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

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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.

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

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

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.