raise taxes, correct?

Director SWAGEL. That's right.

Senator BRAUN. You're going to flush a little more into the treasury, and then economic growth is going to go down a little bit each year.

Director SWAGEL. Yeah, yeah.

Senator BRAUN. The fundamentals that basically drive our economy and our government generally?

Director SWAGEL. That's essentially what we've got in our—as well.

Senator BRAUN. So, what you've got here looking at 2024, the snapshot of where we are currently, and you see that revenue is budging at most 1 point as a percentage of GDP, and you're taking spending up by 4 additional percentage points, correct? From '23, which is 23.1 to 27.3?

Director SWAGEL. I'm sorry, I just wanted to make sure, 23.1.

Senator BRAUN. In '24 is what you're forecasting will be up on the outlay line?

Director SWAGEL. I'm sorry. I wonder, you—I'm sorry since I'm——

Senator BRAUN. I'm talking about outlays.

Director SWAGEL. Yeah.

Senator BRAUN. Outlays on the chart you gave me.

Director SWAGEL. Yeah, 24.2 for 2024.

Senator BRAUN. Yeah. And then what are you showing in 2054?

Director SWAGEL. I'm sorry. I gave you—I'm sorry, I gave you our long-term outlook.

Senator BRAUN. Yes.

Director SWAGEL. And I have our short-term outlook as well.

Senator BRAUN. Well, okay.

Director SWAGEL. But you've got the numbers right. Yeah.

Senator BRAUN. Yeah. So, in your opinion, how do we get things right sized? Can we do it through revenue when history has shown we've never been able to, and the cutting taxes started back many, many years ago without adjusting spending.

And to me, it looks like the data is all there, that if we don't want to keep borrowing from our kids and grandkids, that we've got to choose and prioritize what we're spending here that's going to match up with what revenues have shown that we can generate over a long period of time. Do you agree with that?

Director SWAGEL. Right. I mean that is the choice in front of policy makers, that revenues and outlays at some point have to come closer together. That can be done, as you said, on the outlay side. In principle, it could be done on the revenue side if you know, it's up the Congress, you give high rates.

Senator BRAUN. And you always say that because yours is not advise on policy, it's just to tell us the figures.

Director SWAGEL. The figures. That's right.

Senator BRAUN. And the figures are bleak.

Director SWAGEL. It is a daunting situation, rising debt.

Senator BRAUN. Okay. We'll settle for daunting. And then I want to circle back to what the Chair said earlier. Shocks to our economy, which we had to navigate through in '08–'09, that was trivial dollarwise compared to what we spent recently on COVID. Maybe you can't measure the two, but that was roughly measured around a trillion.

What we did was over $4 trillion, and then enterprise over the first 2 years of the Biden administration to add another roughly $4 trillion, so we're in a place where this to me looks like we end up with something like a Chapter 11 in the real world, which means sooner or later you've got to get our spending in line with our revenue.

I mentioned that coming in to this hearing, a lady working here in the Capitol, carrying a box of files laughed out loud when I said that, and it was in agreement, and I think that's what the American public is doing. One final thing, because I don't see anybody else here, so I'd like to have a little latitude.

Chairman WHITEHOUSE. Go for it.

Senator BRAUN. I spent so much time on it, healthcare is the place that we can within our own means, take a broken industry and system, that has no consumer involvement within it, no emphasis on prevention and wellness, and it's run by a very corporate system of healthcare that's even frustrating doctors and nurses to become a part of it, and that is doable.

And unless we want government to even do more, I would ask that the healthcare industry embraces things like competition, transparency, engages every American in their own wellbeing, so that you don't need to use the system as much, because it is approaching 20 percent of our GDP, and in most other developed countries it's 10 to 13 percent.

Would your opinion be that that would be the lowest hanging fruit of where if we put policies into place that it can actually weigh in on our current, chronic big deficit?

Director SWAGEL. Yeah. I'm going to switch metaphors. It's where the dollars are. It's the rising spending, and you could see that in the Chairman's chart at the beginning that healthcare spending is rising quickly. And you know, the good and the bad is that there's so many distortions in healthcare as you said.

It's hard to get at them, but there's so many dollars that even if you make kind of modest progress in percentage terms, the dollar change could be quite lofty.

Senator BRAUN. So, thanks for the latitude on time, thanks for your answers. In summary, we've got to spend less than we take in. History shows that revenue is stubborn. History also shows that we used to have healthcare as a percentage of our GDP, closer to 10 percent, not too many decades ago, and the rest of the world has figured out how to do that at better value. We need to start doing a few things that most Americans believe should be done, don't spend more than you take in, and if something is out of line in terms of cost, reform it.

Thank you for being here today. Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Thank you very much, Senator Braun. I believe we're waiting on one more colleague, so I'll take just an additional moment while we give him a chance to walk from his other hearing to this one, and point out that at least in our view, the net effect of the 2008 mortgage meltdown, and the recession that followed, ran around $5 trillion.

And the bulk of the effect was not spending, but was lost revenue because of the shock to the economy. People simply weren't paying taxes because they weren't making money because the economy collapsed. Is that a pretty fair overview of how the 2008 mortgage meltdown hit the economy? Am I roughly in the right neighborhood with the numbers?

Director SWAGEL. Yes. Yeah, that's right. It had a big negative impact on activity, and then from there to revenue. And there was a legislative response, the Troubled Asset Relief Program (TARP), you know a lot of that money came back as the assets that were purchased by the Treasury were sold back to the private sector.

Chairman WHITEHOUSE. Yeah. And while as you pointed out in your exchange with Senator Braun, the growth in healthcare spending has been one of the primary drivers on the spending side. We do have the comparison with CBO's 2008 projections for where that spending would be, and where it actually went, and it's $6.3 trillion lower than projected over that intervening time period.

So, while that number has gone up—never mind, so while that healthcare spending number has gone up, something happened to keep it from going way more up, and thank you, Doctor, for your work trying to parse through the data to figure out exactly what it was that helped us save those $6.3 trillion without cutting benefits, because if we can do more of that, that would be a very, very good thing.

Senator Van Hollen, are you ready to roll?

Senator VAN HOLLEN. I'm ready to roll.

Chairman WHITEHOUSE. Great. You're up then, followed by Senator Kennedy.

STATEMENT OF SENATOR VAN HOLLEN

Senator VAN HOLLEN. All right. Well, thank you, Mr. Chairman, thank you, Director Swagel. It's good to see you again. Let me just start on the revenue side because I'm looking at the CBO projections, and I see that, you know, a number of months ago you had projected that the Trump tax cuts would add—well, this is back during that time, $4.6 trillion to the debt over the next 10 years.

I understand you had an earlier exchange with the Chairman, the Trump tax cut did not pay for themselves despite claims, right?

Director SWAGEL. That's correct. That's what we——

Senator VAN HOLLEN. And your projection is that if we just did a straight extension of the tax cuts, those would not pay for themselves either, would they?

Director SWAGEL. No, they wouldn't.

Senator VAN HOLLEN. Okay. So, one of the arguments that was made at the time was that the trickle down economics was going to work, right? I'm looking at projections that were made by the Trump economic team. They predicted that that tax plan would generate 4 to 6 percent growth in GDP.

But then I'm looking at the seven quarters that succeeded that, and so this is data before the COVID pandemic hit. And I'm seeing that growth actually during that period of time was not appreciably different than the growth during the prior seven quarters.

There was a small bump in Q2 of 2018 to 3.5 percent, but that was the same as Q4 of 2017, before enactment of the Trump tax cuts. So, this whole theory of trickle down economics was behind the claims that the tax cuts were going to pay for themselves, right?

Director SWAGEL. That would be the way that in principle a tax could pay for itself if it generates so much additional output that that comes back as revenue. And you know, the analysis CBO did in 2018 was that there would be some impact. There would be some impact on business investment, and then some additional revenue. It was about an 18 percent fiscal feedback, so something, and the challenge was that, as you said, we saw a little bit of a, you know, higher growth early in 2018.

And then in the middle of 2018 tariffs were raised, and those looked to have affected business investment. And so, in some sense, even before the pandemic, you know, if there were macro effects of the tax cut, those got in some instances, you know, offset or hidden by the, you know, by——

Senator VAN HOLLEN. And look, I looked at the CBO analysis and I saw some of the feedback loop, and I think you attribute this primarily to some of the corporate tax cuts, but let me ask you on the individual side, the claims that, you know, big tax, personal tax cuts for wealthy people is going to generate something like in the range of 4.6 percent. I mean that was just ridiculous, right?

Director SWAGEL. The CBO didn't have that—those kind of figures.

Senator VAN HOLLEN. You're being diplomatic, but so, and of course, claims going forward that continuing the Trump tax cuts would pay for themselves, as you said is absurd. I will point out that if you look at the analyses that were done by the Tax Policy Center, they point out that extending the Trump tax cuts would provide more than twice the benefit for the top 1 percent, then for the entire—the bottom 60 percent as a percentage to their income, in real dollars that translates to an average $48,000 tax cut for households in the top 1 percent, about $500 for those in the bottom 60 percent.

So, it makes no sense to add even more to our deficits to disproportionately benefit those at the very top. I will point out that President Biden has committed to making sure that any tax benefits that apply to people, $400,000 and under, will be maintained, but it does seem a total—a stupid and backwards policy to extend those that provided big breaks to the wealthy, that did not have the so-called trickle down growth benefit, but did add to the deficit.

In my remaining time, I'd just like to ask you about the recent cuts to the IRS. As you know, as part of the budget deal the last year there was a $20 billion clawback. What is your best estimate of how much that will add to the deficit over time?

Director SWAGEL. So, our calculations of that $1 of additional resources to the IRS generates about $2 of revenue, so a net of 1, so you know, the rescission of funding to the IRS, that's why it increased the deficit in our projections.

Senator VAN HOLLEN. Right.

Director SWAGEL. So roughly, you know 2 to 1.

Senator VAN HOLLEN. So, it was a $20 billion cut, so your estimate is that what, it will lose $40 billion?

Director SWAGEL. About $40 billion.

Senator VAN HOLLEN. In income, yeah. Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Thank you, Senator Van Hollen. Senator Kennedy of the Great State of Louisiana.

STATEMENT OF SENATOR KENNEDY

Senator KENNEDY. Thank you, Mr. Chairman. Mr. Director, welcome. Mr. Director, what's the national debt right now?

Director SWAGEL. Well, it's—we project at the end of this year it is going to be over $28.1 trillion.

Senator KENNEDY. $28 trillion. What percentage of GDP is that?

Director SWAGEL. It's just under 100 percent.

Senator KENNEDY. Could you speak into the mic, and repeat that?

Director SWAGEL. Yeah. It's just under 100 percent of GDP.

Senator KENNEDY. And for this current fiscal year will we have spending deficits?

Director SWAGEL. Yes, sir. We're looking at about a $2 trillion deficit this year.

Senator KENNEDY. And that means we've spent $2 trillion more than we took in, right?

Director SWAGEL. That's right.

Senator KENNEDY. So, we had to borrow money, right?

Director SWAGEL. That's right. The debt is going up.

Senator KENNEDY. And so that money that we borrowed increases the amount of national debt doesn't it?

Director SWAGEL. That's right, and it means more interest payments, which then goes back and means more debt, so there's a negative cycle attached to it.

Senator KENNEDY. Okay. So, our current national debt is over 100 percent of our economy, that's $28 trillion. Let's suppose that we think in 10-year windows, as you know. Let's suppose nothing changes over the next 10 years, nothing. We don't renew the tax cuts, nothing changes. What's the debt going to be 10 years from now?

Director SWAGEL. All right. So our projection is then over $50 trillion, or over 122 percent of GDP.

Senator KENNEDY. Well, damn looks to me like we better do something. I mean will you sit here and debate the tax cuts, and you talk about the tax cuts don't work. I don't know how you know that because the pandemic skewed all economic results. But we better do something. Do you think we can sustain the spending?

Director SWAGEL. No. The risks are mounting with higher interest payments, and higher debt, and that's as you said, that's why action must be taken.

Senator KENNEDY. So what should we do?

Director SWAGEL. It's, you know, the sooner Congress acts, the easier it will be.

Senator KENNEDY. I get that, so what should we do?

Director SWAGEL. You know, I'm here to support you, but not to tell you what to do. I mean reduce the deficit. You have choices. You can look at mandatory spending on the spending side as the driver. You have healthcare costs and Social Security. On the revenue side——

Senator KENNEDY. Well, let me stop you for a second. Everybody always says that. Mandatory spending is driving the cost, but and so we've got to do something because of Social Security trust fund is going to run out, and Social Security is going to be automatically cut.

Look me in the eye and tell me you really think the United States Congress is going to allow Social Security to be cut?

Director SWAGEL. I would expect some action to be taken before that happens.

Senator KENNEDY. Yeah. I mean if you think the United States Congress is going to sit here and allow Social Security to be cut, even if there's not a penny left in the trust fund, you've been dipping in your Ketamine supply. It is not going to happen. We'll just go under the general fund, and take the money won't we?

Director SWAGEL. Right. And that would add to the deficit as compared to current law.

Senator KENNEDY. Yeah. So I get it, we make these distinctions between mandatory spending and discretionary spending, but it's really out of the same pot.

Director SWAGEL. That's right. There's just one general fund of the treasury.

Senator KENNEDY. Okay. So one option is to reduce our spending, correct?

Director SWAGEL. That's right.

Senator KENNEDY. What if we cut our spending 1 percent, 1 percent? What if we turned to every single department head in the Federal Government, and said next year you're going to cut your spending 1 percent. Not 5 percent, not 4 percent, 1 percent, something families who living under Bidenomics, which is defined as paying more to live worse, something families have to do every day. What would be the impact of a 1 percent cut by every budget office?

Director SWAGEL. Yeah. So, outlays next year are going to be just under $7 trillion, so 1 percent of that is $70 billion.

Senator KENNEDY. What if we did 2 percent? What would be the impact?

Director SWAGEL. 140. Yep, there would be $140 billion, and you know that's the challenge that the deficit is so large that, you know, sort of what you're saying, you know, makes a difference, but it's pretty model relative to the size of the challenge.

Senator KENNEDY. What do you think we would have to cut spending to get in control of our debt?

Director SWAGEL. Yeah. So if you just wanted to stabilize the debt, you know, make it so that the debt is at 100 percent, and it just goes up not by too much, you would have to cut and do it on the spending side. You're talking about $5 trillion over 10 years.

Senator KENNEDY. What percentage is that?

Director SWAGEL. Right. So that's—I mean, over 10 years. So spending is $7 trillion, multiple that by 10, so it's about $70 trillion, you know, a bit more.

Senator KENNEDY. Give me a percentage. American people think in terms of percentages?

Director SWAGEL. No, that's right. So say you're talking about a roughly 7 to 8 percent reduction in spending.

Senator KENNEDY. Overall?

Director SWAGEL. Overall, just to stabilize the debt. You know, we'd still have a high debt.

Senator KENNEDY. And then we could try to grow out of it?

Director SWAGEL. Yeah, positive growth would improve revenues, and help the situation.

Senator KENNEDY. I'm way over. I'm sorry, Mr. Chairman. I enjoyed talking to you, Mr. Director.

Director SWAGEL. Very good.

Chairman WHITEHOUSE. Thanks, Senator Kennedy. Senator Johnson.

STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. Thanks, Chairman. Sorry, I was absent until this point in time. I just have a very specific line of questioning here, Director Swagel. You know, your projections assume obviously, the tax cuts expire, correct?

Director SWAGEL. That's correct.

Senator JOHNSON. I mean one of the real tragedies of that occurring is that we're going to have an enormous disparity between C corporations, which represent about 5 percent of American businesses in all the other pass throughs. What I want to know in your projections, because having been a pass through business myself, actually I've been part of business of every different type of corporate structure.

And quite honestly, during the tax reform of 2017–2018, I got letters from the Association of International Certified Professional Accountants (AICPA) saying this is exactly what would happen. These are particularly large pass through businesses, but this might have a small pass through business as well. They're not going to be able to compete with that huge disparity between C corps and pass throughs.

And so, a lot of them will convert, particularly the big ones will convert to C corp status, which is going to be a much larger, not only marginal, but effective tax rate. In your projections going out, do you take that into consideration?

Director SWAGEL. It's an issue we've been struggling with because, you know, we model current law, our projections are current law, and we've been trying to think exactly about this. If you're an S corp, there's uncertainty about what's going to happen at the end of '25. To what extent will S corps make the switch, you know, now in advance of, you know, the expiration?

So, we have a little bit of that switching in our revenue modeling, but not the kind of like, you know, full fledge switching that you'd expect say in early '26.

Senator JOHNSON. I mean would you agree with me, I mean, the rational choice for a business person, if you want to continue to compete because let's face it, pass throughs compete with the corporate corporations at the entity level. I know everything about double taxation, that type of thing, but I think it's about two-thirds of C corp business income is never taxed, correct? Are you aware of that figure?

Director SWAGEL. I don't know offhand, but there's lots of income that is retained.

Senator JOHNSON. Well, it's retained, but also a lot of C corps are owned by non-taxable.

Director SWAGEL. But not taxable. That's right.

Senator JOHNSON. So again, it's hard to get that figure, but somewhere between two-thirds and three-quarters of C corp income is never double taxed, so you're looking at an effective rate. We've got it from the Joint Committee on Taxation (JCT) of 10 percent for large corporations, 14 percent for small C corps, and large pass throughs, they're going to be up over 40 percent aren't they?

Director SWAGEL. No. That's right because the lower corporate rates from the 2017 Act is permanent.

Senator JOHNSON. So, large pass through is going to be paying a top marginal tax rate over 40 percent competing against whether it's a large or small C corp, some with an effective tax rate of 10 to 14 percent. So, the rational thing for a pass through would be I can't complete, I'm going to convert to a C corp status.

Director SWAGEL. Yes. No. That's exactly right, and we've been trying to figure out when that, sort of that massive switch will happen, given the uncertainty about what's going to happen next year.

Senator JOHNSON. So, one of the reasons I'm bringing this up is I'm trying to get a score on what I'm proposing, which would be to equalize the tax treatment between American businesses. In other words, tax all business income at the ownership level, that's what pass throughs do.

Trying to get that score is going to be difficult for me because we're not really reflecting what's actually going to happen if we let those tax cuts expire. So, is there any way I can get some sense of what that number is going to be if there's a massive shift, which I believe there would be from large pass throughs particular switching to C corps.

Director SWAGEL. Okay. I'll tell you two things. So, one is the formal estimate would come from JCT, you know, just because there would be a change in the tax code. We have an excellent tax analysis division, and if we could come talk to you about how our revenue projections would change, and we wouldn't be, you know, the cost estimate that JCT would do, but we could talk you through how we would see it, and what it would mean for revenue.

Senator JOHNSON. Okay. Let's start with how you have accounted for that because you've been thinking this through. You made some provision for it.

Director SWAGEL. Yeah.

Senator JOHNSON. Let's take a look at that, and then you know, kind of work with me on that. I'd appreciate it.

Director SWAGEL. Okay.

Senator JOHNSON. That's all I have, Mr. Chairman. Thank you.

Chairman WHITEHOUSE. Thanks very much. Two things I'll close with as we wrap up the hearing. One is that we've referred several times to the risk that the economy faces from climate shocks. The Chief Economist of Freddie Mac broke that out into weather, storms, sea level rise, make insurance harder and harder to predict, which makes insurance first more expensive, and then unavailable.

And once the insurance becomes unavailable, then you can't get a mortgage because mortgage holders require insurance on the property. And once you can't get a mortgage on a property your pool of buyers shrinks dramatically to those who got the money to simply pay cash, so supply demand drives prices down. It's not that complicated.

No insurance, no mortgage. No mortgage, no buyers. No buyers, no good market. So, the prospect of that creating a shock to the economy along the lines of the 2008 shock or worse, have been repeatedly raised in this Committee, and I would just note today the New York Times has an article about how climate change is blowing up the property insurance markets.

And it's not only happening in high risk states like Florida, but the companies are actually raising rates in other areas to try to counter balance for the risk that they're having to assume in these either wildfire adjacent, or coastal adjacent markets that are getting increasingly hard to predict.

And the last word on this came from the expert who spoke to the New York Times, and he said, "I personally think we're in a lot of trouble. This should be ringing alarm bells for housing markets all over the country." We have tried to ring those alarm bells here in the Budget Committee before this blows up in our faces, because of the role of the fossil fuel industry, and fomenting all of this through its pollution, and through its political mischief.

We have a very hard time finding any bipartisanship on that, but the facts ought to be pretty obvious by now. So, I would make that point because that came up today. And then I'd close with this graphic, which shows the increase in non-defense discretionary spending, which is my Republican friends traditional spending target, from 2019 to 2024 as a percentage of GDP.[6]

So, you move from a little over 3 percent of GDP to about 3.35 percent of GDP. So, it's an increase of 7 percent from here to here. You can see it's a visually, relatively small increase. And then when you dive into what that increase is made up of, 40 percent of it is made up of benefits to veterans.

The Pact Act, and things were made better for veterans. Do they really want to get rid of that? I kind of doubt it. Health expenditure, up 18 percent. Well, we have ways to get after that by improving the reimbursement system, doing more of what reduced the expense by $6.3 trillion against 2008 projections. Community development disaster relief, most of that is Federal Emergency Management Agency (FEMA).

Do we really want to starve FEMA while we're having unprecedented levels of climate driven catastrophes that require FEMA to come to people's rescue? I kind of doubt it. Ukraine, and international spending 12 percent. That's 12 percent of the 7 percent by the way, it's not that big of a number, but it's 12 percent.

Do we really want to leave Ukraine high and dry to the tender mercies of the pediatric hospital bombing monster Putin? I kind of doubt it. And then there are the income security pieces down here, again 12 percent.

So, when people are talking about making very significant cuts to non-defense discretionary spending, they are talking about digging into very basic programs and services for the American people, and we should be aware of that. We have a significant revenue problem.

We have a very significant healthcare inefficiency problem, and we have a very significant climate risk problem. And if we can address those three problems I think we'll be well on our way to solving the concerns that you have brought to our attention today, Dr. Swagel.

So with that, I will conclude the hearing. If there are any further questions for the Doctor that come in as—there's some questions Senator Luján said he had. If there are any others get them in by noon tomorrow, colleagues, staff, and we will ask Director Swagel to respond to those questions within seven days of his receipt of them, if you could do that Dr. Swagel?

Director SWAGEL. We will do that, yes.

Chairman WHITEHOUSE. That would be great. With no further business before the Committee, the hearing is adjourned.

[Whereupon, at 11:33 a.m., Tuesday, July 9, 2024, the hearing was adjourned]

[6] Chart submitted by Chairman Whitehouse appears in the appendix on page 68.

Opening Statement of Chairman Whitehouse
Senate Budget Committee Hearing: "Examining CBO's Updated 2024-2034 Budget and Economic Outlook"
July 9, 2024

I am pleased that we are joined by Director Swagel today to discuss the federal government's fiscal trajectory.

My Republican colleagues complain that I and my Democratic colleagues are unconcerned about our nation's fiscal situation because they can't acknowledge the well-documented fiscal dangers of climate havoc, and they won't fix our corrupted tax system to require billionaires and mega-corporations to pay fair taxes.

We can, at least, talk about health care delivery system reform as a remedy for our fiscal trajectory. One out of three ain't bad.

As we've noted at prior hearings, more than $10 trillion—about 35 percent—of our national debt stems from two economic shocks to the economy: the 2008 financial crisis and the Covid pandemic. As we've heard over and over again at our hearings, the economic shocks from climate change may well be worse. I suspect that Director Swagel would be the first to agree that his 10-year baseline projections are shot if we experience another massive shock to the economy.

Ignoring looming, systemic economic shocks to the economy would be imprudent, even dangerous. Prior to the 2008 financial crisis, the Committee held no hearings on brewing trouble in the mortgage markets. Nor did this Committee hold a single hearing on the economic risk from global pandemics.

If this Committee, or any committee, had warned effectively of those looming shocks, and Congress had then acted—to better regulate mortgage markets, to invest in vaccine development and pandemic preparedness—lives would have been saved and trillions in economic harm avoided.

But if you mess with the fossil fuel industry, an entire party switches off.

In the first hearing we held under my chairmanship, I spoke about science as the headlights for humanity. A well-run Committee can shine the headlights of knowledge into the future, to head off dangers lurking there.

Our national debt is not only the result of those two economic shocks. It is also the result of repeated rounds of Republican tax cuts that primarily benefited giant corporations and very, *very* wealthy individuals.

The Bush and Trump tax cuts—skewed to the wealthy and big corporations—have added another $10 trillion to the national debt. If not for those tax cuts, the debt-to-GDP ratio—our best fiscal safety metric—would be declining in perpetuity. Helping the wealthy avoid taxes is such an infatuation that House Republicans even brought the United States to the brink of default trying to prevent the IRS from cracking down on wealthy tax cheats.

The third great driver of our fiscal perils is an aging population. As our population ages, we spend more on Social Security and Medicare. Add in the developed world's most inefficient health care, and you've got a huge fiscal cost.

CBO has found that reforming how we pay for health care, and increasing participation in accountable care organizations, can save money *without* cutting benefits. Indeed, CBO found that actual and projected federal health spending over the 2010-2033 period was $6.3 trillion *lower than predicted*, which I attribute to improving quality and moving to value-based care. I am pleased to be working with Ranking Member Grassley and with other Republicans on delivery system reform proposals to do more of that.

Democrats have always pledged to protect and preserve Social Security and Medicare. For years, Republicans sought to cut both programs. Now they say they don't. If so, that's wonderful news. If we all agree that we're not cutting Social Security and Medicare, and we all agree that their trust funds become insolvent in approximately 10 years, then there is only one solution left: raise new revenues to fund Social Security and Medicare.

We can do this by de-corrupting the tax code so that big corporations and billionaires don't pay less in taxes than nurses and firefighters. My Medicare and Social Security Fair Share Act will protect Social Security and Medicare *forever*. Imagine if American families could erase from their list of worries, "what if Social Security and Medicare won't be there for me?" What a blessing that would be.

For 18 months, we've heard a steady chorus of Republican voices expressing alarm about debt and deficits and calling for this Committee to focus on its "real job."

It's hard to reconcile that with Republicans voting for the 2017 reconciliation bill that cut taxes for the wealthy and large corporations and blew a $2 trillion hole in the deficit.

It is hard to reconcile that with Republican plans to extend those cuts and add almost $5 trillion *more* to the deficit.

It is hard to reconcile that with Republican calls to spending an extra $6 trillion on defense, with no proposed offset.

And what is the Republican plan for the looming insolvencies of the Social Security and Medicare trust funds? Crickets.

MAGA Republicans live in a fantasy world of a balanced budget, extended Trump tax cuts, and funded Social Security, Medicare, defense, and veterans' programs. Can't happen. CBO says it's arithmetically impossible—even if Republicans cut everything else to zero in the entire budget.

To get real about debt and deficits, we have to avert climate-driven shocks and persistent climate-flation; we have to de-corrupt the tax code, so that big corporations and billionaires are no longer a favored, free-riding elite; and we have to bring down health care costs without cutting benefits, with common-sense delivery system reforms. Which is why I focus on those things.

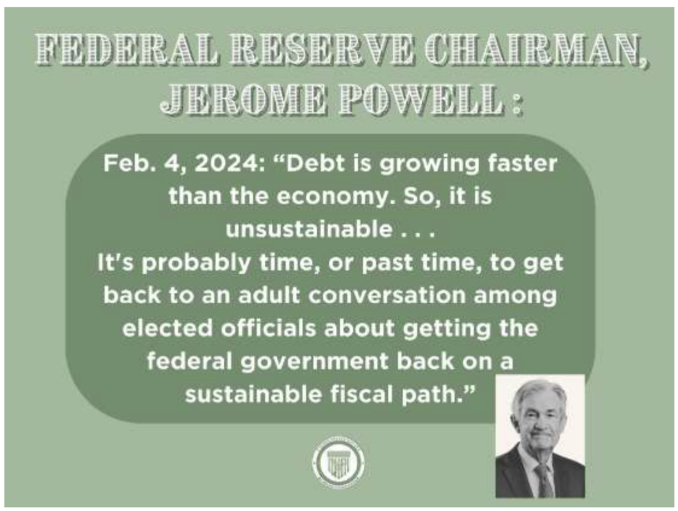
UNITED STATES SENATE
BUDGET COMMITTEE
RANKING MEMBER CHUCK GRASSLEY

Opening Remarks by Senator Charles Grassley of Iowa
Ranking Member, Senate Budget Committee
"Examining CBO's Updated 2024-2034 Budget and Economic Outlook"
Tuesday, July 9, 2024

VIDEO

Thank you for agreeing to my request for today's hearing with Director Swagel. It's been nearly four years since the CBO Director last testified before the Senate Budget Committee on the nation's budget outlook. That's far too long for what's traditionally been a routine occurrence in the Budget Committee — particularly given the budget hole we've dug ourselves into.

Federal Reserve Chairman Powell stated earlier this year that it's, "Past time to get back to an adult conversation among elected officials about getting the federal government back on a sustainable fiscal path."



Today in the Budget Committee, that conversation is finally taking place. Director Swagel, thank you for coming. And I think you're going to tell each of us things we'd rather not hear. But that's part and parcel of having what Powell called an "adult conversation."

So is moving beyond the partisan blame game of who's most at fault for our fiscal mess.

President Biden tried to play this game at the recent presidential debate, in an attempt to claim the mantle of fiscal responsibility. The reality is, President Biden had to be dragged kicking and screaming to agree to even modest spending restraint as part of last year's *Fiscal Responsibility Act*.

The fact is, our nation's debt will soon top $35 trillion. Next year's interest payments will exceed $1 trillion. And in 10 years, Social Security will go broke if we don't take bipartisan action to save it. I shouldn't say go broke, because you'll still have revenues coming in that'll save 77 percent of what benefits are today.

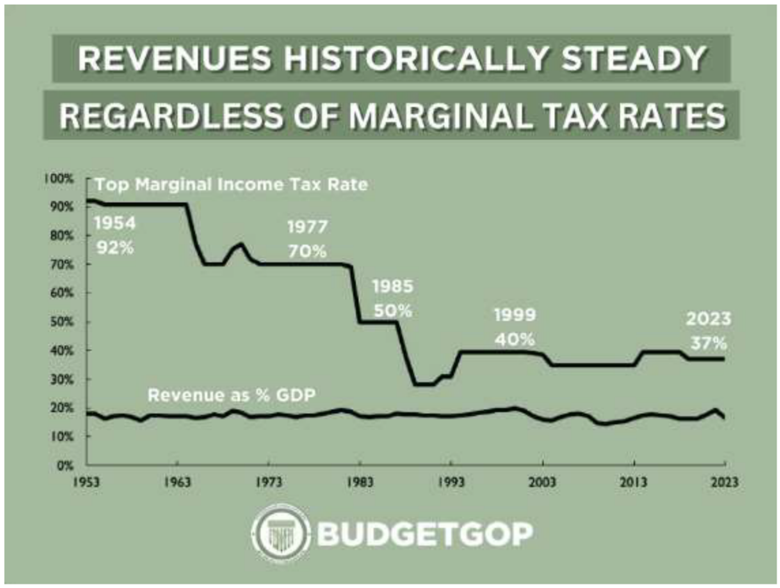
CBO has warned Congress for decades that we'd face a fiscal reckoning due to ballooning mandatory spending. That reckoning is now at our door step. Absent action, rising debt will leave future generations facing higher interest rates, lower incomes, greater inflation and the risk of a full blown fiscal crisis.

Avoiding this requires a robust discussion of revenues and spending. As I've said in previous hearings, I have a record of going after genuine tax loopholes and wasteful carveouts, and I'm open to reviewing tax subsidies.

A very good place to start is with those in the so-called *Inflation Reduction Act* – which CBO has said actually increases inflation. Ending the law's subsidies for luxury EVs and other regressive giveaways that have exploded in cost could net hundreds of billions in savings.

Contrary to claims from the Left, taxing the so-called rich is no silver bullet to our fiscal outlook. Even confiscating – I want to emphasize confiscating, not taxing – all income over $1 million wouldn't close our $2 trillion deficit.

History proves that high tax rates fail to raise significant revenues. So, I'm repeating something I said here a couple meetings ago. Taxpayers, workers, and investors are smarter than we are. We've had a 93-percent marginal tax rate—then 70 percent marginal tax rates, 50 percent, 30 percent, back up to 40 percent, and you can go on and on. But, regardless of the rate, we've brought in about the same amount of revenue as you can see from this chart.

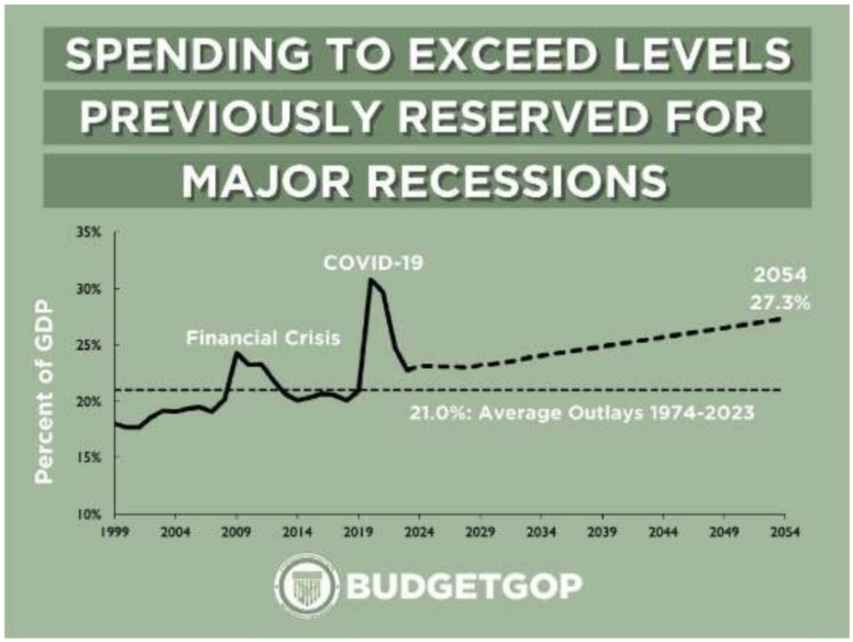


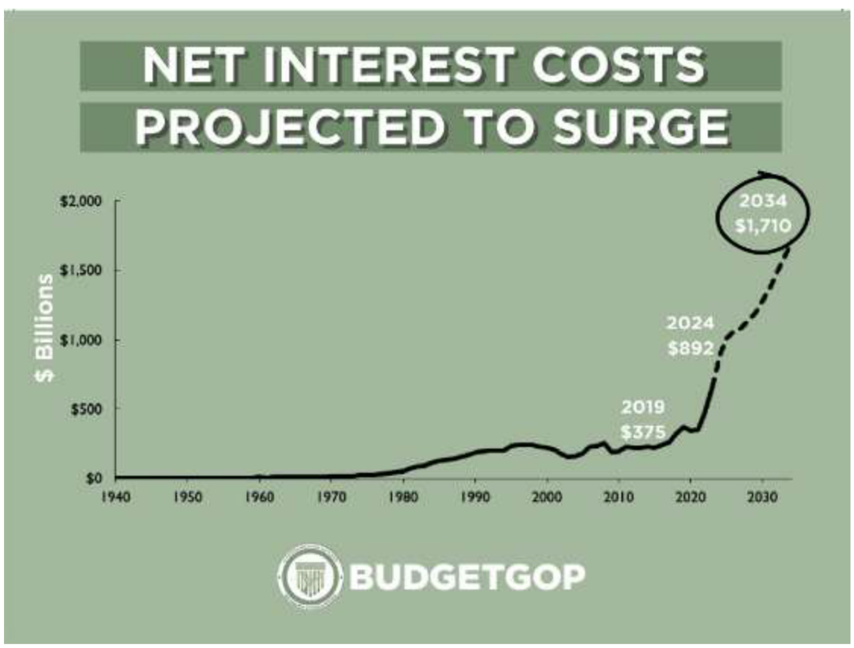
Rather than punish success, tax reforms should focus on incentivizing work, savings and investment. That's what Federal Reserve Chairman Volker advised Congress in the 1980s at a similar time of large deficits and inflation. It was a recipe for success then and can be a recipe for success at this point.

Most importantly, we must have a frank discussion about Washington's spending addiction.

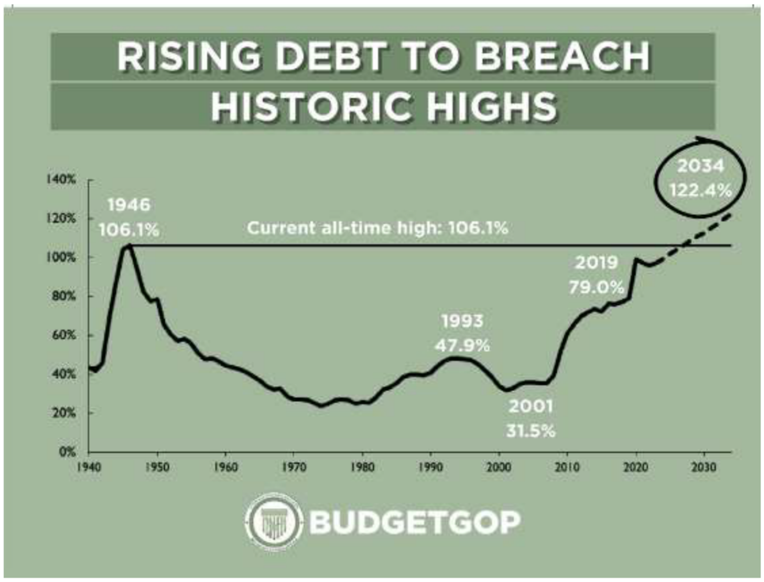
Whereas revenues are in line with historical levels, federal spending relative to the size of our economy is at heights previously reserved for wars and recessions – and still growing.

Record spending is driving up unprecedented debt and deficits, which fuel more spending in the form of ballooning interest payments. Interest costs are rapidly becoming one of the largest line items in the federal budget. Next year, we'll see a new record as a share of our economy.


SPENDING TO EXCEED LEVELS PREVIOUSLY RESERVED FOR MAJOR RECESSIONS
Percent of GDP
35%
30%
25%
20%
15%
10%
COVID-19
Financial Crisis
2054
27.3%
21.0%: Average Outlays 1974-2023
1999
2004
2009
2014
2019
2024
2029
2034
2039
2044
2049
2054
BUDGETGOP


NET INTEREST COSTS PROJECTED TO SURGE
$ Billions
$2,000
$1,500
$1,000
$500
$0
2034
$1,710
2024
$892
2019
$375
1940
1950
1960
1970
1980
1990
2000
2010
2020
2030
BUDGETGOP

No single chart can capture the size and scope of our fiscal mess. But, the closest to it is a depiction of debt relative to the size of our economy. We're on track to set a new record-high by 2027 – exceeding the World War II era-record.



While debt-to-GDP declined quickly after World War II, today, our debt is indefinitely projected to grow faster than the economy. That's the definition of unsustainable.

Yet, President Biden continues to use his pen-and-phone to spend trillions, particularly on student loan bailouts. In these unprecedented fiscal times, that's the height of recklessness.

We must stop digging ourselves into an ever-deeper budget hole. And I think the budget agreement reached between Biden and McCarthy a year ago starts us down that track, maybe not as aggressively as we should, but it's still a start. We must find common fiscal goals that can serve as a catalyst for bipartisan action.

Can we agree that debt-to-GDP can't increase forever without consequences?

Can we agree to a debt-to-GDP level we mustn't cross?

One last note: This week marks the 50th anniversary of the *Congressional Budget Act*, which created CBO and the Budget Committee. A lot has changed since 1974, from the way Congress operates to the size and scope of federal spending. Updating the *Budget Act* for the 21st century is a shared goal worth continuing to work toward.

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

TESTIMONY

An Update to the Budget and Economic Outlook: 2024 to 2034

Phillip L. Swagel
Director

Before the Committee on the Budget
United States Senate

JULY 9 | 2024

Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy. My statement summarizes CBO's new baseline budget projections and economic forecast, which the agency released on June 18.

The Budget Outlook

Deficits

In CBO's projections, the federal budget deficit in fiscal year 2024 is $1.9 trillion. Adjusted to exclude the effects of shifts in the timing of certain payments, the deficit amounts to $2.0 trillion in 2024 and grows to $2.8 trillion by 2034. With such adjustments, deficits equal 7.0 percent of gross domestic product (GDP) in 2024 and 6.5 percent of GDP in 2025. By 2027, as revenues increase faster than outlays, they drop to 5.5 percent of GDP. Thereafter, outlays generally increase faster than revenues. By 2034, the adjusted deficit equals 6.9 percent of GDP—significantly more than the 3.7 percent that deficits have averaged over the past 50 years.

Debt

Relative to the size of the economy, debt swells from 2024 to 2034 as increases in interest costs and mandatory spending outpace decreases in discretionary spending and growth in revenues. Debt held by the public rises from 99 percent of GDP this year to 122 percent in 2034, surpassing its previous high of 106 percent of GDP.

Outlays and Revenues

Federal outlays in 2024 total $6.8 trillion, or 23.9 percent of GDP; adjusted to exclude the effects of shifts in the timing of certain payments, they amount to $6.9 trillion, or 24.2 percent of GDP. With such adjustments, outlays equal 23.5 percent of GDP in 2025, stay close to that level through 2028, and then increase to 24.9 percent of GDP by 2034. The main reasons for that increase are growth in spending on programs that benefit older people and rising net interest costs. Revenues total $4.9 trillion, or 17.2 percent of GDP, in 2024. They rise to 18.0 percent of GDP by 2027, in part because of the scheduled expiration of provisions of the 2017 tax act, and remain near that level through 2034.

Changes in CBO's Budget Projections

In CBO's current projections, the deficit for 2024 is $0.4 trillion (or 27 percent) larger than it was in the agency's February 2024 projections, and the cumulative deficit over the 2025–2034 period is larger by $2.1 trillion (or 10 percent). The largest contributor to the cumulative increase was the incorporation of recently enacted legislation into CBO's baseline, which added $1.6 trillion to projected deficits. That legislation included emergency supplemental appropriations that provided $95 billion for aid to Ukraine, Israel, and countries in the Indo-Pacific region. By law, that funding continues in future years in CBO's projections (with adjustments for inflation), boosting discretionary outlays by $0.9 trillion through 2034.

Projections for **2024**

Budget deficit:
$1.9 trillion

Debt held by the public:
99% of GDP

Outlays:
$6.8 trillion

Revenues:
$4.9 trillion

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Because those shifts can distort budgetary trends, CBO often presents adjusted projections of deficits and outlays that treat the payments as if they were not subject to the shifts.

The Budget Outlook, by Fiscal Year

		Percentage of GDP				Billions of dollars			
	Average, 1974–2023	Actual, 2023	2024	2025	2034	Actual, 2023	2024	2025	2034
Revenues	**17.3**	**16.5**	**17.2**	**17.0**	**18.0**	**4,441**	**4,890**	**5,038**	**7,459**
Individual income taxes	8.0	8.1	8.6	8.6	9.7	2,176	2,447	2,550	4,021
Payroll taxes	6.0	6.0	5.9	5.8	5.9	1,614	1,678	1,737	2,455
Corporate income taxes	1.8	1.6	1.8	1.6	1.2	420	525	490	507
Other	1.5	0.9	0.8	0.9	1.2	230	239	260	476
Outlays	**21.0**	**22.7**	**24.2**	**23.5**	**24.9**	**6,123**	**6,880**	**6,975**	**10,305**
Mandatory	11.0	13.9	14.7	13.9	15.3	3,747	4,191	4,127	6,336
Social Security	4.4	5.0	5.1	5.2	6.0	1,348	1,452	1,549	2,478
Major health care programs	3.4	5.8	5.8	5.7	6.8	1,556	1,654	1,690	2,821
Medicare	2.1	3.1	3.2	3.1	4.2	832	903	935	1,735
Medicaid, CHIP, and marketplace subsidies	1.3	2.7	2.6	2.5	2.6	724	750	755	1,086
Other mandatory	3.2	3.1	3.8	3.0	2.5	843	1,086	889	1,037
Discretionary	8.0	6.4	6.3	6.2	5.5	1,719	1,797	1,832	2,259
Defense	4.2	3.0	3.0	3.0	2.8	806	849	905	1,144
Nondefense	3.7	3.4	3.3	3.1	2.7	913	948	928	1,115
Net interest	2.1	2.4	3.1	3.4	4.1	658	892	1,016	1,710
Total deficit (-)	**-3.7**	**-6.2**	**-7.0**	**-6.5**	**-6.9**	**-1,683**	**-1,990**	**-1,938**	**-2,846**
Primary deficit (-)	-1.6	-3.8	-3.9	-3.1	-2.7	-1,024	-1,098	-922	-1,136
Debt held by the public at the end of each period	48.3	97.3	99.0	101.6	122.4	26,236	28,178	30,188	50,664

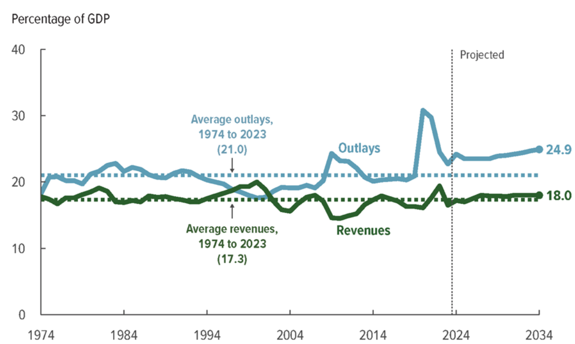
When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays and deficits have been adjusted to remove the effects of those shifts.

CHIP = Children's Health Insurance Program.

The Budget Outlook in Six Figures

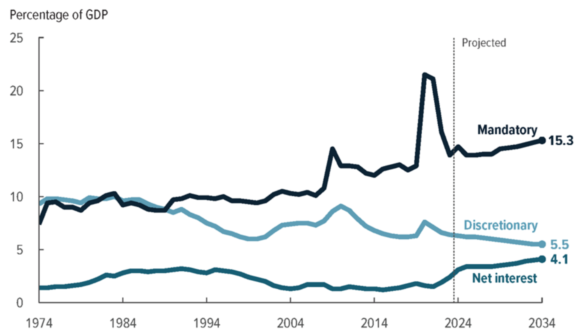
Total Outlays and Revenues

Measured as a percentage of GDP, federal outlays exceed their 50-year average in each year from 2024 to 2034 in CBO's projections. Revenues remain below their 50-year average in 2024 and 2025 but rise above it thereafter.



Outlays, by Category

In CBO's projections, rising spending for Social Security and Medicare boosts mandatory outlays, discretionary spending as a share of GDP falls to historic lows, and higher interest rates and mounting debt cause net outlays for interest to increase. Beginning in 2025, interest costs are greater in relation to GDP than at any point since at least 1940 (the first year for which the Office of Management and Budget reports such data) and exceed outlays for defense and outlays for nondefense programs and activities.



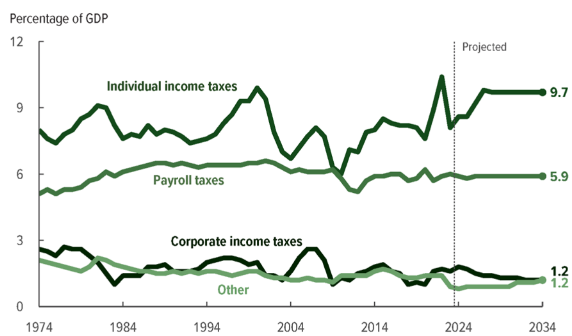
Outlook for
2024–2034

Increases in mandatory spending and rising net interest costs push outlays to **$10.3** trillion, or **24.9%** of GDP, in 2034.

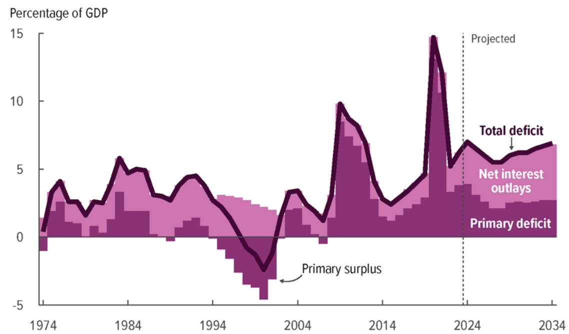
Revenues in 2034 total **$7.5** trillion, or **18.0%** of GDP.

Revenues, by Category

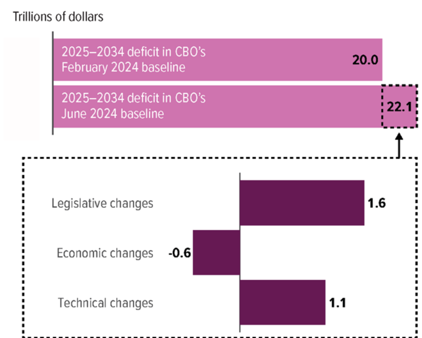
Receipts from individual income taxes fell sharply in 2023, from a historic high in 2022—in part because capital gains from sales of assets were smaller and because the Internal Revenue Service postponed some tax payment deadlines. In CBO's projections, revenues rise in 2024 as those delayed payments are made. They rise again in 2026 and 2027, following the scheduled expiration of certain provisions of the 2017 tax act. After 2027, revenues change little as a percentage of GDP.



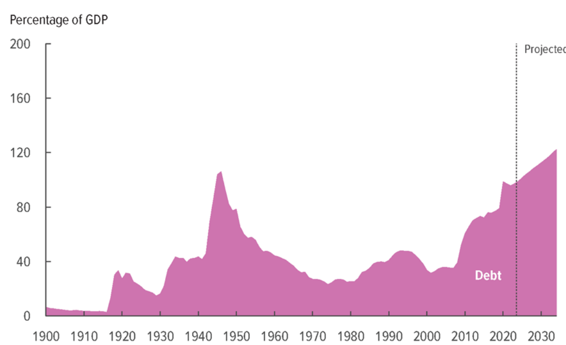
Total Deficit, Net Interest Outlays, and Primary Deficit
In CBO's projections, the total deficit—the amount by which outlays exceed revenues—equals 6.9 percent of GDP in 2034. By that year, net interest payments grow to 4.1 percent of GDP and account for about one-sixth of all federal spending. The primary deficit (which excludes those payments) equals 2.7 percent of GDP in 2034.



Changes in CBO's Projections of the 10-Year Deficit Since February 2024
The deficit for the 2025–2034 period is projected to total $22.1 trillion, $2.1 trillion more than CBO projected in February. That increase stems in part from the incorporation of recently enacted legislation, including the emergency supplemental appropriations provided so far in 2024. In CBO's baseline, those amounts continue in future years with adjustments for inflation, as required by law. Technical (that is, neither economic nor legislative) changes that reduced revenues and increased mandatory outlays also boosted projected deficits.



Federal Debt Held by the Public
Debt held by the public rises in each year, from 99 percent of GDP in 2024 to 122 percent in 2034—higher than at any point in history.



The Economic Outlook

Economic Growth
Economic growth is projected to slow from 3.1 percent in calendar year 2023 to 2.0 percent in 2024 amid higher unemployment and slightly lower inflation. CBO expects the Federal Reserve to respond by reducing interest rates, starting in early 2025. In CBO's projections, economic growth remains steady at 2.0 percent in 2025 before settling at roughly 1.8 percent in 2026 and later years. A surge in immigration that began in 2021 continues through 2026, expanding the labor force and boosting economic output.

Inflation
The overall growth of prices is expected to slow slightly in 2024. In CBO's projections, inflation as measured by the price index for personal consumption expenditures (PCE) falls from 2.7 percent in 2024 to a rate roughly in line with the Federal Reserve's long-run goal of 2 percent by 2026 and stabilizes thereafter.

Interest Rates
Short-term interest rates change little in 2024 as the federal funds rate (the rate financial institutions charge each other for overnight loans) remains at its highest level since 2001. That rate begins to decline in the first quarter of 2025. Interest rates on 10-year Treasury notes fall through the end of 2026, then gradually rise.

Changes in CBO's Economic Projections
Since February 2024, when CBO published its most recent economic forecast, the agency has raised its projections of economic growth, inflation (as measured by the PCE price index), and short-term interest rates for 2024 while lowering its projection of the unemployment rate. The differences between CBO's current and previous forecasts generally narrow as the forecasts extend further into the future.

Outlook for
2024–2034

Economic growth slows to **2.0%** in 2024 as inflation eases slightly and the federal funds rate remains steady.

In 2025 and later years, economic growth and inflation moderate.

The Economic Outlook, by Calendar Year

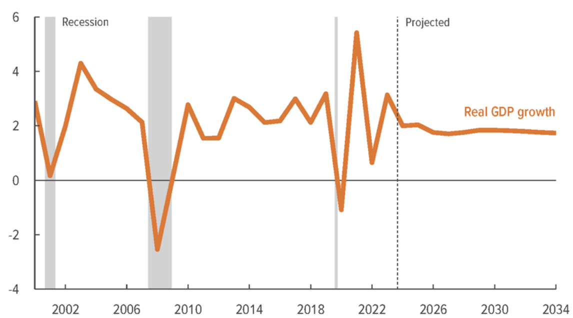
Percent

	Actual, 2023	2024	2025	2026	Annual average 2027–2028	Annual average 2029–2034
	Change from fourth quarter to fourth quarter					
Real (inflation-adjusted) GDP	3.1	2.0	2.0	1.8	1.7	1.8
Inflation						
PCE price index	2.8	2.7	2.1	1.9	1.9	2.0
Consumer price index	3.2	3.0	2.3	2.2	2.2	2.2
Payroll employment (net monthly change, in thousands)	245	195	130	78	60	52
	Annual average					
Unemployment rate	3.6	3.9	4.0	4.2	4.4	4.5
Interest rates						
Effective federal funds rate	5.0	5.3	4.8	3.8	3.1	3.0
3-month Treasury bills	5.1	5.2	4.5	3.6	2.9	2.8
10-year Treasury notes	4.0	4.5	4.1	3.7	3.6	4.0
Tax bases (percentage of GDP)						
Wages and salaries	43.2	43.3	43.5	43.7	43.8	43.9
Domestic corporate profits	10.0	10.2	10.1	9.8	9.4	9.0

The Economic Outlook in Six Figures

Growth of Real GDP

The growth of economic output, as measured by the nation's GDP, is projected to slow in 2024 because of weaker growth in consumer spending and an increase in the share of domestic purchases fulfilled by foreign production. Real (inflation-adjusted) GDP is projected to grow by 2.0 percent in 2025 before settling at an annual growth rate of roughly 1.8 percent in 2026 and beyond.



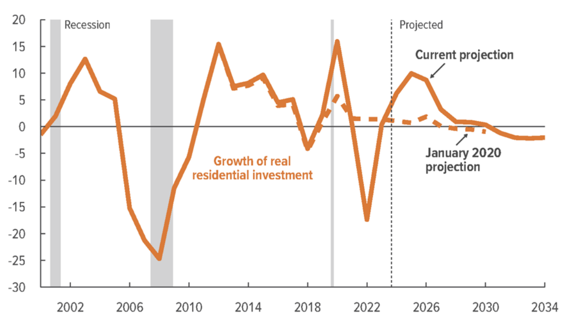
Outlook for **2024–2034**

Real GDP grows by **2.0%** in 2025 and by **1.8%** in 2026.

A strong expansion in residential investment supports economic growth in those years.

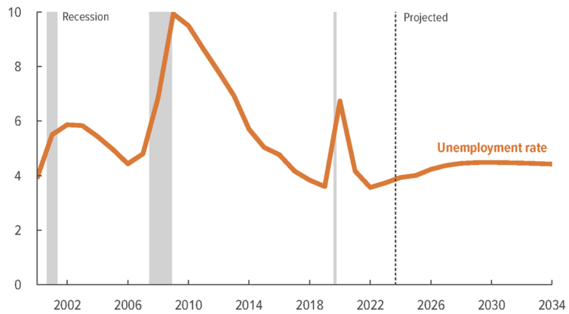
Residential Investment

The growth rate of real residential investment, which includes home construction, renovations, and brokers' commissions, is expected to rise from 6.2 percent in 2024 to an average of 9.3 percent per year in 2025 and 2026 as recent increases in immigration and declines in mortgage interest rates boost the demand for housing. In later years, that growth slows.



Unemployment

In CBO's projections, the unemployment rate, which was 3.8 percent in the first quarter of 2024, rises gradually for the next several years as the growth of real economic output slows. The unemployment rate ticks up to 4.0 percent by the end of 2025, rises to 4.5 percent in 2030, and declines slightly thereafter.



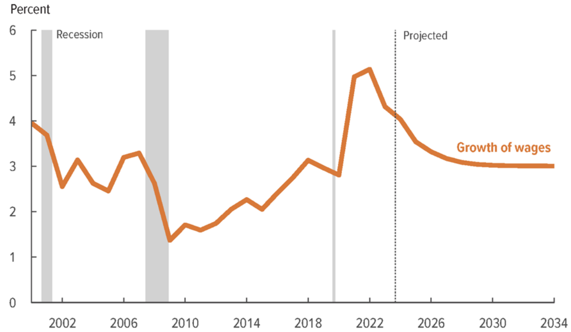
Outlook for
2024–2034

The unemployment rate rises slowly, reaching **4.5%** in 2030.

Over the same period, the growth of nominal wages gradually falls to **3.0%**.

Wages

From 2024 to 2034, slowing demand for labor and declining inflation restrain the growth of nominal wages. The employment cost index for wages and salaries of workers in private industry—a measure of the hourly price of labor, excluding fringe benefits—grows by 4.0 percent in 2024, down from 4.3 percent in 2023. Wage growth continues to slow through 2029 but remains above 2.7 percent, its annual average in the five years before the onset of the coronavirus pandemic in early 2020.



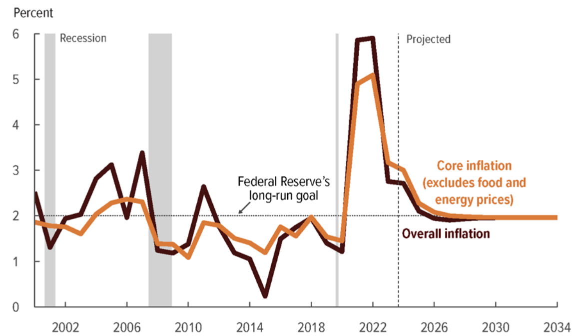
Outlook for **2024–2034**

Inflation settles at **2.0%** or less after 2025.

Interest rates also decline over the next few years. In later years, long-term interest rates rise slightly as short-term rates hold steady.

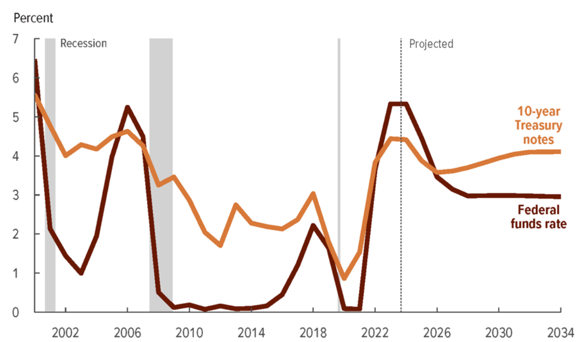
Overall Inflation and Core Inflation

In CBO's projections, overall prices (as measured by the PCE price index) increase less in 2024 and 2025 than they did last year. The rate of inflation is projected to be slightly lower in 2024 than it was in 2023 for three main reasons: supply chains will have largely recovered from pandemic-induced problems; rising unemployment will put downward pressure on wage growth; and higher long-term interest rates will put downward pressure on certain prices.



Interest Rates

CBO expects that in early 2025, the Federal Reserve will respond to slowing inflation and rising unemployment by lowering the federal funds rate, which affects interest rates throughout the economy. Starting this year, the difference between the federal funds rate and the interest rate on 10-year Treasury notes is projected to gradually return to its long-run average.



This testimony reiterates the executive summary of *An Update to the Budget and Economic Outlook: 2024 to 2034*, which is one in a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget.

In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. Both publications are available on CBO's website, at www.cbo.gov/publication/60039 and www.cbo.gov/publication/60440, respectively.

Phillip L. Swagel
Director

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

PART 1 OF ANSWERS TO QUESTIONS FOR THE RECORD

Following a Hearing on

An Update to the Budget and Economic Outlook: 2024 to 2034

Conducted by the
Committee on the Budget
United States Senate

AUGUST 9 | 2024

On July 9, 2024, the Senate Committee on the Budget convened a hearing at which Phillip L. Swagel, the Congressional Budget Office's Director, testified about the agency's report An Update to the Budget and Economic Outlook: 2024 to 2034.[1] *After the hearing, Ranking Member Chuck Grassley and Senators Mike Lee and Rick Scott submitted 29 questions for the record. This document provides CBO's answers to 11 of those questions. It is available at* www.cbo.gov/publication/60519. *The remaining 18 answers will be published on August 22, 2024.*[2]

Ranking Member Chuck Grassley

Question. It is critically important for Members of Congress and the public to have a clear understanding of the budgetary implications of recent executive actions. What is CBO doing to improve transparency and provide information to lawmakers and the public on the budgetary effects of major executive actions? How do executive actions with substantial budgetary effects complicate preparing accurate budget projections? And how does CBO account for the possibility of future executive actions in its budget projections?

Answer. Each update to CBO's baseline budget projections includes an analysis of the changes made to the baseline since the previous projections were completed. When administrative actions have had a material impact on those projections, the agency typically includes in its analysis a description of those actions and their estimated budgetary effects. In addition, the agency often includes information about the budgetary effects of recently announced administrative actions in its *Monthly Budget Review*. CBO has also provided additional information on the effects of such actions upon request.[3]

When preparing cost estimates for legislation, CBO must often anticipate administrative actions that will be necessary for a given program to operate in a manner that is consistent with the law as specified. For example, to implement changes in tax law, the Department of the Treasury and the Internal Revenue Service typically need to issue guidance to inform taxpayers about how to comply with those changes.

When updating its baseline projections, CBO accounts for newly finalized regulations and other administrative actions that are substantively different from what was previously expected, as well as for proposed actions that signal a change in administrative policy. For example, when a proposed rule is finalized, CBO incorporates the full budgetary effects of the action into its baseline. Similarly, in certain cases, CBO's baseline includes the effects of anticipated administrative actions that would be necessary for a given program to continue to operate in a way that is consistent with current law.

By contrast, when it appears unlikely that an action will take place or have any significant budgetary effect, CBO does not incorporate the action into its baseline. When it is unclear whether an administrative action will occur, when it will occur, or what it will entail, CBO uses available information to assess the probable timing and magnitude of the budgetary effects that would result from the action. That information may include public statements and documents, information accompanying the President's budget proposals, previous actions by the Administration, the nature of the considerations that are likely to bear on the Administration's decisions, and other relevant factors. The amount of information available varies greatly. To account for the uncertainty of whether a proposed rule will be finalized, CBO incorporates a 50 percent probability that the action will occur and therefore assigns a weight of 50 percent to the action's effects.[4]

Question. While climate change is a serious issue, the focus of the Senate Budget Committee—and the Congressional Budget Office—should be on the budget. Failing to put the budget on a sustainable path will have profound negative consequences for the American economy and future generations. A recent CBO report highlighted the toll that rising debt will take on economic activity. By 2054, how much lower does CBO project output will be under our current fiscal path than

1. Testimony of Phillip L. Swagel, Director, Congressional Budget Office, before the Senate Committee on the Budget, *An Update to the Budget and Economic Outlook: 2024 to 2034* (July 9, 2024), www.cbo.gov/publication/60440.
2. Congressional Budget Office, *Part 2 of Answers to Questions for the Record Following a Hearing on* An Update to the Budget and Economic Outlook: 2024 to 2034 (forthcoming).
3. See, for example, Congressional Budget Office, letter to the Honorable Jason Smith regarding the cost of eight executive actions taken by the Biden Administration (June 22, 2022, updated June 23, 2022), www.cbo.gov/publication/58231.
4. For more information, see Congressional Budget Office, letter to the Honorable John M. Spratt Jr. explaining how CBO accounts for anticipated administrative actions in its baseline projections (May 2, 2007), www.cbo.gov/publication/18615.

if the debt-to-GDP ratio was kept stable? By how much does CBO estimate climate change will lower projected output in 2054?

Answer. In CBO's projections, gross domestic product (GDP) is 3.2 percent lower in 2054 than it would be if federal debt held by the public remained at 99 percent of GDP throughout the 2024–2054 period. On net, CBO expects climate change to reduce economic growth over the coming decades. In the agency's long-term projections, climate change reduces GDP by 1 percent in 2054.[5]

CBO projects that if current laws governing revenues and spending generally remained unchanged, the federal budget deficit would increase significantly in relation to GDP over the next 30 years, driving up federal debt.[6] Debt held by the public would rise from 99 percent of GDP in 2024 to 166 percent of GDP in 2054—exceeding any previously recorded level and on track to increase further.

In a May 2024 report, CBO analyzed how its long-term projections would differ from 2024 to 2054 if the path of primary deficits ensured that federal debt held by the public remained at 99 percent of GDP (its level in fiscal year 2024) throughout that period.[7] In the agency's long-term projections, output is 3.2 percent lower in 2054 than it would be under that scenario.[8] (Because CBO did not specify the changes to fiscal policy that would cause primary deficits to decrease, outcomes under that scenario did not include any effects on households' incentives to work and save that could result from such policy changes.)

5. Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), p. 51, www.cbo.gov/publication/59711.

6. Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711.

7. Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget* (May 2024), www.cbo.gov/publication/60169. Under that scenario, primary deficits are reduced each year by decreasing noninterest spending or increasing revenues in relation to CBO's extended baseline by an average of 1.9 percent of GDP. Primary deficits could also be reduced through a combination of changes to spending and revenues that would have an equivalent effect.

8. For the numbers used to calculate that percentage, see Table 1 and Table 9 in Congressional Budget Office, "Supplemental Summary Data for CBO's Projections" (supplemental material for *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget*, May 2024), www.cbo.gov/publication/60169#data.

Question. While many see the purpose of the tax code as collecting revenue necessary to fund the government, it is increasingly used to implement spending programs. The so-called Inflation Reduction Act introduced transferability and direct pay of certain energy incentives, making them available to tax-exempt entities and even governmental entities. CBO's June baseline update notes that projected outlays for energy-related tax credits have increased. Is it reasonable to expect the projections of outlays from the energy incentives to further increase as utilization picks up and more entities learn how to benefit from the incentives?

Answer. In CBO's June 2024 update to its budget baseline, projected outlays for clean vehicle and energy-related tax credits over the 2025–2034 period were revised upward by $64 billion. Most of that increase was attributable to a change in CBO's expectations about the way individuals and businesses will claim those tax credits: More credits are now expected to be awarded as payments and thus recorded as outlays, and fewer credits are expected to be claimed to reduce tax liability, thereby increasing revenues. Over the 2025–2034 period, there was a largely offsetting $52 billion increase in projected receipts from individual and corporate income taxes. Although projected outlays increased by $64 billion, the net effect on the deficit was thus an increase of $12 billion.

In the June baseline update, more than half of that $64 billion increase in projected outlays is accounted for by increased estimates of outlays for clean vehicle tax credits. Information and data about claims on those tax credits for the first part of 2024 indicated that more car buyers chose to transfer the credits to dealers, who can receive them as payments, than CBO previously anticipated. Incorporating that information into the baseline led CBO to increase its estimates of outlays for the credits and of receipts from individual income taxes (because fewer credits would be claimed as reductions to individuals' tax liability). Projected outlays for energy-related tax credits claimed as direct payments increased by $28 billion over the 2025–2034 period. That increase did not affect projected deficits, because it was entirely offset by an increase in projected tax revenues.

CBO aims to develop projections that are in the middle of the range of likely outcomes; projections of outlays for clean vehicle and energy-related tax credits may be too high or too low. Those projections reflect the agency's expectation that use of the tax credits will increase over time, boosting outlays and reducing revenues. Considerable uncertainty persists about the amount of credits that will be claimed and the proportion of claims that will be recorded as outlays instead of as reductions in tax receipts. Through June 2024, actual outlays for clean vehicle tax credits are consistent with CBO's most recent projections; actual outlays for other energy-related tax credits are less than the agency's projections. CBO will evaluate the accuracy of those projections once the fiscal year is complete. In future years, the agency's projections of outlays for clean vehicle and energy-related tax credits may increase or decrease as more information becomes available about the use of the credits and whether they are being awarded as payments or claimed to reduce tax liability.

Question. This committee has not had a proper budget hearing in some time, and I worry there's a misunderstanding of what's really driving the dire fiscal outlook CBO is projecting. I've served on this committee since I came to the Senate, and you're hardly the first CBO director to warn us about the path we're on. How long has CBO been warning lawmakers that the aging of the population and rising health care costs would drive spending and debt to unsustainable levels?

Answer. As early as 1996—nearly three decades ago—CBO identified the long-term budgetary challenges associated with an increase in the share of the population age 65 or older and rising health care costs.[9] Three demographic factors were cited: the forthcoming (at the time) retirement of the baby boom generation, declining fertility rates, and increases in life expectancy. In addition, the agency cited the effects of the rapid growth in health care costs per enrollee that it was then projecting. CBO expected those combined factors to push spending—particularly that on Social Security, Medicare, and Medicaid—higher and to slow the growth of the labor force and thus revenues.

Since then, CBO has continued to analyze and report about the pressures on the budget associated with an aging population and rising health care costs. For example, in the agency's most recent long-term projections, released in March of this year, the share of noninterest spending accounted for by the major health care programs and Social Security increases from about half in 2024 to about two-thirds in 2054.[10] Outlays for Medicare, Medicaid, and the other major health care programs increase over the next three decades as the population ages and health care costs grow.[11] The primary driver of that increase is spending on Medicare, which provides health insurance to 67 million people (86 percent of whom are at least 65 years old). Over the next 10 years, spending on Social Security increases as a percentage of GDP, continuing the trend of the past five decades, before fluctuating around its 2034 level (measured in relation to GDP) for the rest of the 30-year period. After 2034, part of the slower growth in spending on Social Security is associated with a slowing rate of increase in the number of Social Security beneficiaries. The youngest members of the large baby boom generation will turn 70—the age by which nearly everyone claims Social Security benefits—that year.

Question. Nonpartisan experts have been warning Congress for decades that we should act sooner rather than later to address our unsustainable budget outlook. What are some of the costs of waiting to address our fiscal situation? Are the costs borne by younger generations greater if we ultimately rely on increases in tax rates rather than spending restraint?

Answer. Waiting to put fiscal policy on a sustainable course as the federal debt continues to climb would have several effects on the economy. As federal borrowing increased, the amount of funds available for private investment would decline (a phenomenon known as crowding out), and interest costs would increase. Perpetually rising debt would also increase the likelihood of a fiscal crisis and pose other risks to the U.S. economy.

9. Testimony of June E. O'Neill, Director, Congressional Budget Office, before the House Committee on the Budget, *The Long-Run Budgetary Impacts of an Aging Population* (March 13, 1996), www.cbo.gov/publication/14937.

10. Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711.

11. Spending for the major health care programs consists of outlays for Medicare, Medicaid, and the Children's Health Insurance Program (CHIP), as well as premium tax credits and related spending. Premium tax credits subsidize the purchase of health insurance through the marketplaces established under the Affordable Care Act. Related spending is spending to subsidize health insurance provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers.

The size of the policy changes needed to stabilize debt as a percentage of GDP grows the longer policymakers wait to implement those changes. Ultimately, the specifics of the policy changes used to stabilize debt would affect people differently depending on their age, income level, and other demographic characteristics.

CBO has previously examined two simplified policies that would stabilize debt.[12] The first would raise federal tax rates on different types of income in proportion to the rates under current law. The second would cut spending for certain government benefit programs—mostly Social Security, Medicare, and Medicaid. In that analysis, CBO concluded that the longer the policy changes were delayed, the more the effects on economic output, interest rates, and consumption would be borne by younger and future generations. In general, differences in effects stemming from changes in taxes compared with changes in spending would depend on the details of the policies.

Question. I appreciate that CBO has released additional details on the agency's updated projections of the Commodity Credit Corporation (CCC) and assumptions regarding the use of Section 5 authority. Greater transparency and showing your work helps improve confidence in CBO's estimates. To that end, please explain how CBO constructs its estimates of CCC Section 5 use. Why does CBO project annual Section 5 use going forward will be lower than it has been in past years? How have CBO's assumptions changed from the prior baseline, and what motivated those changes?

Answer. Section 5 of the Commodity Credit Corporation Charter Act provides certain spending authority to the Department of Agriculture (USDA). In CBO's June 2024 baseline projections, spending authorized by section 5 (referred to here as section 5 spending) is lower in future years than actual section 5 spending in recent years. That is mainly because higher projected costs for spending authorized in farm bills limit the amount of funds that could otherwise be used for section 5 spending. Those higher projected costs led CBO to a deeper analysis of the interactions between CCC's use of section 5 authority, the limits of its borrowing authority from the Treasury, and the timing of reimbursements for CCC's net realized losses. As a result of that analysis, CBO's most recent baseline projections more fully account for the extent to which CCC's borrowing authority could limit section 5 spending.

12. Congressional Budget Office, *The Economic Effects of Waiting to Stabilize Federal Debt* (April 2022), www.cbo.gov/publication/57867.

Background on the CCC and Section 5 Spending. A wholly owned government corporation, CCC funds a wide range of programs administered by USDA that are mostly authorized in farm bills, which are multiyear laws that govern an array of agricultural programs. Such funding is generally for programs that directly support U.S. farmers through subsidies and risk management, conservation payments, and foreign market development. The parameters of those programs are specified in law, and in the case of the largest programs, payments are required to begin on October 1 of each year.

Apart from spending authority provided in farm bills, section 5 of the CCC Charter Act gives the Secretary of Agriculture broad authority to spend CCC's funds on programs that USDA may develop to support agricultural prices or to affect the consumption or supply of agricultural commodities. Unlike farm bill programs, section 5 programs do not have parameters specified in law, nor does current law require that any payments be made under section 5 authority; instead, the purposes and specifics of section 5 programs are determined at USDA's discretion. Examples of recent programs developed by USDA under section 5 authority include the Market Facilitation Program (MFP), which provided payments to producers of commodities affected by retaliatory trade action, and Partnerships for Climate-Smart Commodities, which provides assistance to farmers who implement production practices that help mitigate the effects of climate change.

CCC funds all of its activities by using borrowing authority from the Treasury, which is limited to $30 billion at any time. The Congress permanently authorized appropriations to reimburse CCC's net realized losses (which are its nonrecoverable expenses) once annually, after the close of each fiscal year. Those annual reimbursements effectively wipe the slate clean and reset the limit on CCC's borrowing authority.

CCC's Borrowing Authority and Reimbursement for Net Realized Losses. Funds used for section 5 programs derive from the same $30 billion in borrowing authority that supports CCC's other agriculture and conservation programs. Thus, spending on farm bill programs could crowd out section 5 spending, and overuse of section 5 authority could result in late payments for farm bill programs.[13] Those interactions are partly a timing issue: Because CCC's annual reimbursement for net realized

13. Because payments for farm bill programs are statutory, CBO assumes they will eventually be made. But if CCC is short on borrowing authority, payments might be delayed.

losses occurs *after* it is required to make a significant portion of the following fiscal year's payments for farm bill programs, USDA may need to restrict the use of section 5 spending in years when large farm bill payments are scheduled to come due on October 1.

As previously mentioned, under current law, CCC's net realized losses in any fiscal year are authorized to be reimbursed once annually, after the close of that fiscal year. Closing and auditing the complex CCC account takes time, and the reimbursement typically occurs in December, three months after a new fiscal year has begun. Because the amount borrowed by CCC cannot exceed $30 billion at any time, any amounts spent in the first quarter of a fiscal year (October through December) must be covered by the available borrowing authority. Therefore, the combined amounts of net realized losses in a given fiscal year plus the amount of CCC funds used in the first quarter of the next fiscal year must remain below the $30 billion cap—and the first quarter of the fiscal year is often when CCC's outlays are highest.

Payments for CCC's largest agricultural support and conservation programs are required by law to begin on October 1. Most of those payments are completed by December. CCC's borrowing authority is also used to issue marketing loans that are repaid (or forfeited) within nine months, and significantly more loans are issued than repaid in the first quarter of a fiscal year.[14] Although marketing loans do not count toward net realized losses when they are fully repaid by borrowers, outstanding loans account for a large amount of CCC's borrowing authority at a time of year when CCC's funds are in short supply.[15] Taken together, the timing of CCC's annual reimbursement and its largest payments have a limiting effect on CCC's available borrowing authority and thus a limiting effect on USDA's ability to initiate section 5 programs in years when spending on farm bill programs is high.

Recent Trends in Section 5 Spending. Section 5 spending was markedly lower before fiscal year 2019 than it has been since then. From 2010 to 2018, section 5 spending averaged $150 million per year; most of that spending was for payments to support a single crop or purpose.[16] Beginning in 2019 (and continuing through 2023), the trend has been for greater spending that supports multiple crops or purposes. In 2018, USDA announced that $12 billion in CCC funds would be made available for the first tranche of payments for the MFP. In 2019, a second tranche of $16 billion was announced.[17] More than two dozen crops were made eligible for assistance under the MFP. Since then, several new programs have been developed using section 5 authority, and spending from CCC to fund those programs has remained in the billions of dollars each year.

USDA was able to use section 5 authority to spend those larger amounts of CCC funds for different reasons during the 2019–2023 period. The higher-than-usual section 5 spending that occurred from 2019 to 2020 was facilitated by extra reimbursements of CCC's net realized losses that were made possible by additional legislation. For fiscal years 2018, 2019, and 2020, USDA requested and was granted four additional reimbursements of CCC's net realized losses.[18] Those extra reimbursements—all earlier than usual and all provided by additional legislation enacted in those years—effectively increased the borrowing authority available to CCC and made more funds available to spend on section 5 programs than would have been available otherwise.

From fiscal year 2021 to 2023, section 5 spending ranged from $3 billion to $7 billion per year—still higher than historical levels but significantly lower than in 2019 and 2020. For 2021 to 2023, USDA neither requested nor was granted additional reimbursements of net realized losses. Instead, outlays for two farm bill programs that

14. Marketing loans require the harvested commodity to be pledged as collateral and are used most heavily in the autumn, when most commodity crops are being harvested and stored.

15. Marketing loan rates are fixed in statute and expressed as a price per unit of a given commodity. For example, the marketing loan rate for wheat is $2.94 per bushel under current law. The value of a marketing loan to a farmer is the product of the loan rate and the quantity of the commodity placed under loan. When the adjusted market price of a commodity falls below the loan rate, producers can repay the loan at an amount that is less than the loan's principal plus interest. The gap between the loan's principal and the loan repayment amount is called a marketing loan gain. Producers can also receive a loan deficiency payment of equal value to a marketing loan gain if they forgo marketing loans. Finally, producers can forfeit their crops to CCC in lieu of repaying the loan. Marketing loan gains, loan deficiency payments, and forfeitures are counted among CCC's net realized losses.

16. Most of the spending from 2010 to 2018 supported payments to the Brazil Cotton Institute and the Cotton Ginning Cost Share program. Smaller amounts supported the Higher Blends Infrastructure Incentive Program and the Dairy Assistance Program for Puerto Rico.

17. Because enrollment for the first tranche of MFP payments did not begin until late in fiscal year 2018, most payments occurred in 2019 and 2020.

18. One additional reimbursement was made for 2018 and another for 2019; two additional reimbursements were made for 2020.

usually represent the greatest portion of those losses, the Agriculture Risk Coverage (ARC) program and the Price Loss Coverage (PLC) program, were uncharacteristically low. Those lower outlays freed up enough CCC borrowing authority to pay for new section 5 programs in those years.

In CBO's baseline projections, the costs of ARC and PLC remain low through fiscal year 2025; in fiscal year 2026, those programs' costs return to their historical levels, thereby limiting the amount of CCC borrowing authority available for section 5 spending.

CBO's Methods of Projecting Section 5 Spending. Projecting the use of section 5 spending is challenging because USDA determines its amount and purpose on an ad hoc basis. In 2020, CBO began projecting section 5 spending in its baseline as a fixed amount per fiscal year. The projected amount was first set at $100 million per year and was subsequently increased to $1 billion per year. However, the expectation of higher (and more typical) payments for farm bill programs in upcoming years led CBO to look more closely at whether $1 billion per year in section 5 spending was feasible. The agency determined that in several upcoming years, such spending could not be realized; in those years, the baseline estimate for section 5 spending is zero.

Using information from USDA, CBO analyzed the monthly use of CCC's borrowing authority to better understand patterns of that use throughout the year—especially in the first quarter of each fiscal year. Historically, the first quarter's total spending constituted roughly three-fourths of all CCC's net realized losses for farm bill programs in a year; additional amounts of between $3.4 billion and $5.0 billion were tied up in the form of marketing loans during that period. Using that information in conjunction with CBO's projections of CCC's net realized losses for each fiscal year, CBO estimated the amount of borrowing authority that would be available for section 5 spending each year after all of CCC's required programmatic spending is accounted for. On the basis of recent history, CBO then projected how much of that remaining borrowing authority might be used by USDA for section 5 programs. That method differs from the method CBO used when developing its previous baseline projections of section 5 spending—before the agency more closely analyzed the extent to which total CCC borrowing authority could limit that spending.

Why Projected Spending Is Lower Than Recent Spending. Between 2019 and 2023, USDA was able to sharply increase its use of section 5 authority for different reasons in different years. Those reasons also explain why CBO projects that section 5 spending in future years will be lower than actual section 5 spending from 2019 to 2023. First, CBO projects higher costs for ARC and PLC beginning in fiscal year 2026. Those higher projected costs limit the amount of funding available under CCC's borrowing cap that could otherwise be used for section 5 spending. Outlays for those two programs decreased significantly in fiscal year 2022, and CBO projects that they will remain lower than usual through fiscal year 2025 because of higher commodity prices during the 2020 to 2023 crop years.[19] (The programs spend less to support farmers' revenues and crop prices when commodity prices are high.) In CBO's June 2024 baseline projections, commodity prices decrease to more typical levels beginning with the 2024 crop year, which raises projected ARC and PLC payments beginning in fiscal year 2026. Thus, in CBO's projections, the amount of CCC borrowing authority available for section 5 spending shrinks as spending on ARC and PLC increases in those later years.

Second, CBO's baseline reflects the assumption that no more than one authorized reimbursement of CCC's net realized losses will be made each year. Additional reimbursements of CCC's net realized losses for the 2018, 2019, and 2020 fiscal years that were enacted into law enabled significantly greater spending than would otherwise have been possible in those years. Because additional reimbursements in the future would require future acts of Congress, CBO's baseline projections do not reflect the assumption that additional reimbursements will occur. Rather, in keeping with requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, the agency's budget baseline is developed under the assumption that current laws governing revenues and spending generally remain unchanged.

In CBO's June 2024 baseline projections, section 5 spending totals $18 billion over the 2024–2034 period; annual spending is lower in the second half of that period than in the first.[20] In years when payments for

19. Crop years run from planting, to harvesting, to marketing a crop and can thus cover a period close to 18 months. Under the ARC and PLC programs, there is a two-year lag between a crop year and the fiscal year when the payment is made.

20. Congressional Budget Office, "Details About Baseline Projections for Selected Programs: USDA Mandatory Farm Programs" (June 2024), Appendix B, https://tinyurl.com/3scj7hsj.

ARC and PLC are highest, projected section 5 spending is zero because there is not enough funding remaining under the $30 billion borrowing cap to support statutorily mandated programs and payments using section 5 authority. When forced to choose between section 5 spending and farm bill spending, USDA is required by law to prioritize farm bill spending.

If USDA did not have enough funds under the $30 billion borrowing cap to support farm bill programs because of its spending on section 5 programs, the department could ask the Congress to provide an additional reimbursement of CCC's net realized losses through new legislation. In that case, CBO would estimate the additional cost of providing the extra reimbursement. (Because that reimbursement would require an act of Congress, it would not otherwise be reflected in CBO's budget baseline.) If the Congress designated the extra reimbursement as an emergency requirement—as it did with one of the extra reimbursements provided in 2020—those costs would not be counted for budget enforcement purposes. CBO cannot predict how the Congress would respond to such a request; if the Congress did not provide an extra reimbursement in those circumstances, farmers who rely on farm bill programs could receive assistance later than prescribed in law.

Going forward, CBO will continue to refine its methods for projecting section 5 spending as it observes USDA's use of CCC's borrowing authority. The agency will also continue to include projections of annual section 5 spending in its published baseline tables for USDA's mandatory farm programs.

Senator Mike Lee

Question. A November 2022 CBO report on affordable housing noted that there is an estimated shortage of 1.5 million rental units that are both affordable and available to low-income households. More broadly speaking, it is widely accepted that the U.S housing market has a shortage of a few million homes given that current housing stock is not meeting housing demand.

- Has CBO estimated the impact that the immigration surge has had and will have moving forward on housing demand and affordability in the U.S.—for low-income renters, all renters, as well as those seeking to purchase a single-family home?
- Is the immigration surge driving housing demand even higher, thus exacerbating the housing shortage and affordability problem?

Answer. The immigration surge that began in 2021 has increased the demand for housing and will continue to do so. Immigrants' demand for permanent housing is modest when they first enter the United States. Many move into temporary housing, such as shelters, and others stay with friends or relatives who are already in permanent units. As immigrants obtain jobs, they can better afford housing on their own and are more likely to form independent households. In CBO's estimation, the immigration surge has already boosted the number of households by roughly 200,000, but most of the increase in household formation from the surge in immigration will occur in the future.

Because construction takes time, the number of homes will not increase as quickly as the number of households. Consequently, household formation from the immigration surge will initially worsen the housing shortage. CBO estimates that the effect of the immigration surge on the shortage of housing units will peak in 2030 and then gradually decline as the stock of housing catches up with the added demand from immigrant households. Some new immigrants will provide additional labor for construction, which will help to increase the supply of housing and will partly mitigate the increase in pent-up demand. CBO has not separately estimated the effects of the immigration surge on housing costs for low-income renters, high-income renters, or home purchasers.

The surge in immigration is expected to make housing more expensive in relation to household income by boosting home prices, but that impact will not be felt equally everywhere. The availability of housing varies from area to area. In localities where the supply of housing is constrained by zoning and land-use requirements or by geographic features that limit development, the increased demand for housing created by immigration will have a larger effect on home prices and rents. In other localities, the additional demand from immigrants will have less of an impact because the supply of housing will expand more rapidly. As a result, immigrants' choices about where to reside will affect the size of the increase in home prices and rents.

Question. Earlier this year, the CBO released an update to the budget and economic outlook in which CBO now estimates that the green energy tax subsidies in the Inflation Reduction Act will actually increase deficits by $428 B more than previously projected over a 10-yr period. In CBO's view, will this increased cost have the effect of increasing the rate of inflation? If so, why? Or, if not, why not?

Answer. The projected increase in deficits due to the higher costs of the energy-related tax provisions in the 2022 reconciliation act puts slight upward pressure on the prices of certain energy-related goods and on the overall rate of inflation by increasing the demand for goods and services in the economy. Inflation is almost unchanged in CBO's projections, chiefly because those higher costs over the next few years are small in relation to the size of the economy.

Senator Rick Scott

Question. According to the U.S. Treasury, the average interest rate for all federal government-issued interest-bearing debt has jumped dramatically in recent years, to 3.23 percent as of April 30, 2024. With inflation continuing to be a problem, interest rates may stay higher for longer. Director Swagel, how will our net interest outlays be impacted if the United States interest rate environment is in an even higher-for-longer scenario than CBO forecasts?

Answer. If interest rates are higher than CBO projects in its baseline, then net interest costs will also be higher. In April 2024, CBO estimated that if all interest rates were 0.1 percentage point higher each year than they are in its baseline projections and all other variables were held constant, the cumulative deficit for the 2025–2034 period would increase by $324 billion—almost entirely because of greater net interest outlays.[21]

Additionally, higher net interest costs mean larger deficits and more federal borrowing to finance them, which reduces the amount of resources available for private investment. Decreases in private investment reduce the amount of capital (such as industrial equipment, software, and factories) and increase the return on investment because more workers make use of each unit of capital. And when the return on investment grows, interest rates—including the rates that the federal government pays on debt held by the public—rise, which further increases net interest costs.

21. Congressional Budget Office, *How Changes in Economic Conditions Might Affect the Federal Budget: 2024 to 2034* (April 2024), www.cbo.gov/publication/60072.

Question. In October 2023, the Penn Wharton Budget Model released a report stating that: "Under current policy, the United States has about 20 years for corrective action after which no amount of future tax increases or spending cuts could avoid the government defaulting on its debt." Director Swagel, does CBO agree with this assessment? Please explain.

Answer. In CBO's assessment, deficits and debt are on an unsustainable path under current law; however, CBO cannot predict with any confidence whether or when a government default might occur in response to the amount and trajectory of federal debt.

There is no identifiable tipping point at which a fiscal crisis—that is, a situation in which investors lose confidence in the value of Treasury securities—becomes imminent. Nevertheless, the large and growing amount of debt increases the risk of such a crisis. Additionally, as debt grows, the United States' fiscal position becomes more vulnerable to an increase in interest rates, because the larger the debt is, the more an increase in interest rates raises debt-service costs. Higher interest rates also increase borrowing costs throughout the economy, which reduces private investment and slows economic growth.

Question. CBO forecasts show that US total federal debt will soon reach a historic $35 trillion. In fact, over the past three and a half years alone, the federal government has added over $7 trillion to total federal debt. Director Swagel, do you believe that this accelerated rate and amount of debt accumulation is sustainable? If not, why not?

Answer. In CBO's assessment, the trajectory of deficits and debt under current law is unsustainable. Although there is no identifiable tipping point at which a fiscal crisis would be inevitable, the large and growing amount of debt increases the risk of such a crisis. The longer lawmakers wait to implement policy changes, the larger those changes will need to be to stabilize debt as a share of GDP.

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

PART 2 OF ANSWERS TO QUESTIONS FOR THE RECORD

Following a Hearing on

An Update to the Budget and Economic Outlook: 2024 to 2034

Conducted by the
Committee on the Budget
United States Senate

AUGUST 22 | 2024

On July 9, 2024, the Senate Committee on the Budget convened a hearing at which Phillip L. Swagel, the Congressional Budget Office's Director, testified about the agency's report An Update to the Budget and Economic Outlook: 2024 to 2034.[1] *After the hearing, Ranking Member Chuck Grassley and Senators Mike Lee and Rick Scott submitted 29 questions for the record. A document providing CBO's answers to 11 of those questions was published on August 9, 2024.*[2] *This document provides the agency's answers to the remaining 18 questions; it is available at* www.cbo.gov/publication/60593.

Ranking Member Chuck Grassley

Question. CBO's *2012 Long-Term Budget Outlook* noted that if lawmakers failed to extend the Bush-Obama tax cuts, by 2037 "households at all points in the income distribution would pay a greater share of their income in taxes than similar households pay today, and a much larger share of households—nearly half—would be subject to the AMT." To avoid such unprecedented tax burdens, a bipartisan majority that included many of my Budget Committee colleagues on the other side of the dais voted to make most of those tax cuts permanent in the American Taxpayer Relief Act (ATRA).

Judging from the hearing, however, it appears many Democrats have turned against the same bipartisan tax relief they voted for not too long ago. If Democrats were to successfully repeal the ATRA, what would the impact be on the tax burdens of low- and middle-income families?

Answer. CBO has not recently examined how repealing the American Taxpayer Relief Act of 2012 would affect taxes paid by households across the income distribution. In its *2012 Long-Term Budget Outlook*, CBO showed how tax rates would change for certain families under a scenario that included the expiration of the provisions of the 2001 and 2003 tax acts, which at that time were scheduled to expire at the end of 2012.[3] Under that scenario, for example, a married couple with two children earning the median income and filing a joint tax return would have seen their individual income tax rate rise from about 4 percent of their income in 2012 to 13 percent in 2037.

Question. At the hearing, it was suggested that federal spending other than interest payments is not a concern because projected noninterest spending relative to the size of the economy is currently not as high as CBO projected it would be in 2012.

Adjusting for timing shifts, CBO's latest budget baseline projects that noninterest spending this year will amount to $6 trillion or 21 percent of GDP. Is this not higher than the projection of noninterest spending in 2024 under CBO's 2012 extended baseline projections alluded to at the hearing?

How do the levels of noninterest spending in CBO's latest baseline projection compare to historical levels? Does CBO continue to project that noninterest spending will generally grow faster than the economy?

Answer. In CBO's June 2024 baseline budget projections, total noninterest spending in 2024 (excluding the effects of the shifts in the timing of certain payments) equals 21.0 percent of gross domestic product (GDP), 0.6 percent of GDP greater than the 20.4 percent of GDP that noninterest outlays amounted to in that year in the agency's 2012 extended baseline projections.[4] After 2024, noninterest outlays remain close to 20.0 percent of GDP through 2028 and increase thereafter, reaching 20.8 percent of GDP in 2034. Over the past 50 years, noninterest outlays have averaged 19.0 percent.

In CBO's current baseline projections, noninterest outlays are greater in 2024 than they are over the next 10 years, in part, because of three factors: administrative actions that resulted in larger outlays for student loans, administrative actions taken by the Federal Deposit Insurance Corporation to resolve bank failures that increased outlays for deposit insurance, and revisions that the Administration made to the estimated subsidy costs of previously issued student loans. Without those factors, noninterest outlays in 2024 would equal 20.4 percent of GDP in CBO's projections.

1. Testimony of Phillip L. Swagel, Director, Congressional Budget Office, before the Senate Committee on the Budget, *An Update to the Budget and Economic Outlook: 2024 to 2034* (July 9, 2024), www.cbo.gov/publication/60440.

2. Congressional Budget Office, *Part 1 of Answers to Questions for the Record Following a Hearing on* An Update to the Budget and Economic Outlook: 2024 to 2034 (August 9, 2024), www.cbo.gov/publication/60519.

3. Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), Table 6-4, www.cbo.gov/publication/43288.

4. Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), www.cbo.gov/publication/43288.

Question. CBO estimated last year that over the 2010–2033 period, federal spending on health care programs will be $6.3 trillion lower than CBO projected in 2010. CBO has previously stated $1.1 trillion was attributed to the 2010–2020 period and $5.2 trillion was attributed to the 2021–2033 period. What makes up the difference between CBO's 2010 projection and the agency's current projection of health spending? Are there different reasons for changes in estimates for the 2010–2020 period and the 2021–2033 period?

Answer. In its 2010 projections for the 2010–2020 period, CBO overestimated spending on the major federal health care programs by $1.1 trillion. The difference between projected and actual mandatory outlays was $635 billion for function 550 (Health, mostly the Medicaid program) and $431 billion for function 570 (Medicare, net of premiums and other offsetting receipts). The largest source of the decrease in CBO's estimate was from technical changes to the agency's baseline projections. Those changes more than offset legislative changes that increased CBO's estimate by $15 billion for function 550 and by $106 billion for function 570. Most of CBO's overestimate of spending for Medicare and Medicaid stemmed from an overestimate of spending per beneficiary and not an overestimate of the number of beneficiaries.

For Medicare, the most significant source of that overestimate was less-than-anticipated spending on prescription drugs in Medicare Part D (the program that covers the cost of beneficiaries' outpatient prescription drugs). Of the $431 billion difference between actual outlays for Medicare over the 2010–2020 period and CBO's projections in August 2010, 77 percent was due to lower prescription drug spending in Medicare. The agency has previously pointed to two reasons for the slower-than-expected growth in prescription drug spending, both nationally and in Part D. First, as existing brand-name drugs lost their patent protection, they faced new competition from generic drugs, and a significant share of prescriptions shifted to less expensive generic formulations. Second, fewer new brand-name drugs, which would have been more expensive, were introduced than CBO had anticipated.

For the Medicaid program, a significant source of the difference between CBO's 2010 projections and actual spending was slower-than-anticipated growth in spending on long-term services and supports (LTSS). CBO identified two factors that contributed to that slower growth in spending. First, the number of users of noninstitutional LTSS grew more slowly than it did from 2000 to 2010. Second, states have increasingly relied on alternative-care delivery mechanisms that are generally less costly on a per user basis. For instance, they have shifted a growing number of patients from institutional to noninstitutional settings where care is provided at a lower cost.

CBO's February 2023 estimate of spending on the major federal health care programs for the 2021–2033 period was $5.2 trillion less than what the agency had projected in June 2010 for that same period.[5] Medicare accounted for about one-third of the $5.2 trillion difference, and Medicaid, the Children's Health Insurance Program (CHIP), and the Affordable Care Act marketplace subsidies accounted for about two-thirds of that difference. One reason for the smaller projection for the 2021–2033 period is that CBO previously overestimated spending on major health care programs over the 2010–2020 period. Another reason is that, in 2010, the agency's long-term projection methods had not yet been updated to reflect the significantly slower rate of growth in federal spending on major health care programs in recent decades.

Question. Your recent baseline report discusses the budgetary effects of the immigration surge. CBO comments on page 12 of the report that it expects the current surge in immigration to follow past research findings that immigration tends to increase federal revenues more than federal costs. Yet, the report also notes the immigrant population examined in the research differs from the population in the surge. Please elaborate on how the differences in population were accounted for in your baseline projections. Are legal immigrants a part of your overall analysis, and if so, how much? Your report also notes that much uncertainty surrounds CBO's projections of the economic and budgetary impact of the immigration surge. Please describe some of the sources of that uncertainty.

Answer. CBO recently analyzed the budgetary and economic effects of the surge in the immigration of people the agency categorizes as other foreign nationals that began in 2021.[6] That category generally includes people who enter the United States illegally, people

5. Spending for 2021 and 2022 reflects actual outlays, whereas spending for the 2023–2033 period reflects updated projections from CBO's February 2023 baseline.

6. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

who enter legally in a temporary status and then remain after that legal status expires, and people who are permitted to enter—typically through the use of parole authority—despite their not being admissible as a lawful permanent resident, asylee, refugee, or nonimmigrant.

To estimate the budgetary and economic effects of that immigration surge, the agency considered many characteristics of the people in the surge population, including their age, sex, education, and income, as well as whether they meet program-specific criteria that are used to determine immigrants' eligibility for benefits.

CBO estimated the education levels, labor force behavior, and income of the surge population by using two main data sources published by the Census Bureau: the American Community Survey (ACS) and the Annual Social and Economic Supplements of the Current Population Survey (CPS ASEC). The agency used 2021 and 2022 ACS data to estimate the educational attainment and the labor force participation rate shortly after arrival of all people who immigrate to the United States in each year of the projection period. Because the makeup of the surge population in terms of immigrants' country of origin differs from that of the population of recent arrivals in the survey data, CBO reweighted those data by country of origin to better represent the composition of the surge population. The agency also used those data to estimate how the income of each cohort of immigrants would change over a 10-year period. CBO maintains a model to estimate the immigration status of people in the CPS ASEC.[7] The estimates of labor force participation and the income distribution for other foreign nationals in the 2019 CPS ASEC inform CBO's projections of how those characteristics evolve over a longer period.

On the basis of that analysis, CBO estimates that adults in the surge population are, on average, less educated than those in the general population. In addition, the average income of the surge population in CBO's projections is less than the average income of the population overall throughout the projection period and especially in immigrants' initial years in the country. The average earnings of people in the surge population are expected to increase the longer they live in the United States.

To estimate the number of people in the immigration surge who are eligible for particular federal benefits, CBO also relied on data from federal agencies for fiscal years 2021 to 2023. Those data include information from the Department of Homeland Security about monthly encounters, custody and transfers, grants of parole, asylum applications and grants, and employment authorizations, as well as information from the Executive Office for Immigration Review about asylum cases.[8] CBO also used federal data published by nongovernmental organizations that were obtained through Freedom of Information Act requests.[9]

Many federal benefits—including those provided under Medicaid and the Supplemental Nutrition Assistance Program (SNAP)—are limited to U.S. nationals and immigrants who are "qualified aliens" under the Personal Responsibility and Work Opportunity Reconciliation Act. To be eligible for Social Security benefits and premium tax credits (which help subsidize the cost of purchasing health insurance in the marketplaces established under the Affordable Care Act), federal law requires a person to be lawfully present. CBO estimated that about 35 percent of the people in the surge population would be qualified aliens upon their arrival in the United States. That percentage grows over time in CBO's projections: By 2034, 40 percent are qualified aliens, and an additional 20 percent of the people in the surge population are considered lawfully present for purposes of eligibility for Social Security and premium tax credits.

7. See Julia Heinzel, Rebecca Heller, and Natalie Tawil, *Estimating the Legal Status of Foreign-Born People*, Working Paper 2021-02 (Congressional Budget Office, March 2021), www.cbo.gov/publication/57022.

8. See, for example, Customs and Border Protection, "Nationwide Encounters" (June 20, 2024), https://tinyurl.com/5b2pzzh2, "Southwest Land Border Encounters" (June 20, 2024), https://tinyurl.com/379xb4rn, "Custody and Transfer Statistics" (June 20, 2024), https://tinyurl.com/4r86dpw9, and "CBP Releases May 2024 Monthly Update" (press release, June 20, 2024), https://tinyurl.com/3f8dpwvu; Citizenship and Immigration Services, "Immigration and Citizenship Data: Asylum" (accessed June 25, 2024), https://tinyurl.com/4fkdw44m, "Immigration and Citizenship Data: Employment Authorization Document (Form I-765)" (accessed June 25, 2024), https://tinyurl.com/yck2fy7w; and Department of Justice, Executive Office for Immigration Review, "Workload and Adjudication Statistics" (July 10, 2024), https://tinyurl.com/3jh7ktpw.

9. See, for example, Transactional Records Access Clearinghouse, "Stopping 'Inadmissibles' at U.S. Ports of Entry: CBP Data Through July 2023" (accessed June 20, 2024), https://trac.syr.edu/phptools/immigration/cbpinadmiss; and data from Customs and Border Protection (CBP) about people who were released into the country by the Office of Field Operations after they used the CBP One app to schedule an appointment. Those data were published by the Center for Immigration Studies (September 2023), https://tinyurl.com/evdn6vet.

Whereas CBO's recent study examines only the effects of immigrants in the other foreign national category who are part of the 2021–2026 surge, other analyses have looked at the effects of *all* immigrants living in the United States or at those of a narrower group, such as asylees and refugees. In addition, some of those studies have analyzed the fiscal effects of immigration over immigrants' life cycle, whereas CBO's analysis focused only on the effects of the surge over the 2024–2034 period.[10]

Much of the uncertainty in CBO's estimates of the effects of the immigration surge stems from unknown factors related to the surge itself, such as the number of other foreign nationals in the surge, how long the surge will last, and characteristics of the people in the surge population (including their age, sex, income, and skills, as well as their immigration status and potential benefit eligibility). Other sources of uncertainty include the extent to which those people will comply with tax laws and participate in federal benefit programs.

Question. At the hearing, S.1174 was mentioned and was described as extending the solvency of Social Security and Medicare indefinitely. The legislation purports to accomplish this through a series of tax increases. The 12.4 percent Social Security Payroll tax would be imposed on wages and self-employment income over $400,000. The additional Medicare tax would be increased to 2.1 percent, leading to a 5 percent overall tax, on wage and self-employment earnings over $400,000 for singles and $500,000 for joint filers. Finally, the net investment income tax would be raised from 3.8 percent to 17.4 percent for single filers over $400,000 and joint filers over $500,000 and be expanded to include active business income, such as income derived from pass-throughs. The proposal would effectively increase the top marginal income tax rate to 54.4 percent and the top rate on capital gains and dividends to 37.4 percent. Has CBO evaluated this legislation to verify if it would extend the solvency of Social Security and Medicare indefinitely? As an economist, do you expect that greatly increased marginal tax rates on wages, capital gains, and dividends would have significant economic and behavioral effects, including encouraging pass-through businesses to restructure as C corporations?

Answer. CBO has not evaluated the effects of S. 1174 on the federal budget or the Social Security trust funds. Thus, the agency cannot verify whether the legislation would extend the solvency of Social Security and Medicare indefinitely.

In general, large differences in the tax rates levied on various legal types of businesses encourage those businesses to restructure to the type that incurs the lowest taxes. Higher marginal tax rates reduce people's incentives to work, save, and invest, which reduces economic activity. Higher marginal tax rates can also lead to increases in federal revenue. In that case, like other policy changes that reduce the federal deficit, those higher tax rates lead to more national saving (the total amount of saving by households, businesses, and governments) and investment, ultimately boosting output and income.

Question. By how much would deficits be reduced if two recent vehicle regulations, the Environmental Protection Agency's "Multi-Pollutant Emissions Standards for Model Years 2027 and Later Light-Duty and Medium-Duty Vehicles" and the U.S. Department of Transportation's "Corporate Average Fuel Economy Standards for Passenger Cars and Light Trucks for Model Years 2027 and Beyond and Fuel Efficiency Standards for Heavy-Duty Pickup Trucks and Vans for Model Years 2030 and Beyond" rules, were repealed? How much of the change in deficits is from greater gas tax revenues, and how much is from reduced clean vehicle tax credits?

Answer. CBO estimates that if those two regulations were repealed in 2025, the cumulative deficit for the 2025–2034 period would be reduced by about $111 billion in the agency's baseline budget projections. CBO expects that without those regulations, fewer fuel-efficient hybrid and electric vehicles would be sold in the future. That expectation of lower sales would reduce the projected cost of clean vehicle tax credits over the 2025–2034 period by about $98 billion. In CBO's assessment, if fewer fuel-efficient vehicles were sold, then gasoline consumption would be greater than it would

10. See, for example, Robin Ghertner, Suzanne Macartney, and Meredith Dost, *The Fiscal Impact of Refugees and Asylees at the Federal, State, and Local Levels From 2005 to 2019* (Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, February 2024), https://tinyurl.com/jx2mbrnb; Alex Nowrasteh, Sarah Eckhardt, and Michael Howard, *The Fiscal Impact of Immigration in the United States* (Cato Institute, March 2023), https://tinyurl.com/c36rxyhh; and National Academies of Sciences, Engineering, and Medicine, *The Economic and Fiscal Consequences of Immigration* (National Academies Press, 2017), https://doi.org/10.17226/23550.

have been otherwise. That greater amount of consumption would boost receipts from gasoline excise taxes from 2025 to 2034 by about $13 billion.

The clean vehicle tax credits expire at the end of calendar year 2032; therefore, after 2033, all of the deficit-reducing effects of repealing the two regulations would be attributable to the increased receipts from gasoline excise taxes. The effect that repealing the regulations would have on deficits is highly uncertain because CBO cannot easily predict the pace at which electric vehicles would be adopted.

Question. It's clear that the last reconciliation act's new tax subsidies are going to be much more expensive than the Joint Committee on Taxation estimated at the time of enactment. What is the total cost of the 2022 reconciliation act's clean vehicle and energy-related tax credits over the 2024–2034 period in CBO's latest baseline? What factors have increased the estimated costs of these tax subsidies?

Answer. Subtitle D of the 2022 reconciliation act (Public Law 117-169) modified existing clean vehicle and energy-related tax provisions and created new ones. In August 2022, the Joint Committee on Taxation (JCT) estimated that all of those provisions would increase deficits over the 2022–2031 period by about $270 billion.[11]

In the June 2024 update to CBO's baseline projections, clean vehicle and energy-related tax provisions increase projected deficits over the 2025–2034 period by about $800 billion.[12] That estimate is not directly comparable with the estimate that JCT provided in August 2022.[13] JCT's estimate accounted for the effects of the act's revenue provisions on deficits; it did not account for the total cost of the provisions. (An estimate of that total cost would have included the effects of the clean vehicle and energy-related tax provisions that were available before the changes in the act became law.) Also, JCT's estimates of the effects of revenue provisions account for behavioral responses to changes in tax law, whereas CBO projects revenues in its budget baseline on the basis of current law.

Moreover, shifting the budget window forward, from the 2022–2031 period (covered by JCT's estimate) to the 2025–2034 period (covered by the June update to CBO's budget baseline), increases the collective cost of the 2022 reconciliation act's clean vehicle and energy-related tax provisions because investment in subsidized energy-related activities is expected to increase over time. Nevertheless, CBO expects that those provisions will increase deficits over the 2022–2031 period by considerably more than JCT estimated in August 2022, for several reasons:

- CBO and JCT now expect that more clean vehicle tax credits will be claimed than JCT anticipated in August 2022. In CBO's projections, the largest factor contributing to that expected increase in the amount of credits that will be claimed is the Environmental Protection Agency's (EPA's) finalized rule on vehicle emissions; other factors include guidance from the Treasury and newly available information about vehicle sales.[14]
- CBO and JCT now expect that future investment in the manufacturing of batteries and in wind and solar power generation will be greater than JCT anticipated in August 2022; that expectation of increased investment contributes to higher projected costs for energy-related tax credits.

11. Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions of Title I – Committee on Finance, of an Amendment in the Nature of a Substitute to H.R. 5376, "An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14," as Passed by the Senate on August 7, 2022, and Scheduled for Consideration by the House of Representatives on August 12, 2022*, JCX-18-22 (August 9, 2022), https://www.jct.gov/publications/2022/jcx-18-22. JCT estimated that over the 2022–2031 period, subtitle D would increase deficits by $205 billion, on net. Energy-related provisions that would increase revenues and thus decrease deficits include the excise taxes that support the Superfund and the Black Lung Trust Fund.

12. Including the effects of clean vehicle and energy-related tax provisions in fiscal year 2024 would increase projected deficits by about $40 billion; therefore, the increase in deficits over the 11-year period (from 2024 to 2034) would be about $840 billion.

13. The estimate that JCT completed in August 2022 relied on amounts of projected revenues in CBO's February 2021 budget baseline and the economic projections underpinning that baseline. For more information, see Joint Committee on Taxation, *Factors Considered When Estimating the Revenue Effects of the Energy Provisions of Public Law 117-169 and Subsequent Developments* (May 2023), https://tinyurl.com/bdc77pzh.

14. After EPA's rule was finalized, the Department of Transportation's Corporate Average Fuel Economy (CAFE) rules were finalized. CBO expects that vehicle fleets manufactured to comply with EPA's rule will also comply with the CAFE rules.

- Between the time when CBO developed the economic forecast that underlies JCT's August 2022 estimate and the forecast that underlies CBO's June 2024 update to its baseline projections, macroeconomic conditions changed.[15] Notably, higher projections of inflation through 2025 increased estimates of the nominal cost of tax credits. As a result of changes in macroeconomic conditions, CBO and JCT now expect that clean vehicle and energy-related tax credits will increase deficits by more than JCT anticipated in August 2022.

Question. At the end of 2025 many individual income tax provisions of the Tax Cuts and Jobs Act are scheduled to expire. This includes the law's lower marginal tax rates, expanded standard deduction, and larger child tax credit. On average, will all income groups—including those making under $400,000—see a tax increase if the individual income tax provisions of the TCJA are not extended?

Answer. CBO has not analyzed the distributional effects of extending the expiring individual income tax provisions of the 2017 tax act (P.L. 115-97). In 2018, when CBO analyzed the effects of that law's provisions, it found that the changes to the individual income tax reduced average tax rates and thus increased income after taxes and transfers for households in all five income quintiles. (A quintile is one-fifth of the distribution.) Researchers at other organizations that have analyzed the distributional effects of extending that law's expiring provisions have generally found that taxes would decline for all income groups, which is consistent with CBO's findings.[16]

Question. The Biden administration has finalized over 100 health care regulations since January 2021. Patients, health care providers, and taxpayers all bear the costs of these regulations. In CBO's most recent two baselines, what has been the total increase in Medicare and Medicaid outlays due to these final regulations?

Answer. CBO does not have a comprehensive assessment of the effects of all administrative actions in Medicaid and Medicare since January 2021. The administrative actions that have had the largest effect on CBO's baseline since then include the following:

- **The 2022 Streamlining Eligibility and Enrollment Rule.** This rule facilitates Medicaid enrollment and renewal processes and is projected to increase Medicaid enrollment. To reflect the effect of the proposed rule, CBO increased its projection of outlays in its February 2023 baseline by approximately $112 billion over the 2023–2033 budget period. That amount represented half of the total estimated effect because CBO incorporates half of the total estimated effects of proposed rules into its baseline.[17] (The rule was finalized by the Administration in two parts; CBO incorporated the first part of the final rule into its February 2024 baseline and incorporated the second part of the final rule into its June 2024 baseline. In CBO's estimation, blocking implementation of the final rule would reduce Medicaid outlays by $164 billion over the 2024–2034 period.)
- **A Rule About Directed Payments in Medicaid Managed Care.** A rule proposed by the Centers for Medicare & Medicaid Services is projected to increase outlays related to directed payments in Medicaid managed care. To reflect the proposed rule, CBO increased its projection of outlays in its June 2024 baseline by $58 billion over the 2025–2034 period. That amount represents half of the total estimated effect because it is a proposed rule.
- **A Rule About Minimum Staffing Standards in Nursing Homes.** The Centers for Medicare & Medicaid Services proposed a rule that requires minimum staffing standards in nursing homes. To reflect the proposed rule, CBO increased its projection of outlays in its February 2024 baseline by $8.7 billion over the 2024–2034 period. That amount also represents half of the total estimated effect because it is a proposed rule.

15. CBO finalized the economic forecast underlying JCT's August 2022 estimate on January 12, 2021; the forecast underlying CBO's June 2024 baseline update was finalized on May 2, 2024.

16. Penn Wharton Budget Model, "The Budgetary and Economic Effects of Permanently Extending the 2017 Tax Cuts and Jobs Acts' Expiring Provisions" (brief, University of Pennsylvania, May 22, 2024), https://tinyurl.com/28vxvyhu; Tax Foundation, "Options for Navigating the 2025 Tax Cuts and Jobs Act Expirations" (May 4, 2024), https://tinyurl.com/3h6mhhzw; Urban-Brookings Tax Policy Center, "Those Making $450,000 and Up Would Get Nearly Half the Benefit of Extending the TCJA," TaxVox blog post (updated July 10, 2024), https://tinyurl.com/2c4b2ew6; and Yale Budget Lab, *Tax Cuts and Jobs Act Expiration: Options for the Tax Code* (April 2024), https://tinyurl.com/4hdtpcjm.

17. For additional information, see Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), www.cbo.gov/publication/58916.

Question. CBO projects in the most recent baseline that Obamacare subsidies and related spending will cost taxpayers $1.3 trillion over the coming decade. That's more than double what CBO was projecting we'd spend on Obamacare just a few years ago. And if Congress extends these subsidies for higher-earners, like the Democrats want to do, it will be another $432 billion—bringing their total price tag for the next decade to $1.7 trillion. What is driving this dramatic rise in Obamacare spending? Will Obamacare subsidies impact employer-sponsored insurance enrollment?

Answer. In recent years, CBO and JCT have significantly increased their projections of the federal cost of the premium tax credit and related spending.[18] That credit was established under the Affordable Care Act to subsidize the costs of premiums for eligible people who obtain health insurance through the marketplaces established by that act. In CBO's September 2020 projections, the agency estimated that premium tax credits and related spending would total $0.6 trillion over the 2021–2030 period, the 10-year projection period in place at that time.[19] For the 2025–2034 period spanning the agency's June 2024 projections, CBO and JCT estimate that premium tax credits and related spending will total $1.3 trillion.[20]

Larger estimates of premium tax credits are due in part to the different projection periods but are primarily driven by larger projections of enrollment through the marketplaces. That greater enrollment is partly driven by legislation enacted since 2020. The American Rescue Plan Act of 2021 (P.L. 117-2) and the 2022 reconciliation act (P.L. 117-169) expanded the premium tax credit by decreasing the maximum required contribution for previously eligible people and extending eligibility through 2025 to people whose income exceeds 400 percent of the federal poverty level (FPL). For the years after the effects of those expanded tax credits dissipate, greater expected enrollment is partly due to other factors such as changes in CBO's economic and demographic forecasts, including the immigration surge that began in 2021. Administrative actions have also increased the agency's enrollment projections; in particular, those actions include the regulatory change to the affordability standards for dependents for purposes of determining premium tax credit eligibility, the addition of a continuous special enrollment period for people with income less than 150 percent of the FPL, and the elimination of multiple income verification steps in the eligibility determination process.

CBO estimates that both the availability of the premium tax credit under the Affordable Care Act and the temporary expansion of that credit under subsequent legislation reduce enrollment in employment-based coverage, particularly among workers in small, newly formed firms. The premium tax credit reduces employers' incentive to offer health insurance to attract and retain workers. In CBO's modeling, employers are less likely to offer health insurance when the credit subsidizes coverage through the marketplaces to a greater extent than under current law. For example, in CBO's recent analysis of the effects of a permanent extension of the expanded premium tax credit structure, the agency estimated that 3.5 million, or 2 percent, fewer people would enroll in employment-based coverage in each year, on average, over the 2025–2034 period than would have enrolled without the extension.[21] The agency's estimates of the effect of the premium tax credit in the nongroup market on employment-based coverage are subject to considerable uncertainty. CBO also estimates that employment-based coverage is and will continue to be the predominant source of coverage even if the expanded premium tax credit structure is made permanent.

Question. I recently wrote to the Department of Health and Human Services about the administration's unwinding of Medicaid's continuous eligibility requirements. When Congress established the unwinding provision in 2023, CBO estimated it would save $22 billion. Congress used this savings to offset spending elsewhere. Given CMS's changes in how it uses the unwinding authority and the most recent baseline projecting an additional $67 billion in Medicaid spending due to unwinding, can we assume the $22 billion hasn't come to fruition?

18. Related spending includes spending to subsidize health insurance provided through the Basic Health Program, spending on federal waivers under section 1332 of the Affordable Care Act, and collections and payments to stabilize premiums for health insurance purchases by individuals and small employers.

19. Congressional Budget Office, "Federal Subsidies for Health Insurance Coverage for People Under Age 65: CBO and JCT's September 2020 Projections" (September 2020), https://tinyurl.com/2244rpch.

20. Congressional Budget Office, "Health Insurance and Its Federal Subsidies: CBO and JCT's June 2024 Baseline Projections" (June 2024), https://tinyurl.com/yc88rev9.

21. Congressional Budget Office, letter to the Honorable Jodey Arrington and the Honorable Jason Smith concerning the effects of permanently extending the expansion of the premium tax credit and the costs of that credit for Deferred Action for Childhood Arrivals recipients (June 24, 2024), www.cbo.gov/publication/60437.

Answer. As part of CBO's cost estimate for H.R. 2617, the Consolidated Appropriations Act, 2023 (P.L. 117-328), the agency projected that ending the Medicaid continuous eligibility requirement on April 1, 2023, would save $22 billion in federal spending because that date was several months earlier than the August 1, 2023, expiration date that CBO projected for the end of the public health emergency caused by the coronavirus pandemic. The earlier ending of the continuous eligibility requirement meant that people who had enrolled as a result of that requirement would be disenrolled sooner than projected under CBO's baseline, leading to lower Medicaid outlays. Several months after CBO published its cost estimate, the Administration announced that the public health emergency would end on May 11, 2023. Had CBO known of that earlier end date for the public health emergency, it would have estimated the savings to be less than $22 billion.

In its June 2024 projection, CBO estimated that Medicaid outlays over the 2025–2034 period would increase because of a change in the agency's forecast of how states are disenrolling people who remain on Medicaid under the continuous eligibility requirement but are no longer eligible for the program (a process known as "unwinding"). The basis for the higher outlays stems from CBO's expectation that Medicaid enrollment will be higher than previously forecast when the unwinding is completed. That expectation of higher enrollment is principally related to data about the rate at which enrollees are losing coverage and the rate at which some people who have been disenrolled are reenrolling in the program.

Question. The Highway Trust Fund has operated at a deficit for a long time, and is currently projected to be exhausted in 2028. What has been the effect of the Biden administration's legislative and regulatory push towards electric vehicles on the solvency of Highway Trust Fund?

Answer. CBO anticipates that several factors together, including policies expected to increase the adoption and use of electric vehicles, will boost the average fuel efficiency of new vehicles, especially after 2028. That boost is projected to decrease taxable fuel consumption over time, which reduces projected revenues from excise taxes on gasoline. Lower revenues credited to the Highway Trust Fund, in turn, cause balances in the fund to be exhausted earlier than they otherwise would be for a given level of spending.

As background, the majority of revenues credited to the Highway Trust Fund come from excise taxes on gasoline, diesel, and other fuels. Taxable fuel consumption depends on the number of vehicle miles traveled and the fuel efficiency of vehicles. Although CBO anticipates that vehicle miles traveled will increase over time as the economy expands, improvements in the fuel efficiency of vehicles are expected to cause excise taxes on fuels to decline over the next decade.

Several developments over the past two years have caused CBO to revise projected taxable fuel consumption downward. The 2022 reconciliation act (P.L. 117-169), which was enacted in August 2022, expanded tax credits for the purchase of electric and other clean vehicles. In addition, EPA finalized rules in April 2024 requiring more stringent vehicle emissions standards that would begin with the 2027 model year. And in June 2024, the Department of Transportation finalized fuel efficiency standards that coordinate with EPA's.

Question. Some point to fluctuations in the percentage of total federal revenues contributed by corporate income taxes as a sign that businesses are not paying enough. However, comparing the tax system of the 1950s or '60s or even '80s to that of today fails to consider changes to how businesses are structured. Particularly over the past 40 years, the number of businesses organized as pass-throughs has vastly increased, with fewer businesses paying the corporate income tax. Particularly given the rise of pass-through businesses over the past few decades, do you agree that solely focusing on corporate income tax revenues fails to fully capture how much businesses contribute to federal revenue?

Answer. Corporate income tax revenues do not account for federal revenues collected from pass-through businesses such as S corporations, partnerships, and sole proprietorships; the income of those pass-through businesses is subject to the individual income tax. CBO examined the shift toward pass-through businesses in a 2012 report.[22] In a report published last year, CBO examined why economic measures of corporate profits have grown faster than the corporate tax base and identified the growth of S corporations as a factor that has contributed to that divergence.[23]

22. Congressional Budget Office, *Taxing Businesses Through the Individual Income Tax* (December 2012), www.cbo.gov/publication/43750.

23. Congressional Budget Office, *Trends in Corporate Economic Profits and Tax Payments, 1998 to 2017* (May 2023), www.cbo.gov/publication/58267.

Senator Mike Lee

Question. Director Swagel, can you expand on the rationale behind CBO's view, as expressed on Pg. 12 of the June 2024 *Update to the Budget and Economic Outlook*, that "Research has generally found that increases in immigration tend to raise federal revenues more than federal costs but tend to increase the costs of state and local governments more than their revenues?"

Specifically, why does CBO estimate that this immigration surge would bring in 4x as much revenue as it would increase spending over 10 years given that federal outlays are projected to exceed revenues by nearly $2 trillion this year? Revenue raised from current taxpayers is already falling short by $2 T in covering the federal government's expenses. CBO notes in an April 2023 report on foreign-born population and the U.S. economy and budget that "relative to the native-born workforce, the foreign-born workforce is disproportionately concentrated in occupations with lower average wages." Presumably, individuals with lower wages and incomes relative to the median household income are more likely to pay relatively less in taxes (and perhaps have no federal income tax liability) as a share of family income and more likely to be eligible for and receive federal welfare program benefits.

- How does it follow that non-native born workers part of this immigration surge will increase federal revenues by four times as much as the corresponding increase in federal spending when, on average, their wages and incomes are lower? Does CBO estimate that immigrants overall will be less likely to apply for/receive federal welfare benefits?
- Is it CBO's view that this immigration surge has been a net fiscal positive for the federal government from FY 2021-2023?
- CBO's category of "other foreign nationals" includes people who entered the U.S. illegally, but CBO notes in the April 2023 report on foreign-born population and the U.S. economy and budget that CBO has not estimated the amount of federal taxes paid or spending on people who are here illegally. To clarify, does the fiscal impact estimate in the updated June 2024 baseline include estimates arising from people in the country illegally in addition to all other immigrant categories?

Answer. The number of people entering the United States has increased sharply in recent years. Some of them have received permission to enter or remain in the country, and some have not. Over the 2024–2034 period, the immigration surge will add $1.2 trillion to federal revenues and $0.3 trillion to spending (for federal mandatory programs and net spending for interest on the debt), in CBO's estimation.[24] Most of that budgetary effect stems from the taxes directly paid and the benefits directly received by immigrants. Estimated amounts of taxes and benefits are for all the people in the surge population; the agency has not separately estimated those amounts by people's legal status.[25] For earlier years (2021 to 2023), CBO has not estimated the fiscal effects of the immigration surge.

CBO expects the people in the immigration surge to earn less than the general population, especially in their initial years in the country, and consequently to pay less in taxes. In 2026, for example, 4.6 million people in the immigration surge will work at some point in the year, CBO estimates. The average worker in the surge will earn just under $50,000 in that year, compared with about $75,000 for the general population.

Even though people in the immigration surge pay relatively less per person in taxes than the general population, the increase in revenues attributable to the surge exceeds the increase in spending over the period, for several reasons.

- Eligibility for most federal benefit programs is limited to immigrants who are determined to be qualified aliens or lawfully present, and programs such as Medicaid and SNAP have a five-year waiting period for many qualified aliens. As a result, in CBO's projections, people in the surge population receive less in benefits over the 2024–2034 period, on an average per capita basis, than people in the general population, despite having lower income.
- By 2034, in CBO's projections, only a small fraction of immigrants who are legally eligible for Social Security and Medicare reach the age and accumulate the quarters of coverage (based on the amount of work performed in a three-month period) that are required to collect benefits.

24. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

25. CBO's estimates of revenues and spending are generally the total amounts. In the April 2023 report, the statement that CBO has not estimated the amount of federal spending for people who are in the country illegally indicated that the agency has not separately estimated amounts by people's legal status. See Congressional Budget Office, *The Foreign-Born Population, the U.S. Economy, and the Federal Budget* (April 2023), p. 4, www.cbo.gov/publication/58939.

- Among immigrants who meet the programs' immigration-specific eligibility criteria and qualify on the basis of other characteristics (such as income), eligible immigrants are projected to participate in some benefit programs (such as Medicaid and SNAP) at a lower rate than other eligible populations. CBO reached that conclusion on the basis of prior research.

Those estimates do not include any effects on discretionary spending, because the amounts of such funding depend on future actions taken by lawmakers. Nonetheless, the immigration surge is projected to put pressure on the budgets of many programs funded through discretionary appropriations. Increasing funding for certain purposes could be accomplished by boosting total appropriations or by shifting resources from other areas of the budget.

Question. With CBO's new FY 2024 budget deficit projection of $1.9T, a $400B increase from prior projections, addressing the federal government's excessive spending is more important than ever. Mandatory spending continues to increase as a share of GDP, and, with the ongoing border crisis, the net burden of illegal immigration on the federal budget has become an increasingly relevant question.

Does CBO estimate the net fiscal effect of immigration on the federal budget by category of immigrant—both legal and illegal?

Does CBO take into account the educational level and average earnings by education level of different categories of immigrants—both here legally and illegally? For example, is there a breakdown of the average fiscal effect of a H-1B beneficiary compared to a low-skilled parolee with no high school equivalent or college education level?

Answer. CBO's baseline budget and economic projections reflect the agency's projections of the U.S. population, which consists of U.S. nationals and immigrants with and without legal status.[26] Although the baseline projections are not routinely broken out by immigration status, when CBO undertakes analyses specific to immigration—including cost estimates for immigration-related legislation and analytic reports related to immigration—the agency considers the characteristics of the immigrants who are the focus of those analyses.

In cost estimates, the characteristics of immigrants—such as their immigration status, employment and income, and age—are key factors in estimating how much people pay in federal taxes and how much they receive in federal benefits. When budgetary effects vary among groups, the agency often presents estimates for each group.[27]

Recently, CBO analyzed the budgetary and economic effects of the surge in the immigration of people the agency categorizes as other foreign nationals that began in 2021.[28] To estimate those effects, the agency considered many characteristics of the people in the surge population. For example, on the basis of survey data, CBO estimated that people in that population have less education and lower income, on average, than the overall U.S. population. On average, such people would, all else being equal, pay less in federal revenues and receive more in federal benefits than people with more education and higher income.

According to CBO's estimates, most people in the surge population will not be eligible for most federal benefit programs when they first enter the United States because they will not meet the program-specific criteria outlined in federal laws and regulations that are used to determine immigrants' eligibility for specific benefit programs. (A larger percentage of that population will become eligible over time.) In addition, in CBO's projections, most of the immigrants in the surge population are younger than 55, and a larger percentage of them than of the overall population are male. Because those characteristics make people in the immigration surge likely to participate in the labor force, the surge increases the size of the labor force in CBO's projections and thus boosts economic growth and revenues.

After accounting for the characteristics of the surge population, CBO estimated that the surge in immigration

26. For CBO's most recent projections of the U.S. population, see Congressional Budget Office, *The Demographic Outlook: 2024 to 2054* (January 2024), www.cbo.gov/publication/59697. CBO has not estimated the budgetary effects of all immigrants residing in the United States or of all immigrants in any one category.

27. See, for example, Congressional Budget Office, cost estimate for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (June 18, 2013), Table 4, www.cbo.gov/publication/44225, and cost estimate for S. 2611, the Comprehensive Immigration Reform Act of 2006, Table 3 (August 18, 2006), www.cbo.gov/publication/18065. For more discussion about the factors that CBO considers when it analyzes proposals that would alter immigration policy, see Congressional Budget Office, *How Changes in Immigration Policy Might Affect the Federal Budget* (January 2015), www.cbo.gov/publication/49868.

28. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

that is projected to occur from 2021 to 2026 would add $1.2 trillion to federal revenues and $0.3 trillion to outlays for mandatory programs and interest on the debt over the 2024–2034 period, resulting in deficits over that period that are a total of $0.9 trillion less than they would have been if the surge did not occur.

Question. Does, or can, CBO estimate the average annual dollar amount of federal welfare benefits received by native-born Americans compared to the average annual dollar amount in assistance received by immigrants of all categories? If so, what are those estimates?

Answer. CBO does not have the information to estimate the total amount of means-tested transfers and tax preferences per person received by all foreign-born people in the United States. The agency has analyzed the amount of benefits provided through SNAP in fiscal year 2022 (the most recent year for which those data are available). SNAP is one of the largest federal means-tested transfer programs; in 2022, total SNAP benefits exceeded $110 billion. In that year, about 41 million people received SNAP benefits in an average month. Roughly 12 percent of all SNAP benefits went to households with at least one foreign-born recipient in 2022; that percentage is slightly lower than the overall percentage of foreign-born people in the United States in that year (about 14 percent).

Households can have people who participate in SNAP as well as people who do not. Households with only native-born SNAP participants received monthly benefits averaging $157 per person in 2022. Those with at least one foreign-born SNAP participant received monthly benefits averaging $153 per person in that year.[29]

Question. CBO notes in the "Budgetary Effects of the Surge in Immigration" section of the most recent *Update to the Budget and Economic Outlook* that the largest increase in spending on benefits arising from the immigrant surge will be for ACA premium tax credits to purchase subsidized health insurance.

- Does CBO have an estimate for what percentage of individuals that are part of this immigrant surge group will be eligible for or are receiving ACA premium tax credit subsidies?
- Does CBO have estimates of the Medicaid take-up rate and the ACA premium tax credit take-up rate for immigrants of all categories vs. native-born Americans?

Answer. The budgetary effects that CBO estimated stem from the projected net increase in the number of people in the other foreign national category during the 2021–2026 period; that number is greater than the historical average by a total of 8.7 million people over the period. CBO's estimate also includes the approximately 2 million children who will be born to those people in the United States by 2034.[30]

CBO and JCT estimate that the immigration surge will increase the number of people receiving premium tax credits by about 600,000 in 2024 and 800,000 in 2034. Those increases represent roughly 5 percent to 10 percent of the surge population depending on the year and are projected to add $66 billion to the cumulative deficit for the 2024–2034 period.[31] (The premium tax credit was established under the Affordable Care Act to subsidize the out-of-pocket costs of premiums for eligible people who obtain health insurance through the marketplaces established by that act.)

To estimate the effects of the immigration surge on premium tax credits, CBO first considered how many people in the surge population would meet the eligibility criteria—both immigration-specific criteria and criteria such as those related to income that apply to all people. Immigrants must be considered lawfully present to be eligible for premium tax credits. In CBO's estimate, 35 percent of people in the surge are lawfully present in the year in which they initially enter the United States; by

29. To estimate total SNAP benefits in 2022, CBO used administrative data from the Department of Agriculture. Total benefits include emergency allotments authorized by the Families First Coronavirus Response Act of 2020, but estimated average per-person benefits do not include those emergency allotments. To analyze SNAP separately for native-born and foreign-born recipients, CBO used data composed of monthly case reviews from state agencies. See Mathematica, "About SNAP Quality Control (QC) Data" (2020), https://snapqcdata.net. The estimate of the foreign-born share of the population comes from Shabnam Shenasi Azari and others, *The Foreign-Born Population in the United States: 2022*, American Community Survey Brief ACSBR-019 (Census Bureau, April 2024), https://tinyurl.com/55h7yacu.

30. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

31. For additional details about the estimate and the eligibility rules for premium tax credits, see Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

2034, 60 percent of that population will be considered lawfully present. (Children born in the United States to people in the surge are citizens by birth and are eligible for premium tax credits and other federal benefits, as long as they meet the eligibility criteria for those benefits.) Throughout the 2024–2034 period, CBO estimates, immigrants in the surge population have lower income than other people living in the United States, but their income is generally expected to increase over time.

CBO estimates that roughly 40 percent of people in the immigration surge who are eligible for a premium tax credit will receive the credit. That participation rate reflects the age and income distribution of people in the immigration surge. People at higher income levels are less likely to take up the premium tax credit because the credit subsidizes premiums to a lesser extent at higher income levels.

In CBO's estimate, 50 percent to 60 percent of eligible children and adults in the immigration surge will enroll in Medicaid or CHIP with full benefits. That share is higher than the corresponding share for premium tax credits, in part because people who are eligible for Medicaid or CHIP generally have no out-of-pocket costs for that coverage, whereas out-of-pocket costs rise for people with higher incomes who are eligible for premium tax credits.

Estimated take-up rates for both Medicaid and premium tax credits reflect CBO's expectation that people in the surge population will participate in federal benefit programs to a lesser extent than the rest of the population. CBO will continue to evaluate new data and research as they become available.

Senator Rick Scott

Question. Federal spending today is significantly higher than before the pandemic and, according to your latest baseline, deficit spending continues to increase to record levels. In comparison to the percent of GDP, CBO forecasts show that all categories of spending are up or neutral except for defense spending, with the highest increase coming from net interest costs. Further, studies show that tax collections as a percentage of GDP remain relatively flat regardless of the marginal tax rate. Director Swagel, do you believe that the key driver to stop our national debt from continuing to spiral out of control is to reduce government spending? Is it possible to get our financial house in order without cutting government spending?

Answer. In CBO's June 2024 baseline projections, debt held by the public increases from 99 percent of GDP this year to 122 percent in 2034. Although there is no commonly agreed upon level of federal debt that is sustainable, a perpetually rising debt-to-GDP ratio is unsustainable over the long term because financing deficits and servicing the debt would consume an ever-growing proportion of the nation's income.

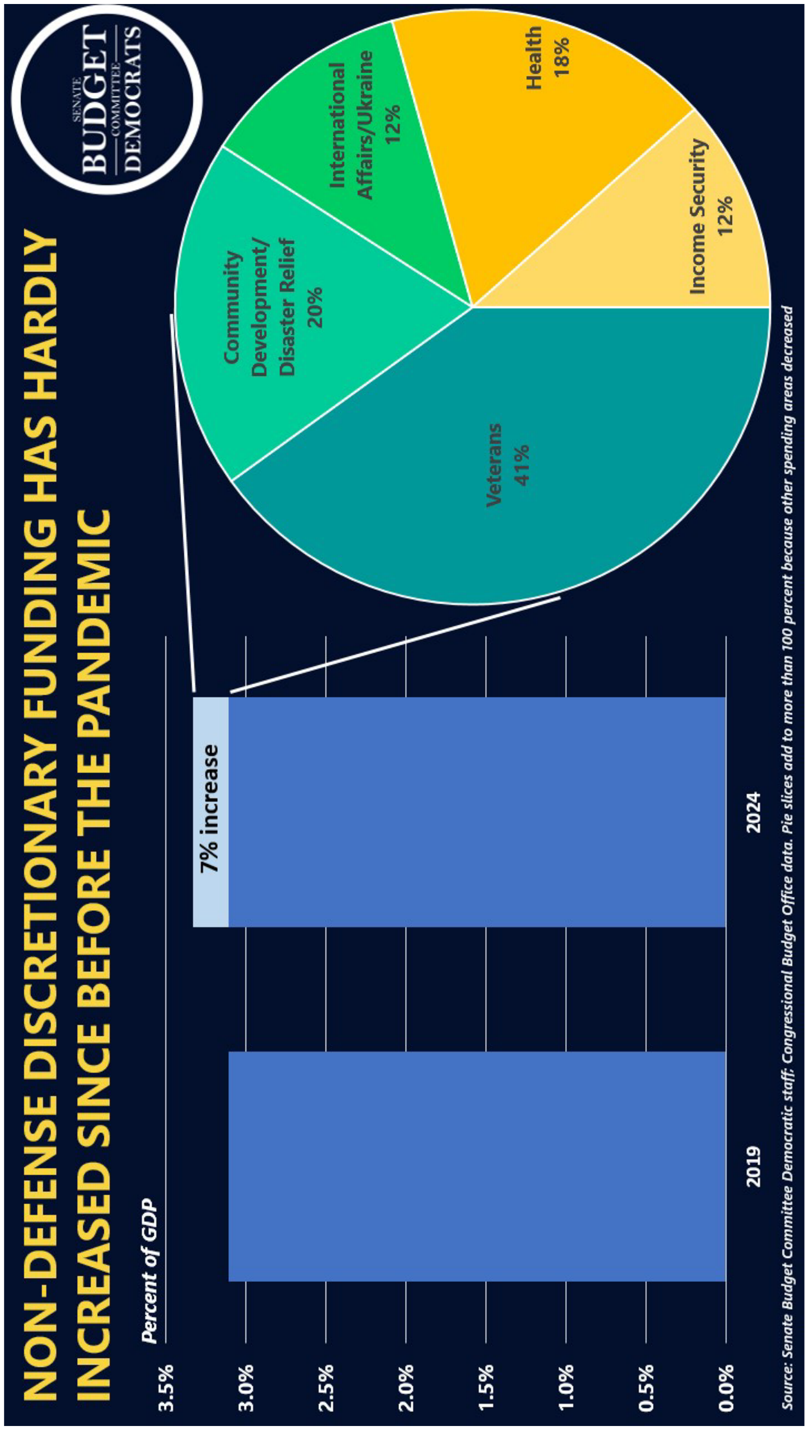
Under an illustrative scenario in which debt, rather than increasing each year in relation to the size of the economy, roughly stabilizes by the end of the projection period, primary deficits would need to be reduced by more than $5 trillion over the next 10 years, CBO estimates. Such a reduction in primary deficits could be achieved by increasing revenues or reducing spending by roughly $5 trillion or by implementing some combination of changes to spending and revenues that would have an equivalent effect on primary deficits.

To illustrate, consider the 17 policy options that CBO analyzed in December 2022 that would result in the largest deficit reductions.[32] Among those options were some (imposing a tax on consumption or imposing a new payroll tax, for example) that would raise revenues and some (such as setting Social Security benefits to a flat amount or establishing caps on federal spending for Medicaid) that would reduce spending.

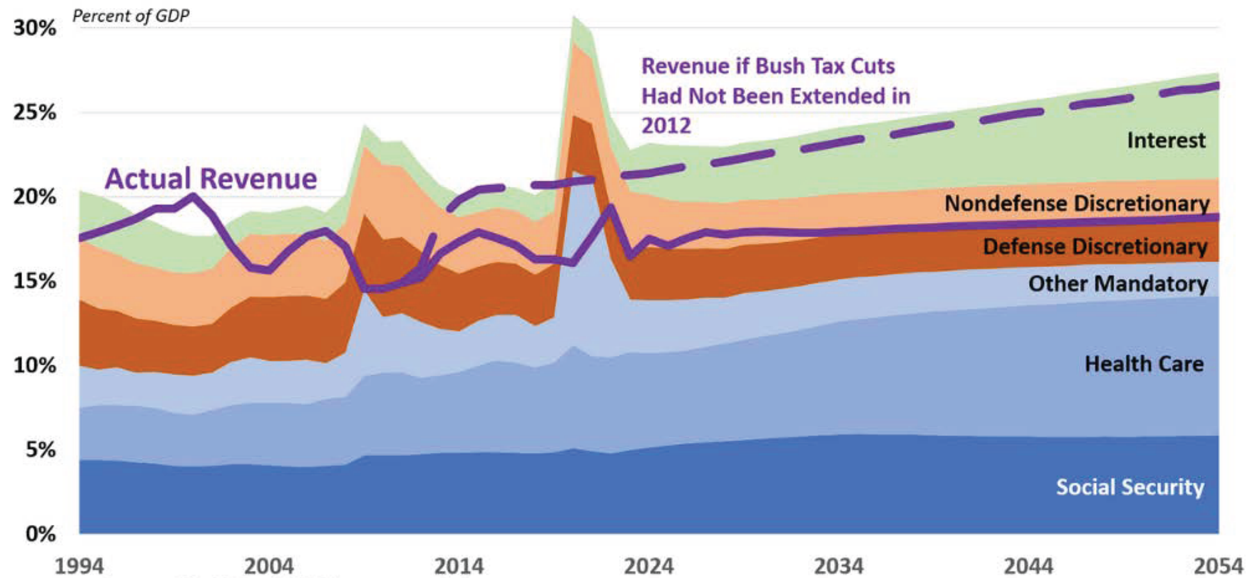
If each of those options reduced deficits by an average of a little more than $500 billion over the next 10 years, lawmakers could reduce primary deficits by more than $5 trillion over the next decade by implementing 10 of those options. Doing so would also reduce net interest costs over the period. As a result of those reductions, federal debt would be nearly stable by 2034. Even then, debt as a percentage of GDP would stabilize at a level close to its all-time high, which was recorded right after World War II. (The exact level at which debt would stabilize and the precise amount by which net interest costs would be reduced would depend on the specific options selected and when they were implemented.) To stabilize debt at its current level or to reduce it in relation to the size of the economy, larger reductions in primary deficits would be needed.

The options are intended to illustrate what would be involved in making changes of the size necessary to stabilize debt at the end of the projection period. Many other approaches to reducing deficits could be used.

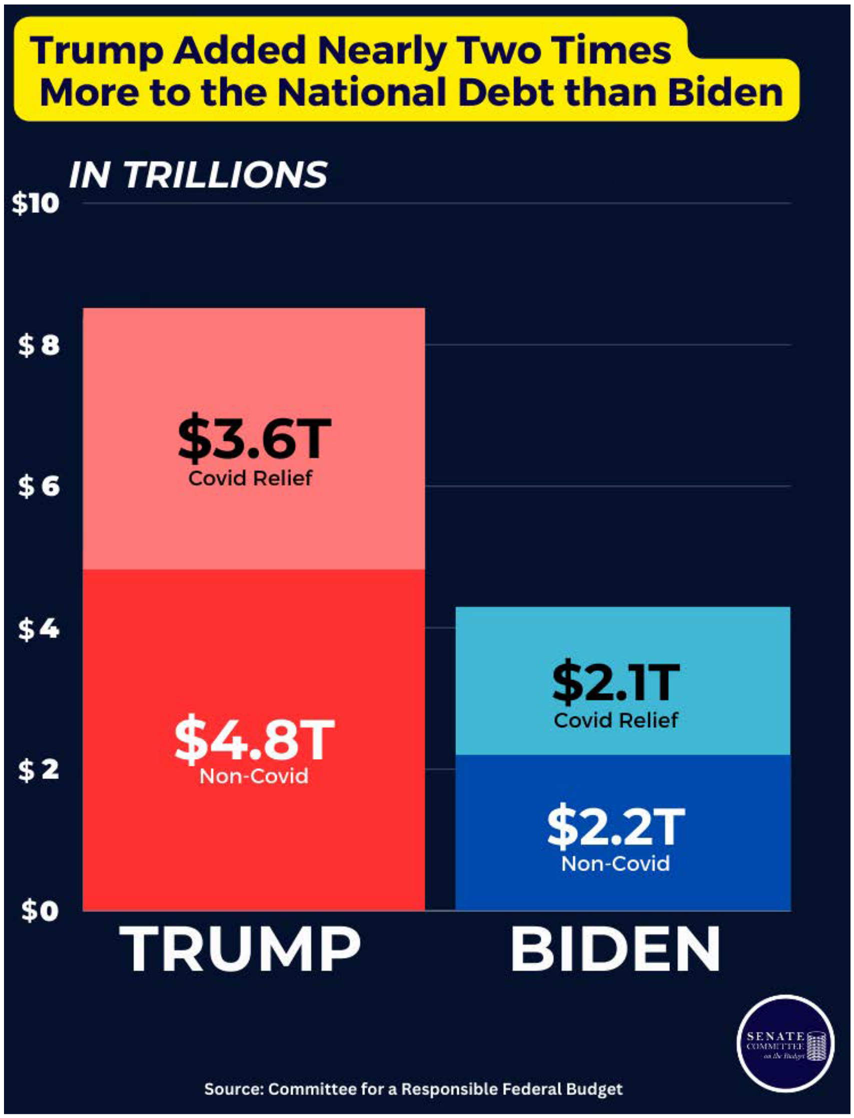
32. Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164. The estimates of the options' effects on deficits presented in that report were made relative to a previous baseline, so the estimated sizes of the deficit reductions may have changed; still, the options are useful for illustrative purposes.


NON-DEFENSE DISCRETIONARY FUNDING HAS HARDLY INCREASED SINCE BEFORE THE PANDEMIC
SENATE BUDGET COMMITTEE DEMOCRATS
Percent of GDP
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
2019
2024
7% increase
Community Development/ Disaster Relief 20%
International Affairs/Ukraine 12%
Health 18%
Income Security 12%
Veterans 41%
Source: Senate Budget Committee Democratic staff; Congressional Budget Office data. Pie slices add to more than 100 percent because other spending areas decreased

Changes in Revenues and Spending Since 1994



Source: CBO, 2012 and 2024 long-term outlooks.
Graph shows current law projections for revenue, which assume the Trump tax cuts expire (or are paid for)


Trump Added Nearly Two Times More to the National Debt than Biden
IN TRILLIONS
$10
$8
$6
$4
$2
$0
$3.6T
Covid Relief
$4.8T
Non-Covid
$2.1T
Covid Relief
$2.2T
Non-Covid
TRUMP
BIDEN
SENATE COMMITTEE on the Budget
Source: Committee for a Responsible Federal Budget

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