

CREATING A CULTURE OF FISCAL
RESPONSIBILITY: ASSESSING THE ROLE
OF THE CONGRESSIONAL BUDGET OFFICE

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

HEARING HELD IN WASHINGTON, D.C., JANUARY 31, 2024

Serial No. 118-10

Printed for the use of the Committee on the Budget



Available on the Internet:
www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE

COMMITTEE ON THE BUDGET

JODEY C. ARRINGTON, Texas, *Chairman*

RALPH NORMAN, South Carolina	BRENDAN F. BOYLE, Pennsylvania,
TOM McCLINTOCK, California	<i>Ranking Member</i>
GLENN GROTHMAN, Wisconsin	BRIAN HIGGINS, New York
LLOYD SMUCKER, Pennsylvania	JANICE D. SCHAKOWSKY, Illinois
MICHAEL C. BURGESS, Texas	EARL BLUMENAUER, Oregon
EARL L. "BUDDY" CARTER, Georgia	DANIEL T. KILDEE, Michigan
BEN CLINE, Virginia	SCOTT H. PETERS, California
BOB GOOD, Virginia	BARBARA LEE, California
JACK BERGMAN, Michigan	LLOYD DOGGETT, Texas
A. DREW FERGUSON IV, Georgia	JIMMY PANETTA, California
CHIP ROY, Texas	JENNIFER WEXTON, Virginia
BLAKE D. MOORE, Utah	SHEILA JACKSON LEE, Texas
DAVID G. VALADAO, California	ILHAN OMAR, Minnesota,
RON ESTES, Kansas	<i>Vice Ranking Member</i>
LISA C. McCLAIN, Michigan	DAVID J. TRONE, Maryland
MICHELLE FISCHBACH, Minnesota	BECCA BALINT, Vermont
RUDY YAKYM III, Indiana	ROBERT C. "BOBBY" SCOTT, Virginia
JOSH BRECHEEN, Oklahoma	ADRIANO ESPAILLAT, New York
CHUCK EDWARDS, North Carolina	

PROFESSIONAL STAFF

GARY ANDRES, *Staff Director*
GREG WARING, *Minority Staff Director*

CONTENTS

Hearing held in Washington, D.C., January 31, 2024	Page 1
Hon. Jodey C. Arrington, Chairman, Committee on the Budget	1
Prepared Statement of	4
Hon. Brendan F. Boyle, Ranking Member, Committee on the Budget	7
Prepared Statement of	9
Hon. Sheila Jackson Lee, Member, Committee on the Budget, statement submitted for the record	12
Dr. Eric M. Leeper, Paul Goodloe McIntire Professor of Economics at the University of Virginia, Distinguished Visiting Scholar for the Mercatus Center at George Mason University, statement submitted for the record	15
Dr. Gary Adams, President and CEO, National Cotton Council, statement submitted for the record	18
Mr. Duane Schulthess, CEO, Vital Transformation, statement submitted for the record	20
Hon. Phillip Swagel, Ph.D., Director, Congressional Budget Office	23
Prepared Statement of	25
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	66
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	94
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	96
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	98
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	100
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	104
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	106
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	108
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	111
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	112
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	114
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	117
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	120
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	128
Hon. Michael Burgess, Member, Committee on the Budget, submission for the record	129
Questions submitted for the record	132
Answers submitted for the record	137

CREATING A CULTURE OF FISCAL RESPONSIBILITY: ASSESSING THE ROLE OF THE CONGRESSIONAL BUDGET OFFICE

WEDNESDAY, JANUARY 31, 2024

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

The Committee met, pursuant to call, at 10:03 a.m., in Room 210, Cannon Building, Hon. Jodey Arrington [Chairman of the Committee] presiding.

Present: Representatives Arrington, Norman, Grothman, Smucker, Burgess, Carter, Cline, Good, Bergman, Ferguson, Roy, Moore, Estes, McClain, Fischbach, Yakym, Brecheen, Edwards, Boyle, Higgins, Schakowsky, Blumenauer, Kildee, Peters, Doggett, Panetta, Jackson-Lee, and Balint.

Chairman ARRINGTON. Well, good morning. This hearing will come to order.

Welcome to the Committee on the Budget's hearing on oversight of the Congressional Budget Office. Today, we will hear testimony from the Honorable Phillip Swagel, the Director of the Congressional Budget Office. I want to yield myself now such time as I may consume to just frame this up for today.

We are going to conduct our constitutional and legal oversight responsibility, and I want everyone to understand that we haven't had an oversight hearing, which is our congressional and constitutional responsibility, in six years. In six years. So before I levy the constructive criticism on your operation and have constructively critical questions of you, I want to first take ownership of and speak to Congress' responsibility and oversight.

We have 40 percent, roughly, of our programs, departments, and agencies that have not been authorized that we continue to fund. That is a massive dereliction of oversight responsibility. We have a growing amount of improper payments, and what was \$150 billion a year prior to COVID is now \$230 billion a year. The authorizing committees, the Oversight Committee, the Budget Committee, we are not doing our job well in stewardship of tax dollars by allowing that improper payment number to continue to grow with very little done to bend the curve on that.

So, look, we passed a budget resolution out of this Committee for the first time in five years. I mean, a real budget resolution, not a shell for reconciliation. Both parties have done it. This isn't to shame any party. It is to say, we have got to set a better standard

for doing our job that the people sent us here to do and that the Constitution and the law requires.

So, CBO was created in 1974 in the Congressional Budget Act and the current budget process along with it, 50 years of this budget process. Phill, we look to make the changes necessary to give greater incentive for Members of Congress to do the right and responsible thing. That is underway. It is a bipartisan effort.

The mission of CBO, I am sure you will speak to this, but as I understand it, is to assist the Budget Committees, the House and Senate, with information and analysis so that we can conduct our legislative business. That is all legislation, appropriations, budget-related, authorizing legislation as well; and that you report to this Committee and to the Committee, the Budget Committee in the Senate. It is my understanding that the customer that utilizes your information, that trusts and relies on the objectivity and the accuracy of it, is Members of Congress, and we are doing the work of the American people. Their will is reflected in our lawmaking. So we have got to get the information analysis as accurate and as timely as possible for us to serve the American people well.

There are a host of factors that contribute to timeliness and accuracy, in my humble opinion. Methodology, making sure we understand what the methodology is. What is in the black box that spits out these scores and other analyses?

Outside input. What input do you rely on from other sources? Who are the other sources? Are they balanced in terms of their philosophical views and ideological views? Is there enough transparency for criticism and peer review from these entities, not the least of which would be our Committee and other Members of Congress?

How are you organized? Do you have the capacity to be timely? Do you have the resources? Do you have the expertise? Do you have metrics and goals? And do you have the incentives, carrots and sticks, to make sure that we are getting the right outcome out of CBO?

Reporting documents. How often do you report? Are they clear so that I can understand if we are off by a trillion dollars on the deficit that I don't have to go find an email buried in my stack of emails to learn of that? Is that something we are communicating directly about? Is that something that my Democrat colleagues and my Ranking Member also have in a timely way?

I have got to engage more. I am going to say that right now, you and I have to talk more. This Committee needs more time with you informally and formally. We are going to have more oversight hearings and we are going to work together to get this communication flow both ways working better than it has been over the last year. It is my first year. I plan to do a lot better.

Phill, we have got a plan. We have got a plan to deal with improper payments. We have got a plan to deal with getting our budget done on time. We have got a plan to focus on mandatory and not obsess over just the discretionary budget. We have a plan to hold authorizers accountable for unauthorized spending.

So we have got a plan to do better and we have to, but I need to understand what the plan is to do better at CBO because—and I know I am going over time here, so I am going to shut this down

because I don't want a revolt here on the dais, but it is not just the deficit off by over 100 percent and underreporting. GT Thompson sent a letter and you should read every Chairman's letter, but he said over the last ten years—it is just an example—the farm programs, the commodity programs, were overestimating in their spend 80 percent of the time. Not by 80 percent, 80 percent of the time. The nutrition program was underestimated over the last ten years 60 percent of the time, and I have just got a litany of your customers who are very concerned with those key objectives, timeliness and accuracy, without going through all of them that I have written down.

I know there will be time for questions, but I hope you will agree that we can do better. I am going to do my part, and I want you to hear today from my colleagues about their sentiments and their perception.

By the way, if you ask me or my mom, I am tall, dark, and handsome, and I do everything just perfectly, but the real question is, how do my colleagues here think I am doing? How do my Republican colleagues in the Steering Committee who elected me for this position think I am doing? How do my constituents?

Phill, the question is, how does your customer perceive you? Because for better or for worse, that is the job you are doing, and that is the job I am doing. I believe these guys are your customers, at a minimum, maybe I would say in this room, they are your customers, your shareholders, and your bosses, all of them.

So with that, I would ask my Ranking Member for his comments, as well, as much time as you may consume.

[The prepared statement of Chairman Arrington follows:]



CHAIR JODEY ARRINGTON

HOUSE BUDGET COMMITTEE

Chairman Arrington Opening Statement at “Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office” Hearing

January 31, 2024

As prepared for delivery

“Good morning, everyone. Director Swagel – thank you for joining us.

Today, we’re going to conduct our constitutional and legal Congressional oversight responsibility of the CBO – something that hasn’t happened in this Committee in over six years.

I believe this oversight authority has been undervalued and underutilized:

- 40% of programs are unauthorized
- Improper payments
- Not keeping a check on the Executive Branch

The Congressional Budget Act of 1974 created this Committee and our current budget process – including the Congressional Budget Office.

It established CBO’s mission of assisting the Budget Committee by providing information and analysis on legislation: authorizations, appropriations, and budget.

As Alice Rivlin, the first director of CBO, wrote in a memo to her staff in January of 1976: “CBO must be, and must be perceived to be, an objective, non-partisan organization *in the service of the Congress.*”

Let me emphasize that last point... “in the service of Congress.”

Lawmakers are your customers, and the House Budget Committee is your supervisor.

And it's our job to ensure CBO is providing accurate, timely, and accountable information and analysis to lawmakers so we can do our jobs well.

Let's talk about some of the success factors that drive the Congressionally-directed goals of accuracy, timeliness, and accountability:

Accuracy:

- How can you improve your methodology?
- Do you get external validation or peer review?
- Do you have the right internal team and expertise?
- Do you implement continuous improvement and assessment of mistakes?

Timeliness:

- Do you have the right organizational model?
- Do you have sufficient resources and capacity?
- Do you have metrics, goals, and incentives in place to track and reward prompt responses?
- And, have you and your leadership team developed a culture of urgency?

Accountability:

- How frequently do you communicate with stakeholders? Through what channels?
- What is your process for reporting to Congress?
- What transparency measures are in place to enforce a culture of accountability?
- What are you and your leadership doing to foster a culture of customer service?

As you and I have discussed, Director Swagel, there have been several troubling instances of inaccuracy from your Agency that call into question your Agency's methodology and modeling:

- FY23 deficit projection was off by \$1 trillion – the largest miss in CBO's history – ***you underestimated by over 100% the actual deficit, which is over 15% of our entire federal budget of \$6 trillion.***
- CBO underestimated TCJA revenues over six years by \$1 trillion.

- Inflation Reduction Act green energy subsidies were TRIPLE CBO's original estimate (\$1.2 trillion instead of \$391 billion).
- Inflation Reduction Act drug price negotiations – CBO predicts over ten years, only **one** fewer drug will come to market, while many outside analysts predict well over 50 fewer drugs coming to market.

In addition, today we'll review letters from several of my fellow Chairmen – and a common criticism in those letters is timeliness and responsiveness to Congress.

Given the fiscal state of our Nation, it has never been more important to ensure that CBO understands its Congressionally defined goals of accuracy, timeliness, and accountability.

And, Congress has an important role to play in exercising oversight of CBO so that our colleagues and the American people trust the CBO to provide accurate, timely, and accountable information and analysis.

Again, thank you Director Swagel for joining us this morning, and thank you to my colleagues for their commitment to exercising our oversight authorities in a civil, productive, and constructive way.

I now yield five minutes to my friend and colleague Mr. Boyle for his opening statement.”

Mr. BOYLE. Thank you, Mr. Chair, and thank everyone for being here, including our guest.

First, before I direct my comments to Mr. Swagel and talk about the Congressional Budget Office, first, I just want to share great news that should make all of us happy here, and I know it will. Headline from a publication not known to being friendly to this Administration: "U.S. Winning World Economic War." The first sentence, "The United States economy grew faster than any other large, advanced economy last year by a wide margin, and is on track to do so again in 2024."

Almost every day we are seeing headlines just like that and the economic data underlying it to support it, and that is all news that we can, as Americans, take great pride in.

Now, to the express purpose of today's hearing, I want to thank you, Dr. Swagel, as I have done a number of times in private, I want to thank you individually, but also the 270 or so staffers who you represent, fine public servants who perform an incredibly important function and do so with diligence and professionalism.

I also want to thank the Chairman for the fact that we are taking time today to conduct oversight of the Congressional Budget Office, talk about things that are working well and also things that we can improve. I would, however, urge caution to any colleagues today who intend to raise questions about CBO's impartiality, transparency, or the accuracy of their projections writ large.

The reality is, and you can look over the last several decades, CBO at times has both under projected and over projected deficits, under projected and over projected revenues, and released projections that were politically inconvenient to both Democrats and Republicans. I personally know that I think when CBO releases a projection that I agree with, you guys are doing a fantastic job, and when you release one I disagree with, that damn CBO, what are they thinking? I have a feeling all 435 Members of the House might find that rather familiar in what I just said.

It is impossible to 100 percent predict the future. The famous physicist Niels Bohr once said, "Predictions are hard to make, especially about the future." And certainly if there is someone here who had a way to predict, for instance, an unprecedented global pandemic or the Great Recession, well, I would love to speak to you before I get in my bet on this year's Super Bowl.

So the reality is this, despite the challenges of making predictions and despite not having a perfect record, time-in and time-out, CBO does high-quality work, but again, I am open toward ways that we can improve the process and ultimately improve the end product.

Toward that end, I am incredibly proud that just last week I introduced a bill, cosponsored by Chairman Arrington, that would help reduce the delays that CBO often suffers in receiving data that they need to support congressional decision-making, and frankly, this has been a chronic problem, whether it is a Democratic Administration or Republican Administration, and it is incumbent upon us in Congress to solve.

Speaking of the role of Congress and not CBO, we are going to talk today about a "culture of fiscal responsibility." Let's be clear. It is not the role of the CBO to inculcate a fiscally responsible cul-

ture. That is our job as Members of Congress. So let's not pass the blame or pass the buck onto the men and women of CBO for those instances in which this institution has failed.

So with that, I will pause here, give back the remaining 30 seconds of my time, and I thank you again, Dr. Swagel, and the men and women of the Congressional Budget Office.

[The prepared statement of Ranking Member Boyle follows:]

***Ranking Member Brendan F. Boyle
Hearing on Assessing the Role of the
Congressional Budget Office
Opening Remarks
Wednesday, January 31, 2024***

Thank you, Mr. Chair, and thank everyone for being here, including our guest. First, before I direct my comments to Mr. Swagel and talk about the Congressional Budget Office, first I just want to share great news that should make all of us happy here, and I know it will.

Headline from a publication not known to being friendly to this administration: U.S. Winning World Economic War. The first sentence: "The United States economy grew faster than any other large advanced economy last year, by a wide margin and is on track to do so again in 2024." Almost every day, we are seeing headlines just like that and the economic data underlying it to support it. And that is all news that we can, as Americans, take great pride in. Now, to the express purpose of today's hearing, I want to thank you, Mr. Swagel, as I have done a number of times in private. I want to thank you individually, but also the 270 or so staffers who you represent, fine public servants who perform an incredibly important function and do so with diligence and professionalism.

I also want to thank the Chairman for the fact that we are taking time today to conduct oversight of the Congressional Budget Office, talk about things that are working well and also things that we can improve. I would, however, urge caution to any colleagues today who intend to raise questions about CBO's impartiality, transparency, or the accuracy of their projections writ large.

The reality is, and you can look over the last several decades, CBO at times has both under-projected and over-projected deficits, under-projected and over-projected revenues, and released projections that were politically inconvenient to both Democrats and Republicans. I personally know that I think when CBO releases a projection that I agree with, you guys are doing a fantastic job. And when you release one I disagree with, that damn CBO,

what are they thinking? I have a feeling all 435 members of the House might find that rather familiar in what I just said.

It is impossible to 100 percent predict the future. The famous physicist Niels Bohr once said, "Predictions are hard to make, especially about the future." And certainly if there is someone here who had a way to predict, for instance, an unprecedented global pandemic, or the Great Recession, well, I would love to speak to you before I get in my bet on this year's Super Bowl.

So, the reality is this, despite the challenges of making predictions, and despite not having a perfect record, time in and time out, CBO does high quality work. But again, I am open toward ways that we can improve the process and ultimately improve the end product. Toward that end, I'm incredibly proud that just last week, I introduced a bill, cosponsored by Chairman Arrington, that would help reduce the delays that CBO often suffers in receiving data that they need to support Congressional decision making.

And frankly, this has been a chronic problem, whether it's a Democratic administration or a Republican administration, and it's incumbent upon us in Congress to solve. Speaking of the role of Congress and not CBO, we're going to talk today about a quote "culture of fiscal responsibility".

Let's be clear. It's not the role of the CBO to inculcate a fiscally responsible culture. That's our job as members of Congress. So let's not pass the blame or pass the buck onto the men and women of CBO for those instances in which this institution has failed. So with that I will pause here, give back the remaining 30 seconds of my time.

And I thank you again, Mr. Swagel and the men and women of the Congressional Budget Office.

Chairman ARRINGTON. Speaking of timeliness, my Ranking Member always likes to point out when he finishes his remarks in that 5-minute timeframe, so I appreciate that. I know my colleagues do.

Mr. BOYLE. A culture of responsibility.

Chairman ARRINGTON. For sure. It starts at the top, they say, right?

Okay. I appreciate the comments by the Ranking Member. In the interest of time, if any Members have opening statements, I ask that you submit them for the record. I will hold the record open until the end of the day to accommodate those Members who may not have prepared written statements.

[The information follows:]

SHEILA JACKSON LEE
18TH DISTRICT, TEXAS
COMMITTEES:

JUDICIARY
SUBCOMMITTEES:
Ranking Member
Crime, and Federal Government Surveillance
Immigration Integrity, Security, and Enforcement
Constitution and Limited Government

HOMELAND SECURITY
SUBCOMMITTEES:
Cybersecurity and Infrastructure Protection
Emergency Management and Technology
Counterterrorism, Law Enforcement, and
Intelligence

BUDGET COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515

CHIEF DEPUTY WHIP
DEMOCRATIC CAUCUS

VICE CHAIR
CONGRESSIONAL PROGRESSIVE CAUCUS

FOUNDER AND CO-CHAIR
CONGRESSIONAL CHILDREN'S CAUCUS

OSCE PA Ad Hoc Committee on Migration



CONGRESSWOMAN SHEILA JACKSON LEE, OF TEXAS

BUDGET COMMITTEE HEARING

**CREATING A CULTURE OF FISCAL RESPONSIBILITY:
ASSESSING THE ROLE OF THE CONGRESSIONAL BUDGET
OFFICE**

STATEMENT

**WEDNESDAY, JANUARY 31, 2024
210 CANNON**

9

- Thank you, Chairman Arrington and Ranking Member Boyle, for convening this hearing on Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office.
- Let me also welcome our witness, Phillip Swagel, Director of the Congressional Budget Office.

- Mr. Chairman, in 2018, House Budget Republicans held a series of five oversight hearings on the Congressional Budget Office – questioning CBO’s transparency, accuracy, impartiality and responsiveness to Congress.
- And although it is the Duty of the House Budget Committee to periodically review CBO’s operations to determine if improvements can be made, any real discussion of creating a culture of “fiscal responsibility” should begin with looking at House Republicans’ own failures in their first year in the majority.
- The Congressional Budget Office was created to give Congress direct access to budgetary expertise.
- Prior to the 1974 Congressional Budget Act, which created the CBO, Congress relied on the Executive Branch for most of its budgetary information.
- This put Congress at an informational disadvantage, since Executive Branch estimates were designed to enhance support for Administration policies.
- CBO provides a clear-eyed, independent look at policies and draws on research from a broad range of experts to develop its estimates, which strengthens Congress as an institution and a co-equal branch of government.
- CBO has provided high-quality information to Congress for 50 years under ten different Directors appointed by the House Speaker and the Senate President pro tem.
- CBO’s impartial analysis is used in every aspect of Congress’ work, from discussion of fiscal policy goals through the annual budget resolution to legislation moving through Congress.

- CBO staff are hired and promoted based on their qualifications to do their job, and without deference to any political party or ideology.
- CBO staff members have strong analytical skills and are very knowledgeable about their subject areas and frequently produce their work product under tight deadlines.
- They work closely with Committees to understand the intent of legislative language and to set workload priorities.
- If this committee is serious about improving CBO's operations, we should work on ensuring this agency has the resources it needs to be successful.
- And if House Republicans want to create "a culture of fiscal responsibility" they should start by looking at the Trump and Bush deficit-busting tax breaks, which added \$10 trillion to the debt– not at the hardworking men and women of CBO.
- Thank you.



TESTIMONY

IMPROVING CBO PROJECTIONS

ERIC M. LEEPER

*Paul Goodloe McIntire Professor of Economics, University of Virginia
Distinguished Visiting Scholar, Mercatus Center at George Mason University*

US Congress, House Budget Committee

Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office

February 2, 2024

The Congressional Budget Office (CBO) plays a key role in helping make fiscal policy decisions better. Its analyses are particularly strong in microeconomics and demographics. This comment focuses exclusively on the CBO's longer-term projections.

Whether by choice or by remit, CBO projections maintain the assumption that current law remains in effect over the projection horizon. This assumption is problematic for two reasons. First, it relegates projections to being accounting exercises rather than economic outcomes. Second, it provides decision makers with no information about how alternative policy choices would affect the likely trajectories of macroeconomic and fiscal variables.

ACCOUNTING VS. ECONOMICS

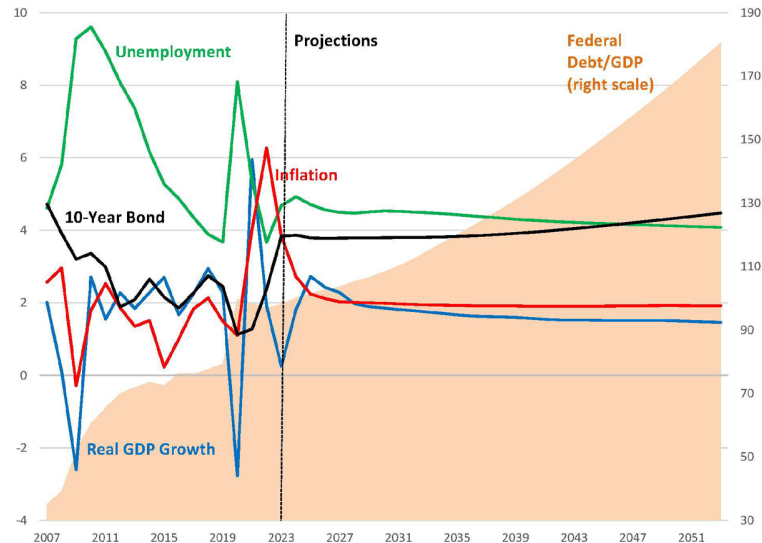
I call the projections “accounting exercises” to be descriptive, not to be derogatory. CBO first arrives at paths for a wide range of economic variables over the projection horizon. Each of these variables is an input to projected paths for federal outlays, receipts, and debt. Given projected outlays and receipts, an adding-up constraint—the federal government’s budget identity—yields the new value of debt-GDP required by current fiscal deficits, the stock of inherited debt, and interest payments on that debt. *By construction, there is no feedback from fiscal outcomes to economic variables.*

One result from this exercise appears in figure 1. From 2007 to 2023, the figure plots actual data for real GDP growth (blue line), inflation (red line), the unemployment rate (green line), the 10-year government bond yield (black line), and, on the right scale, privately held federal debt as a share of GDP (orange shaded area). From 2023 to 2053—to the right of the vertical dashed line—are projections of those variables. Notice that over the projection period, government debt climbs to 180 percent of GDP, a level never experienced in US history, while macroeconomic variables settle in at comfortable levels: output grows at 1.5 percent, unemployment is 4.1 percent, inflation is below 2 percent, and the 10-year bond rate is 4.5 percent.

FIGURE 1: ACTUAL AND PROJECTED ECONOMIC VARIABLES (LEFT SCALE) AND PRIVATELY HELD FEDERAL DEBT AS A PERCENTAGE OF GDP (RIGHT SCALE)

For more information or to meet with the scholar, contact
Mercatus Outreach, 703-993-4930, mercatusoutreach@mercatus.gmu.edu
Mercatus Center at George Mason University, 3434 Washington Blvd., 4th Floor, Arlington, Virginia 22201

The ideas presented in this document do not represent official positions of the Mercatus Center or George Mason University.



Source: Congressional Budget Office, *The 2023 Long-Term Budget Outlook*, June 2023.

What do we make of these projections? Two interpretations come to mind, with sharply different policy messages. The first interpretation, which may be the message the CBO intends to send, is that even if over the next 30 years the economy functions smoothly with no crises that raise fiscal needs, government debt as a share of the economy grows ever higher.¹ The message to policymakers is an emphatic: “Do something!”

A second interpretation, far more sanguine, is that even though debt is growing exponentially to unprecedented levels, nothing bad happens to the economy. The things people care about—income growth, employment, inflation, and interest rates—signal a healthy economy. Now the message is benign: “You don’t need to do anything. The path of government debt is irrelevant to the economic outcomes on which social well-being depends.”

That the CBO’s projections can lead to two polar-opposite messages to policy makers is a serious problem. The source of the problem lies in CBO’s methodology. Accounting exercises answer the question, “If we make this set of assumptions and government debt has to satisfy an adding-up constraint, what do those assumptions imply about the path of government debt?” The trouble with relying entirely on accounting is

¹ CBO used to extend projections to 75 years but now truncates them at 30 years. Their 2013 projections of debt-GDP reached 245 percent in 2088, but the 2013 projection had debt-GDP in 2053 at 140 percent rather than the 180 percent in figure 1. If we were to extrapolate current projections to the year 2098 the debt-GDP would be substantially higher than 245 percent.

that there's no check on whether the outcomes that the accounting exercise delivers could actually occur in the economy. That check comes from addressing an economic question instead of a purely accounting question. The economic question would be, "What set of policies for outlays and receipts would yield a stable debt-GDP ratio?" An alternative question might be, "What fiscal policies stabilize debt and maximize social welfare?"

Economic analysis imposes discipline on the accounting exercise by making explicit the private sector's willingness to hold government debt and the terms on which it's willing to hold that debt. Those terms have important implications for interest rates, inflation, and real economic activity. Clearly, social welfare depends on economic behavior.

INFORMING POLICY CHOICE

A second shortcoming of pure accounting exercises is that they cannot inform policy choices. To inform choices, decision makers need to understand the feedback from their choices of outlays and receipts, along with the implied levels of debt, to private-sector behavior. The interaction of private and government behavior determines the impacts of policy choices on the economic outcomes policymakers hope to achieve.

A simple example fixes ideas. Suppose Congress seeks to stabilize debt at 50 percent of GDP. CBO could produce a menu of spending and revenue combinations that take debt to 50 percent over a range of time horizons. For each spending-tax-time horizon mix, an economic analysis would generate the paths of macroeconomic variables that a model generates. The menu of policy options and projected outcomes can serve as a basis for policy debates by making clear the tradeoffs that each option entails.²

Debt-GDP is simply an example of a criterion that grounds the policy mixes. Congress could give CBO other criteria that correspond more closely to fiscal objectives. The point is that an economic analysis requires some criteria that underlie the selection of options in the menu.

CBO's maintained assumption that current law remains unchanged over the 30-year projection horizon forces the projections to embed policy behavior that may be—and frequently is—inconsistent with economic equilibrium. This is the source of the nonsensical economics. At the end of the projected horizon in the June 2023 report, net interest is almost 7 percent of GDP. This is twice the level of interest payments in the late 1980s/early 1990s, when Congress last undertook substantial fiscal consolidation. Historically, when the cost of financing debt gets high enough, Congress realizes it can no longer provide the policies that constituents most value, and Congress reforms policy. CBO projections enforce policy behavior at odds with historical policy behavior to render the projections of limited value to decision makers.

² Central banks around the world routinely perform this kind of exercise for monetary policy. The best analyses account for uncertainty about projections by generating probability bands around projected variables.

WRITTEN STATEMENT
Submitted to the House Budget Committee
for the Hearing -- *Creating a Culture of Fiscal Responsibility:*
Assessing the Role of the Congressional Budget Office
by
Gary M. Adams
National Cotton Council
February 2, 2024

I would like to thank Chairman Arrington, Ranking Member Boyle, and Members of the Committee for holding this important hearing to assess the work of the Congressional Budget Office (CBO). The National Cotton Council (NCC) welcomes the opportunity to present our views on the importance of the work of CBO.

The NCC is the central organization of the United States cotton industry. Membership includes cotton producers, ginner, merchants, marketing cooperatives, warehouses, textile manufacturers and cottonseed processors and merchandisers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from Virginia to California. The scope and economic impact extend well beyond the approximately 16 thousand farmers that plant between 10 and 14 million acres of cotton each year. The downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. Farms and businesses directly involved in the production, distribution and processing of cotton employ more than 115,000 workers and produce direct business revenue of more than \$22 billion. Annual cotton production is valued at more than \$5.5 billion at the farm gate, the point at which the producer markets the crop. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 265,000 workers with economic activity of almost \$75 billion. In addition to the cotton fiber, cottonseed products are used for livestock feed and cottonseed oil is used as an ingredient in food products as well as being a premium cooking oil.

As a trade association representing a segment of U.S. agriculture, our industry is keenly focused on reauthorization of the broad-based legislation authorizing commodity safety-net programs, crop insurance products, conservation programs, and nutrition programs, just to highlight a few of the key components. That legislation, known as the Farm Bill, is of critical importance to the U.S. cotton industry. We acknowledge the monumental task facing CBO in terms of accurately evaluating the budgetary implications of a wide variety of policy options. We also must stress the critical implications of CBO's work as those budget estimates often determine which policy options are included in the final bill. Whether directly or indirectly, policies authorized in the Farm Bill affect not only every person in the United States, but the broader international population through U.S. agriculture's ability to feed and clothe the world.

For these reasons, it is critical that CBO enhance the transparency of its baseline process and budget estimates developed relative to that baseline. Specifically, more clarity is needed regarding

assumptions made with regard to assessing alternative policies. It is often the case that only topline budget impacts are made public without a clear explanation of the assumptions and methodologies used to arrive at the reported impacts. A clearer view of the assumptions and methodology will build confidence in the budget estimates.

In addition, a more thorough review of baseline assumptions and the baseline development process is needed in order to lessen the chances of the eventual baseline being impacted by erroneous assumptions. We have seen firsthand the impact of baseline assumptions on scoring during the current farm bill debate. A key assumption in the May 2023 baseline that was out of line with recent historical data affected the calculation of the price for seed cotton and inflated the costs of alternative policy options for that commodity.

We fully appreciate the balance that CBO must maintain between developing objective estimates while still seeking input from stakeholders across U.S. agriculture. However, the two outcomes need not be mutually exclusive, and CBO is encouraged to increase their outreach to industry participants that have day-to-day knowledge of agricultural markets and the potential implications of alternative policies.

Finally, greater due diligence and transparency may not be fully realized without additional budget resources to add analysts. We urge Congress to provide CBO with the resources necessary to provide reliable and transparent projections and budget impacts.

Thank you for the opportunity to present these comments.

To: Members, House Committee on the Budget

Re: Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office

Dear Committee Members:

Thank you for the opportunity to contribute comments to this session. We at Vital Transformation (VT) are particularly focused on health care policy and conduct data driven analyses of its impacts on the biopharmaceutical industry and the nation. We previously offered comments expressing our concerns with the CBO's modelling of the impacts of the IRA contained in a [letter addressed to CBO director Swagel](#) on November 20, 2023.

Our concerns can be distilled into several key points. Many of these have previously been articulated publicly, and others have been since refined given the mounting evidence that continues to collect regarding the IRA's impacts.

Perhaps of fundamental concern is that CBO models the impact of the IRA drug price negotiations in the aggregate. To the contrary, it is our [documented opinion](#) that the impact of the IRA negotiations will fall squarely on only a limited set of firms having the most successful products that 'carry the water' for an outsized portion of biopharmaceutical R&D. This is a classic Pareto curve, where 20% of successful products fund 80% of R&D.

The impacts of the IRA will also be magnified for those firms targeting small molecule drugs which are to be negotiated at year 9. [Our research](#) has shown that sales of small molecule drugs traditionally peak at 15 years after FDA approval, roughly in line with the incentives of Hatch Waxman. Restricting peak sales to 9 years means that a net present value (NPV) calculation is reduced by roughly 40 to 50 percent, depending on the drug being negotiated. Such a reduction is having a chilling impact on the willingness of investors to target those small molecule drugs which are dependent upon Medicare for their profits.

The CBO predicts that the overall loss in therapies developed due to the IRA will only be 1% of the total over 30 years, 15 of a predicted 1,300. This total has been widely disseminated by the media, and touted as evidence that the IRA's impact on drug discovery will be minimal. However, what has been less discussed is the [CBO's accompanying statement](#) in that analysis which states, "CBO did not predict what kind of drugs would be affected."

In the U.S. House Budget Committee Health Care Task Force meeting on October 17th, in which VT participated, CBO Director Swagel confirmed that: 1) CBO's model assumes that companies will alter their portfolio to minimize R&D exposure to drugs likely to be heavily dependent upon Medicare for their revenues, and 2) CBO expects that manufacturers will set higher initial prices to offset IRA negotiation losses.

Addressing the latter point, new therapies are already priced to maximize their profitability. We find no logical reason to assume that there is any scope to further raise launch prices; there are finite resources available for insurance, and the market does not allow unlimited upward pricing.

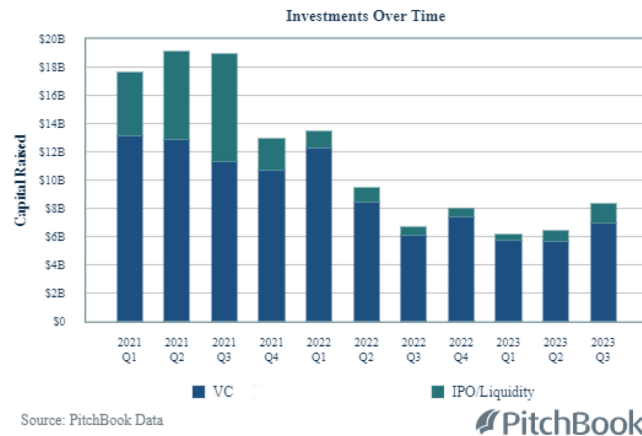
However, it is the first point that is far more troubling, particularly given the fact that the CBO did not investigate IRA's impacts at the level of indication classes. CBO's assumption that IRA's impacts will be partially mitigated by substitution of R&D away from the Medicare aged population has never been articulated clearly to the voting public. It is highly likely that public opinion, which currently favors the IRA, would shift radically if this fact became apparent.

As well, CBO's model ignores the enormous loss in revenues for IRA negotiated drugs, and the role these play on future drug development. The reduction of meaningful sales which are highly impactful upon a product's NPV, whether those reductions occur at 9 or 13 years, creates enormous uncertainties for investors. From where will these funds required to underwrite new drug development materialize?

Biopharma industry thought leaders [Peter Kolchinsky](#), [Steve Potts](#), and [John LaMattina](#) have stated they are avoiding investing in therapies that would be overly reliant upon Medicare due to the IRA. However, on December 22nd, the CBO was quoted in [STAT](#) saying, "[T]here is currently no evidence of a systematic decrease in the percentage of venture capital flowing to pharmaceutical companies after August 2022—or in the period immediately preceding the law's enactment (when there was probably some public awareness of its provisions)."

We find CBO's statement completely unsupportable by the evidence.

On December 23rd, 2023, Vital Transformation retrieved data of all U.S. biopharmaceutical venture capital deals with a value below \$2 billion (essentially capturing venture capital (VC) and mid-tier investments). As presented below, the data is actually quite shocking.



Since the introduction of the Build Back Better Act in June of 2021, U.S. venture capital has seen a drop of over 50%, and IPOs have seen a drop in excess of 70%. Further, according to [Pitchbook](#), “38% of VCs disappeared from dealmaking in 2023.”

‘Smart money’ is eponymously called as such for a reason. Investors and drug developers have stated that they’re altering their investment strategies to avoid the impacts of the IRA, and American citizens who will enter Medicare in the next decade will likely see a large decline in needed new therapies. To quote biotech entrepreneur [Steve Potts](#), “What happened to all this great innovation we had in small molecules? They’re going to see a ten-year gap.”

In conclusion, whilst our assessment of the aggregate financial impact of the IRA is in line with that of the CBO, we diverge strongly in the interpretation of its consequences. The IRA will not only reduce the ‘costs’ of branded medicines after 9 and 13 years, but it will also ensure that fewer and fewer therapies are developed for the Medicare aged population at a time when effective therapies will be needed to reduce the costs of treating an increasingly elderly population.



Chairman ARRINGTON. Now let's turn it over to Director Swagel. Again, thank you for your time. I won't go through your resume, but it is awfully impressive: Federal Reserve, the Council of Economic Advisors, think tanks, higher education, and now second term at CBO. We appreciate you being here, and the floor is yours for five minutes.

**STATEMENT OF THE HONORABLE PHILLIP SWAGEL,
DIRECTOR, THE CONGRESSIONAL BUDGET OFFICE**

Dr. SWAGEL. Thank you. Chairman Arrington, Ranking Member Boyle, Members of the Committee, thank you for inviting me to testify about the work of—

Chairman ARRINGTON. Dr. Swagel, turn that. Yeah, if you would. Thank you.

Dr. SWAGEL. Will do. Thank you for inviting me to testify about the work of the Congressional Budget Office. We are here to support you, to support the Congress, and oversight is a key part of that, of making sure that we are supporting you as you need us to do.

I will focus in my testimony on the accuracy of our deficit projection, but then I look forward to answering questions on any topic. So compared with our May 2022 projections we underestimated outlays for Fiscal Year 2023 by \$564 billion, or nine percent, and we overestimated revenues by \$477 billion, which is 11 percent. So together, that is the trillion-dollar miss, so to speak.

This underestimate of the deficit was about four times greater than our average miss. So let me go through the largest factors affecting that accuracy, and the largest factors were actions taken by the Administration after our projections were made.

So about \$125 billion of the underestimate of outlays reflected student loans. So this is the cost of modifications, the income-driven repayment plan, and an extended pause in repayment and interest accrual. \$60 billion on the outlay side was unusual outlays from the Federal Deposit Insurance Corporation, the FDIC, associated with the resolution of four bank failures. There was another \$40 billion associated with those failures, so a total of \$100 billion, but there is a sense in which the \$40 billion was, you know, the normal way they respond to a bank failure and \$60 billion was unusual. There is \$170 billion of the outlay miss resulted from our estimates of net interest spending being too small, and this is on us, that our interest rate projections were too low.

Then there are lots of other things. \$50 billion was from other effects of our economic projections. For example, we underestimated Social Security outlays because our inflation estimate was too low, and then there is the Employee Retention Tax Credit, which affects both outlays and revenues.

Now, the staff of the Joint Committee on Taxation is responsible for estimates of tax policies, and when that legislation was put into effect, they estimated that the credit, the ERTC, would have budgetary effects in 2020, 2021, and 2022, but no effect in 2023. So in our May 2022 baseline, we had nothing for the ERTC. The costs of the ERTC in 2023 were large, over \$100 billion between outlays and revenues, and it looks to continue into the current year.

On the revenue side, there are actions taken by the Administration that totaled \$120 billion that delayed tax revenues from 2023 into 2024. This is the delays in payments for people affected by disasters in California, for example, and then there are delays in the implementation of guidance for the minimum corporate tax.

I mentioned already the ERTC on the revenue side, that was about \$70 billion, and then \$40 billion on the revenue side was, again, our interest rate projections, affecting our projections of remittances from the Fed.

There is lots more, but the overall point is that some of the miss is our miss, our inflation forecast, our interest rate forecast, and some of it is actions taken after our projections were done that I think we reasonably could not have anticipated.

Now, each month in our monthly budget review, we provide an update on how outlays and revenues compare with the amounts in the previous year, and so we regularly discuss how outcomes differ compared to, you know, to our projections.

We will release new projections next Wednesday, and I will just mention a couple of things, that the deficit was going to be smaller because of the Fiscal Responsibility Act and the subsequent continuing resolutions. On the other hand, net interest costs are going to be higher, interest rates have gone up, and then the one that is relevant here is that the tax provisions from the 2022 reconciliation bill, those costs are going to be much higher than we had originally because the market has changed, the implementation is different than what the Joint Committee on Taxation expected. So that is just another example of administrative actions that affect our projections.

So let me stop and say, Mr. Chairman, Mr. Ranking Member, I am happy to be here and to answer questions on any topic.

[The information follows:]

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



TESTIMONY

The Accuracy of CBO's Recent Baseline Projections

Phillip L. Swagel
Director

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

JANUARY 31 | 2024

Chairman Arrington, Ranking Member Boyle, and Members of the Committee, thank you for inviting me to testify about the work of the Congressional Budget Office. You asked specifically about the accuracy of our projection of the deficit, so I will focus these remarks on that topic, and then I look forward to answering questions you may have on that topic and any others.

Each winter, we issue a report about the accuracy of our budget projections for the most recent fiscal year compared with the estimates we made before that year began.¹ In that analysis, we remove the effects of legislation enacted during the year and make other adjustments to focus on how accurate the projections were.² Compared with our projections for 2023 made in May 2022 (after those adjustments), actual outlays were underestimated by \$564 billion (9 percent), and revenues were overestimated by \$477 billion (11 percent).

Our underestimate of the 2023 deficit in May 2022 was unusually large, equaling 3.9 percent of gross domestic product (GDP). From 1985 to 2022, for the first fiscal year in our projections, our average absolute error (that is, the average of the errors without regard to whether they are overestimates or underestimates) was 1.1 percent of GDP.³ During that period, we overestimated the deficit two-thirds of the time, and we underestimated it one-third of the time, as we did last year.

Accuracy for Fiscal Year 2023

The largest factors affecting the accuracy of our projections of outlays and revenues for 2023 were actions by the Administration that occurred after the projections were made (see Figure 1). In general, after a law is enacted and incorporated into our baseline, we do not predict that any other policy changes will occur. When

an agency publishes a proposed regulation in the *Federal Register*, we incorporate a probability (often 50 percent) into the baseline that the rule will be implemented. That probability reflects the uncertainty about whether and how the rule ultimately will be carried out. In each baseline update, we account for newly finalized regulations and other administrative actions that are substantively different from what was previously expected.⁴

The next largest factors affecting the accuracy of our projections of outlays and revenues were underlying economic projections. Like all forecasters, we face inherent difficulties in predicting interest rates, inflation, and other economic variables.⁵ In addition, to provide a basis for the production of budget projections, our economic projections are generally finalized about two months before our budget projections are published. At the time they are finalized, our forecasts are typically similar to those of other forecasters. When economic conditions are changing rapidly, as they were in the spring of 2022, that difference in timing can contribute to inaccuracy.

For outlays, four factors account for about five-sixths of the total underestimate:

- **Administrative actions affecting student loans and deposit insurance.** Roughly \$125 billion of the total underestimate was the result of costs recorded by the Department of Education for modifications it made to the terms of outstanding student loans after we completed our May 2022 projections. The largest modifications were substantial changes to income-driven repayment plans and an extended pause in loan repayment and interest accrual.⁶ And roughly \$60 billion of the total underestimate stemmed from unusual outlays for the Federal Deposit Insurance Corporation (FDIC) to facilitate the resolution of four bank failures that occurred during fiscal year

1. For that series of reports, see Congressional Budget Office, "Major Recurring Reports, Accuracy of CBO's Baseline Projections," www.cbo.gov/about/products/major-recurring-reports#22.

2. Because of their unusual size and nature, the estimated budgetary effects of the Supreme Court's June 2023 decision prohibiting the Administration's planned cancellation of outstanding student loans for many borrowers were excluded from the analysis presented in this testimony. For details, see Congressional Budget Office, *The Accuracy of CBO's Budget Projections for Fiscal Year 2023* (December 2023), Box 1, www.cbo.gov/publication/59682.

3. For reports about the accuracy of CBO's projections of outlays, revenues, deficits, and debt, see Congressional Budget Office, "Accuracy of Projections," www.cbo.gov/topics/budget/accuracy-projections. Up-to-date data on the history of those projections and actual outcomes are available on GitHub (<https://github.com/US-CBO/eval-projections>).

4. See Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), www.cbo.gov/publication/58916.

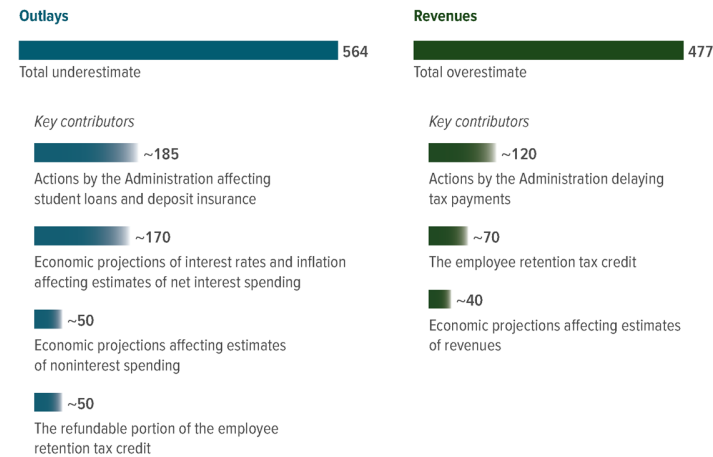
5. For a series of reports on the accuracy of CBO's economic forecasts, see Congressional Budget Office, "Major Recurring Reports, Economic Forecasting Record," www.cbo.gov/about/products/major-recurring-reports#7.

6. For information about the changes to income-driven repayment plans at the time they were proposed, see Congressional Budget Office, letter to the Honorable Virginia Foxx and the Honorable William Cassidy, M.D., regarding costs of the proposed income-driven repayment plan for student loans (March 13, 2023), www.cbo.gov/publication/58983.

Figure 1.

Currently Identified Key Factors Accounting for CBO's Underestimate of the 2023 Deficit

Billions of dollars

Data source: Congressional Budget Office. See www.cbo.gov/publication/59905#data.

* = A rough approximation.

2023.⁷ Those outlays resulted from a note issued by the FDIC to the Federal Financing Bank in exchange for cash flows from a purchase money note issued to the FDIC receivership by J.P. Morgan Chase Bank and from the FDIC's decision to insure deposits above the statutory limit of \$250,000.⁸

7. For information about the topic when the first payments by the FDIC occurred, see Congressional Budget Office, *Monthly Budget Review: March 2023* (April 2023), www.cbo.gov/publication/58995.

8. In addition to the unusual outlays for its administrative actions, the FDIC spent \$40 billion more than we projected it would in May 2022 related to its typical role in resolving bank failures. For some baseline projections, including those for deposit insurance, we incorporate a probability that outlays related to typical but uncertain activities will occur. Thus, the baseline projection includes our estimate of the average amount of outlays over time in the future and is updated with actual amounts as they occur. However, in years that significant bank failures occur, as they

These administrative actions by the Department of Education and the FDIC account for roughly one-third of the underestimate of outlays.

- **Economic projections affecting estimates of net interest spending.** Roughly \$170 billion of the total underestimate resulted from the effects of economic projections on our estimates of net interest spending. Interest rates in 2023 were higher than we anticipated in March 2022, when we finalized the economic forecast underlying our May 2022 baseline budget projections. Specifically, we anticipated that in 2023, the interest rate on 3-month Treasury bills would

did in 2023, the FDIC's actual outlays will substantially exceed the amount in the baseline. For further discussion of how we incorporate probability into our estimates, see Congressional Budget Office, *Estimating the Cost of One-Sided Bets: How CBO Analyzes the Effects of Spending Triggers* (October 2020), www.cbo.gov/publication/56698.

average 1.8 percent and that the interest rate on 10-year Treasury notes would average 2.8 percent; those rates actually averaged 4.8 percent and 3.8 percent, respectively. Compared with the forecasts in the May 2022 *Survey of Professional Forecasters*, ours were at the lower end of the middle two-thirds range. Between the time the economic projections were finalized in March and the time our budget and economic projections were published in May, many forecasts of interest rates had moved up—although almost no forecasters predicted that rates would be as high as they turned out to be (see Figure 2, left column). In addition, inflation in 2023 was also higher than we anticipated when our forecast was finalized in March 2022, causing underestimates of spending on Treasury securities indexed to inflation. Altogether, economic projections affecting net interest spending account for roughly 30 percent of the underestimate of outlays.

- **Economic projections affecting estimates of noninterest spending.** Roughly \$50 billion of the total underestimate resulted from the effects of economic projections on estimates of noninterest spending. Estimates for many categories of spending were slightly lower than actual amounts, as exemplified by our \$28 billion underestimate of Social Security spending: Social Security provides annual cost-of-living adjustments (COLAs) based on changes in the consumer price index for urban wage earners and clerical workers (CPI-W).⁹ The primary reason for the underestimate was that inflation in 2022 as measured by the CPI-W—and thus the COLA for 2023—was greater than we had forecast. Altogether, economic projections affecting estimates of noninterest spending account for roughly 10 percent of the underestimate of outlays.
- **The employee retention tax credit (ERTC).** Roughly \$50 billion of the total underestimate of outlays resulted from the effects of the ERTC. This provision affects outlays because the credit is refundable, as well as revenues. The credit applies to certain wages paid in 2020 and 2021 by employers that were subject to a governmental order restricting their business operations or that experienced a significant decline in revenues during the coronavirus pandemic. When the laws establishing and modifying the credit

9. In our projections, the CPI-W grew at the same rate as the measure shown in Figure 2, the consumer price index for all urban consumers (CPI-U).

were enacted, the staff of the Joint Committee on Taxation (JCT) estimated that the ERTC would have budgetary effects in fiscal years 2020 through 2022 but no effect in 2023. Correspondingly, in the May 2022 baseline, we also projected that the budgetary effects would end in 2022. In 2023, however, those effects continued.¹⁰ The misestimate of the ERTC's effects accounts for roughly 10 percent of the underestimate of outlays.¹¹

Other developments that are difficult to predict also affected the accuracy of CBO's outlay projections. For example, receipts from an auction by the Federal Communications Commission of licenses for commercial use of the electromagnetic spectrum (which are recorded in the budget as reductions in mandatory outlays) came in sooner than expected—in 2022 rather than 2023. And some outlays from the Pension Benefit Guaranty Corporation's special financial assistance program for financially troubled multiemployer pension plans were made later than CBO anticipated—in 2023 rather than in 2022.

For revenues, the decline from the previous year was unusually large. The specific factors contributing to the overestimate of revenues will be better understood as more detailed tax information becomes available over the next two years. At this point, we have identified three factors that probably account for about half of the overestimate:

- **Administrative actions delaying tax payments.** Roughly \$120 billion of the total overestimate resulted from administrative actions. The Internal Revenue Service (IRS) postponed deadlines for payments that typically would have been due throughout fiscal year 2023 until 2024 for taxpayers affected by natural disasters, including most taxpayers in California.¹² Additionally, the IRS granted relief from penalties arising from the new alternative minimum tax for corporations until
10. For initial discussion of the ERTC's effects on outlays, see Congressional Budget Office, *Monthly Budget Review: December 2022* (January 2023), www.cbo.gov/publication/58862.
11. For additional discussion, see Congressional Budget Office, *The Accuracy of CBO's Budget Projections for Fiscal Year 2023* (December 2023), Box 2, www.cbo.gov/publication/59682.
12. For initial discussion of the postponed deadline's effects, see Congressional Budget Office, *Monthly Budget Review: September 2023* (October 2023), www.cbo.gov/publication/59544.

the agency finalized the necessary guidelines and regulations, effectively allowing businesses a longer period to make initial payments. We now estimate that some collections that would have occurred in fiscal year 2023 have been pushed into fiscal year 2024. Administrative actions account for roughly 25 percent of the overestimate of revenues.

- **The employee retention tax credit.** Roughly \$70 billion of the total overestimate resulted from the ERTC's effects on revenues. The fact that those effects extended into 2023 resulted in an unanticipated reduction in income tax receipts that year in addition to the effects on outlays discussed earlier.¹³ This factor accounts for roughly 15 percent of the overestimate of revenues.
- **Economic projections affecting estimates of tax revenues.** Roughly \$40 billion of the total overestimate resulted from economic projections. Taxable incomes, including wages and profits, were modestly higher than CBO projected in May 2022. But higher-than-expected short-term interest rates resulted in a steep drop in remittances from the Federal Reserve, and lower-than-expected asset values in 2022 resulted in smaller realizations of capital gains and taxable withdrawals from retirement accounts. On net, economic projections account for roughly 10 percent of the overestimate of revenues.

In February 2023, we substantially improved the accuracy of our budget projections after we (and most other forecasters) boosted our forecasts of interest rates and inflation (see Figure 2, right column).¹⁴ In addition, accounting for administrative actions after they occurred and making other updates in February 2023 and May 2023 also improved our projections.¹⁵

Each month, as the fiscal year progresses, we provide an update on how outlays and revenues compare with the

amounts the previous year.¹⁶ Although we do not project budgetary outcomes month by month, we do discuss how outcomes for the current fiscal year compare with our recent projections. For example, in May 2023, we indicated that the receipts collected through April, net of refunds, were about \$250 billion less than we had anticipated three months earlier.¹⁷

Improving Accuracy Over the Next Decade

Looking beyond fiscal year 2023, some of the projections from May 2023 will be substantially revised in the *Budget and Economic Outlook* that we will publish next week.¹⁸ Projected deficits will be smaller primarily as a result of the Fiscal Responsibility Act of 2023 and the Further Continuing Appropriations and Other Extension Act, 2024, which reduced the growth of discretionary spending. Projected deficits will also be smaller because of greater projected wages and profits and lower projected inflation.

Partially offsetting those reductions in deficits are two key factors, similar in nature to some of the factors that affected the 2023 results: Net interest costs are projected to be greater because of higher interest rates, and some changes resulting from administrative actions and market developments will add to projected deficits. For example, we are now projecting that several developments affecting energy-related tax provisions, many of which were part of the 2022 reconciliation act, will add about \$400 billion to the deficit over the 2024–2033 period. That law was enacted in August 2022, and our May 2023 baseline projections incorporated cost estimates that were prepared by JCT at the time of enactment.

The largest part of the roughly \$400 billion change results from a rule proposed by the Environmental Protection Agency after those baseline projections were finalized that would change standards for vehicle emissions. The rest of the change reflects market developments that increased our projections of the rate of adoption of technologies eligible for tax credits and

13. For initial discussion of the ERTC's effects on revenues, see Congressional Budget Office, *Monthly Budget Review: August 2023* (September 2023), www.cbo.gov/publication/59474.

14. For discussion of how updates to the economic forecast affected the budget, see Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033* (February 2023), Appendix A, www.cbo.gov/publication/58848.

15. For that series of reports, see Congressional Budget Office, "Major Recurring Reports, Budget and Economic Outlook and Updates," www.cbo.gov/about/products/major-recurring-reports#1.

16. For that series of reports, see Congressional Budget Office, "Major Recurring Reports, Monthly Budget Review," www.cbo.gov/about/products/major-recurring-reports#9.

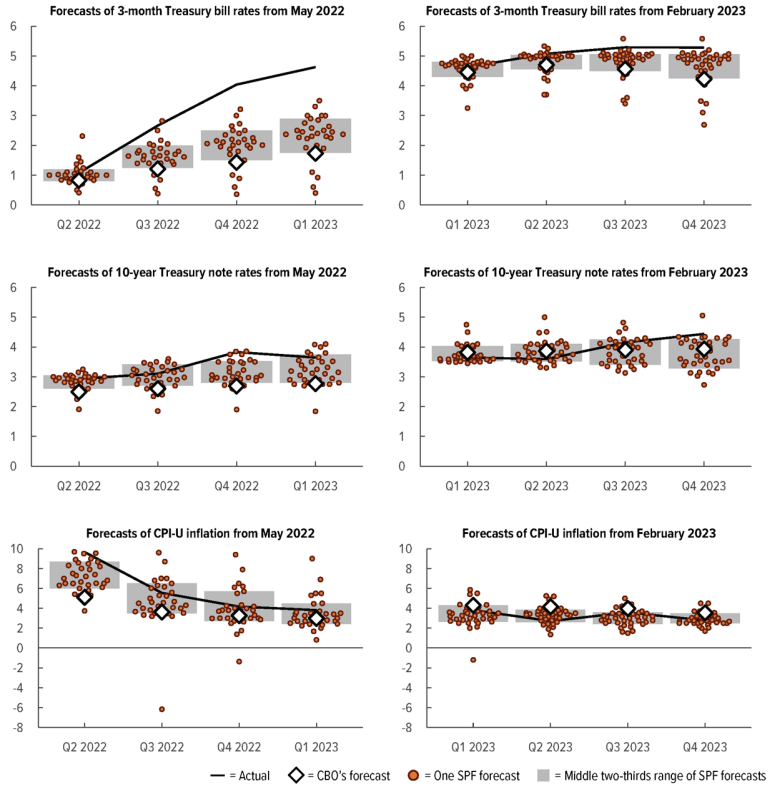
17. See Congressional Budget Office, *Monthly Budget Review: April 2023* (May 8, 2023), www.cbo.gov/publication/59053.

18. See Deborah Kilroe, "CBO to Release Budget and Economic Outlook on February 7," *CBO Blog* (January 18, 2024), www.cbo.gov/publication/59898.

Figure 2.

Forecasts From CBO and the *Survey of Professional Forecasters* Compared With Actual Outcomes

Percent



Data sources: Congressional Budget Office, forecasts published in May 2022 (finalized March 2, 2022) and in February 2023 (finalized December 6, 2022); Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters: Second Quarter 2022* (May 13, 2022), <https://tinyurl.com/2p87b3y>, and *Survey of Professional Forecasters: First Quarter 2023* (February 10, 2023), <https://tinyurl.com/y2xctkwk>. See www.cbo.gov/publication/59905#data.

Each of the data points represents a forecast made by one of more than 30 respondents in the *Survey of Professional Forecasters*. The middle two-thirds range omits the top one-sixth and the bottom one-sixth of the forecasts.

Quarterly CPI-U inflation is measured from one quarter to the next quarter and is expressed as an annual rate.

Interest rates are quarterly averages.

CPI-U = consumer price index for all urban consumers; SPF = *Survey of Professional Forecasters*.

implementation guidance from the Treasury Department that has been more generous to taxpayers than JCT anticipated in the original estimates for the legislation; those changes are consistent with JCT's recent estimates of energy-related tax expenditures, reflecting greater use of electric vehicle tax credits than previously projected.¹⁹ Projections about the budgetary effects of energy-related tax provisions remain highly uncertain. Many factors, including the pace of adoption and deployment of low-emissions technologies and electric vehicles, as well as future administrative actions taken by federal or state agencies, could lead to outcomes that differ from those projected.

Let me close by saying that we are continually striving to improve the analysis that we provide to you. I am happy to answer your questions.

19. 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 26, 2023), www.jct.gov/publications/2023/energy-estimates-for-pl-117-169 (PDF), and *Estimates of Federal Tax Expenditures for Fiscal Years 2023–2027*, JCX-59-23 (December 7, 2023), www.jct.gov/publications/2023/jcx-59-23 (PDF). For additional discussion of electric vehicle tax credits, see David Austin, *Modeling the Demand for Electric Vehicles and the Supply of Charging Stations in the United States*, Working Paper 2023-06 (Congressional Budget Office, September 2023), www.cbo.gov/publication/58964.

Nicholas Abushacra, Julia Aman, Robert Arnold, Grace Berry, Barry Blom, Aaron Feinstein, Justin Humphrey, Jeffrey Kling, Leah Koestner, Avi Lerner, Chandler Lester, Jeffrey Schafer, Joshua Shakin, Jennifer Shand, Molly Sherlock, and James Williamson conducted the analysis for this testimony with guidance from Christina Hawley Anthony, Chad Chirico, Richard DeKaser, Devrim Demirel, John McClelland, Sam Papenfuss, and Joseph Rosenberg. Leigh Angres and Joseph Kile provided comments. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the testimony makes no recommendations.

Mark Doms, Mark Hadley, and Robert Sunshine reviewed the testimony. John Skeen edited it, and Casey Labrack created the figures and prepared the text for publication. The testimony is available at www.cbo.gov/publication/59905.



Phillip L. Swagel
Director



Chairman ARRINGTON. Thank you, Dr. Swagel. We will now begin the Q&A session and I will yield myself five minutes for that.

Okay, so I appreciate my Ranking Member making the comment about fiscal responsibility, and the culture of fiscal responsibility is ours, is our mantle to bear and our goal for the taxpayers of this great nation. I agree with that.

What we are talking about with respect to culture is to say, what are the cultural challenges that CBO has or is reflected in the outcomes? Is there a culture of accountability? Is there a culture of welcoming criticism through transparency and peer review? Is there a culture of customer service where you are engaging the customers and stakeholders regularly and they feel heard?

Your job is objectivity. It is a nonpartisan, accurate product of scoring or some other economic analysis, but input and engagement from the customer is important.

So that is the culture, Dr. Swagel, we are talking about, and those are the questions I think you have to ask as the CEO of CBO and that is what we have to ask as your oversight authority.

You know, if being a good guy and a smart guy were the only measures of success, you would be an A-plus, and if intentions were the measure of success for Congress, probably we would all be A-plus because I don't question the intentions of anybody in here, including Earl Blumenauer over there.

I know I am, but it is true. I think the intentions generally are good. We have different views on how to allow our country to be on a path of progress and all that, but I think people generally want this country to succeed. We have different views of the role of government, for example.

That is not the metric here. It is not intentions. It is not a good nature, and so I think it is incumbent upon us to say what other scoring entities exist? What other forecasting entities exist? What surveys of other forecasts, how are we doing relative to our peers? Not how do we think we are doing or how nice do we think we are, how smart are we? The blue chip group of economic projectors, the Federal Reserve, Penn Wharton, in my estimation, and we can go back and forth, get it more right than CBO gets it right, and we have data that I will submit for the record on that.

Six years ago, there was three years of about three or four percent error rate from the projection to what was the actual deficit, just speaking about your projections on the deficit, but the last three years, it is been almost 25 percent in one year, 12 percent another, and then over 100 percent.

So this business of everybody is just doing great, you know, Lake Wobegon, and we are all just rocking along as we should. First of all, it is not true about the Budget Committee. It is not true about my Republican Conference. It is not true about this institution or the Democrats, and it is not true about the CBO. So unless we are honest with each other and unless we use objective data to know if we are doing a good job or not and listening to the customer, hell, we don't know. We are just BS'ing ourselves and the American people.

Gosh, Dr. Swagel, I have got so many things here. I guess I am just going to refer to one statement that you make in your written statement where you talk about, at the time of the forecast for the

deficit, the forecasts are typically similar to those of other forecasters. That is not what I am seeing from the Federal Reserve, Penn Wharton, and others.

For me, eight quarters, six out of eight in some categories, eight out of eight in others, were wrong on inflation, on interest rate, on GDP, and I am not even getting to the scoring piece of legislation and some of the concerns, and really, I would ask you to take the time to dig into the Chairmen of authorizing committees' letters and their sentiments and their specific examples of concerns.

But then I flip over to the Survey of Professional Forecasters and you say that your forecast was at the lower end of the middle two-thirds range, and I am not even sure what—two-thirds is a big swath and you are at the lower end. I don't know if that means you are at the lower quartile or not, but I think it does.

So I am just going to end there with, if that is true and it is really the bottom quartile, that means we can do better. Can we all just agree we can do better? Okay. That is the framing and that is kind of the bottom line for me, and I will let the rest of my colleagues dig into the specifics.

Again, Dr. Swagel, I appreciate it is a tough job. Predictions are tough to get right, but, man, we can do a whole lot better.

With that, I yield to the Ranking Member for five minutes for his questions.

Mr. BOYLE. Well, thank you. Dr. Swagel, let me ask you about the CBO Data Sharing Act, which I alluded to in my opening statement, and for those who are interested and want to be supportive, H.R. 7032, and I am excited that we will be having a markup of this piece of legislation next week.

Could you describe why it is CBO needs strong access to executive branch data? And perhaps you could give some examples of how delays in the past have impacted the work of CBO, ultimately impacting Congress, getting the data it needs and the projections it needs.

Dr. SWAGEL. Thank you. Thank you for the bill, which will help us greatly in supporting you.

CBO is basically people, computers, and data, and think of data as information, and we use a wide array of information. Sometimes an agency in the executive branch has information that we need, and they are the only place we can get it, that the public information is just not detailed enough. So we work with agencies on that. We have 20 data agreements in place, and, you know, we do lots of work.

There are sometimes legal questions from agencies about their authority to provide us with information.

Mr. BOYLE. So even if they want to provide the information, they pull back because they are afraid that they might be somehow violating existing law.

Dr. SWAGEL. That is right, and I will give you the examples. You had asked, for example, if I can give you one. So we have been doing work on the flood insurance program, and so we have some private sector data, but then we get information from FEMA, and FEMA has been very cooperative, but they have had concerns about their legal authority to provide us with information. We worked back and forth with them collaboratively. Your legislation

would just solve that, would basically give FEMA the comfort that they are complying with the law without the kind of weeks of back and forth. So that is the sort of issue it would solve.

It would require us to have very strong security on these data, including at least as good security and confidentiality protection as the agency that is providing us with the data.

Mr. BOYLE. I think I know the answer to this, but I do think there is value in making this explicit. How does CBO protect data? And would any of the changes in the piece of legislation that I have with the Chairman, the CBO Data Sharing Act, would anything in that bill impact CBO security practices?

Dr. SWAGEL. If there is an impact, it would be to strengthen, but like I said, we follow the security protocols dictated by the agencies giving us the data, and so we have, you know, an array of different ways that we secure the data, you know, and then we have security precautions for the entire agency. So the legislation would require us to continue to do that, and we certainly would continue to do that.

Mr. BOYLE. Great, and then finally, just shifting gears, as you look, I referenced approximately 270 employees at the Congressional Budget Office, as you look at the responsibilities that Congress has placed on the Congressional Budget Office and the staff and budget that you have, how would you assess where you are right now in terms of having the resources you need to conduct your work?

Dr. SWAGEL. So we have been shrinking since, really, since the December 2022 appropriations. We have not been filling vacancies, and it means I have vacancies in some key positions, like our Medicare Cost Estimates Unit, which is one of our busiest, the busiest parts, we lost someone and can't replace them. We have someone very senior who works on the appropriations, who is about to leave for a great opportunity; I can't replace him, and on.

On the national security side, we have lost one and we are about to lose another, and it seems like the NDAA is now, like, there is no offseason on the NDAA for the amendment process.

So these are things, I mean, if I had the budget, I would immediately hire in these areas and more, and it is really just to support you. I mean, we want to be responsive, and I am worried that I don't have the resources to be responsive.

Mr. BOYLE. Well, thank you again, Dr. Swagel, and lastly, let me say, I know we talked about this last week, but tomorrow is the last day in a two-decade congressional career of my friend, the gentleman from Buffalo, Mr. Higgins. So, Brian, I think I can say in a bipartisan way, we will all miss you, my friend.

And I yield back.

Chairman ARRINGTON. Well, let me say I associate myself with your comments about Mr. Higgins, and I have to put up with him, not only on this Committee, but on Ways and Means, but I am glad to put up with him. He is a good guy, and he will be missed. So we appreciate you, my friend.

With that, thank you, Mr. Boyle. I will yield five minutes to the gentleman from Wisconsin, Mr. Glenn Grothman.

Mr. GROTHMAN. Thank you. First of all, Director Swagel, I would like to thank you for being here again. You guys always work so hard, and it is good you are able to spend today with us.

Can you give us kind of an overview of the steps you have taken to increase transparency at CBO since you took over?

Dr. SWAGEL. Yes, I will give you a couple of steps that I have taken, and my predecessor also did a lot, so I have continued what he did.

Some of it is, of course, meeting with you, testifying. We publish reports that provide background on our cost estimates. You know, for example, our cost estimate of drug negotiation, we have published several reports providing the technical underpinnings of that. We publish reports comparing ourselves with other forecasters. We actually publish computer code as well on GitHub, so people can go in and see what we are doing.

And then we request information. As one other example, a recent one, is we had a blog post on these anti-obesity medications, it was like Ozempic and that kind of medication, asking for input to help us understand the budgetary consequences, including the health and scientific consequences, and we have had a tremendous amount of input from the private sector.

Mr. GROTHMAN. Okay. In April, you released a report describing your creation of cost estimates. It stated, "CBO is currently developing a plan to make more of the account level analysis of appropriation bills publicly available in accessible formats." Can you give me an update as far as how is that going?

Dr. SWAGEL. Can you say that last part?

Mr. GROTHMAN. Okay. You stated in an April report, "CBO is currently developing a plan to make more of the account level analysis of appropriation bills—"

Dr. SWAGEL. Yeah.

Mr. GROTHMAN [continuing]. Publicly available." Can you tell us how that plan is going?

Dr. SWAGEL. Oh, no, very good. Okay. So, no, thank you, and I know it is important to you on the appropriation side.

So we have put on our website now, there is a tab on the cost estimate section that is for appropriations bills. You know, most of our cost estimates are for authorizing committees and authorizing bills, but we do put out cost estimates on appropriations. So we now have a tab that collects all of that.

So we have been moving in that direction. There are other things we could be doing in that and I know you are interested in thinking about what more we can be doing.

Mr. GROTHMAN. Okay. There is a loophole in section 402 of the Budget Act that carves out bills reported by the House or Senate Appropriations Committee from the requirement that you guys prepare cost estimates. Do you feel that provision prohibits you from providing account level analysis of appropriation bills?

Dr. SWAGEL. No, it doesn't.

Mr. GROTHMAN. Okay.

Dr. SWAGEL. So we have the ability and authority to provide the account level information.

Mr. GROTHMAN. You can. Is there any capacity restraint that would prevent you from publicly releasing account level analysis of those bills?

Dr. SWAGEL. It is. That is really the barrier, is our capacity. You know, our appropriations team, well, especially this year with what has happened with appropriations, has been pretty much nonstop, and so we would want to work, you know, with the Budget Committee, work with the appropriators to say, well, what—you know, in a sense what can we do that suits your, you know, your needs?

Mr. GROTHMAN. But you could release the stuff anyway.

Dr. SWAGEL. Absolutely.

Mr. GROTHMAN. Okay. Later this week, I will introduce legislation to provide an exemption from the Privacy Act. Can you discuss the current restrictions placed on the CBO by the Privacy Act in 1974 and how it hinders your ability to produce, or does it hinder your ability to produce accurate and timely cost estimates?

Dr. SWAGEL. So it is such a similar question to what, in some ways, to what I answered with Mr. Boyle, that we think we have the authority to get information from executive agencies. They will sometimes point to the Privacy Act and say, well, even though the Budget Act says you can get it, the Privacy Act says maybe not, and so the GAO has more authority.

Mr. GROTHMAN. So if we had a statutory change to make it clear, right?

Dr. SWAGEL. Yeah. So that is legislation that we would certainly appreciate.

Mr. GROTHMAN. Okay. Can you describe the amount of time it takes—or how much time CBO currently spends negotiating with agencies to gain access to data that is covered by the Privacy Act? Is that a time-consuming thing for you guys?

Dr. SWAGEL. Yeah, that is a good question. I would like to get back to you on the details of the Privacy Act. I will tell you on negotiating with agencies in general, I mentioned FEMA. The Social Security Administration, we have three data agreements with them. One has expired and we have been working with them for a year now to try to get it renewed. They keep extending our access, so it hasn't been a problem, but it is the kind of thing, it is like a year of sort of our general counsel's time has been, you know, I think, chewed up is the right word, trying to nail this down.

So these sort of data access provisions will be very helpful.

Mr. GROTHMAN. Thank you again for testifying.

Chairman ARRINGTON. I thank the gentleman from Wisconsin. I yield five minutes now to our friend Mr. Higgins from New York.

Mr. HIGGINS. Thank you, Mr. Chairman.

Dr. Swagel, the new Federal fiscal year begins October 1 of each year, and there is a process whereby Federal agencies will submit requests to the Office of Budget Management, which we will use as a basis from which the President will make in advance a budget proposal to Congress, and then Congress begins its deliberations, passes a resolution in both the House and the Senate. Those budgets are reconciled toward the goal of trying to make a budget before or on October 1 of each and every year.

There are 12 appropriations bills. How many of those 12 appropriations bills have been enacted in Congress for the fiscal year beginning October 1 of last year?

Dr. SWAGEL. None so far.

Mr. HIGGINS. Okay. How frequent an occurrence is that?

Dr. SWAGEL. It has been a long time since those bills were enacted on schedule with the Budget Act.

Mr. HIGGINS. Yeah. So in 2023, the Federal budget was \$6.1 trillion. It is approximately 24 percent of the entire U.S. economy. Do you believe that the American economy does not perform well when there is uncertainty and instability?

Dr. SWAGEL. That is right. Uncertainty and instability has a drag on our economy.

Mr. HIGGINS. Okay. So the Federal budget each and every year, which doesn't get passed by Congress, it is really one of two major functions that Congress has. One is budget and the other is oversight. Would you agree with that?

Dr. SWAGEL. I would agree.

Mr. HIGGINS. All right. So you can't recall the last time there was a budget that was enacted by Congress at the beginning of the fiscal year on October 5th—or 1st, which included all the appropriations bills approved, which are necessary to have a budget. Otherwise, you don't have a budget.

Dr. SWAGEL. Yeah, I don't know the last time that happened.

Mr. HIGGINS. Okay. Well, here is my point. You know, people beat up pretty good on the Federal Government, and people should be reminded that the Federal Government is part of a public-private partnership, and, you know, look at defense research appropriations, DARPA, for example. Every technology in everybody's smartphone here came from research that was financed by the Federal Government: touchscreen technology, voice-activated personal assistant, global positioning satellite, and the Internet.

The same is true for drug development. Drug companies won't, you know, do risky research because on the front end the basic science of drug development is not profitable. It is all cost, and then the drug companies pick it up and they pay for it.

I just want to make the point that the Federal Government is 24 percent of the U.S. economy, and a Congress that is responsible for developing a budget fails in that responsibility every single year.

Additionally, the United States is five percent of the world's population and five percent—or 25 percent of the world's economy. So not only does Congress' inability to make a budget fully with approved appropriations bills virtually every single year, not only does it hurt the American economy, as the world's largest economy, it hurts the world economy as well. Would you care to comment on that?

Dr. SWAGEL. No, I agree with you that, you know, the kinds of instability and uncertainty that you pointed to in the U.S. economy has an effect on the rest of the world, and the economic prospects overseas affect us as well. So I agree with what you said.

Mr. HIGGINS. Has that been quantified ever as a basis to admonish Congress to do a better job?

Dr. SWAGEL. I haven't seen that, but I wouldn't be surprised if someone has quantified that effect.

Mr. HIGGINS. So it is conceivable that it could be quantified?

Dr. SWAGEL. It could be quantified.

Mr. HIGGINS. I think that that would be a great public service the Congressional Budget Office could provide to the United States Congress so as to admonish them to just do basically what Congress was put in place to do.

With that, I yield back.

Chairman ARRINGTON. I would share with Mr. Higgins, I love his line of questioning. The Fitch and Moody's have quantified it. They have said that our lack of governing, our inability to come up with long-term solutions because of the dysfunction of our institution is a reason they have downgraded, which comes at a cost. So that is just one measure, but I appreciate your line of questioning.

Now, for five minutes, our friend from Pennsylvania, Lloyd Smucker.

Mr. SMUCKER. Thank you, Dr. Swagel, good to see you.

Let me start by recognizing the importance of the work of CBO to inform our decisions that we are making for policy and for legislation, and I appreciate the work that CBO does.

I also appreciate you have made yourself available, your staff available to me multiple times on a variety of topics, and I appreciate that as well.

I think one of the things I would like to drill down on just a little is this \$1 trillion miss, because the work of CBO is important. We rely on CBO, and I think, I mean, wouldn't you agree a trillion dollar miss can reduce our confidence in CBO's projections?

Dr. SWAGEL. I agree. It was an extraordinarily large miss.

Mr. SMUCKER. Yeah, and your projections really do have an impact on how we are thinking about legislation and so on. So this is important to understand what happened here.

I appreciate as well, you provided an explanation. It looks like about roughly one-third was due to actions taken by the Administration after you did your projection, right? Roughly one-third.

Dr. SWAGEL. That is right.

Mr. SMUCKER. About 300-some. So is that unusual?

Dr. SWAGEL. I mean, it was an unusually large miss.

Mr. SMUCKER. But I am saying, is it unusual for the Administration to take actions that are not authorized essentially by Congress?

Dr. SWAGEL. It was unusual from our perspective—

Mr. SMUCKER. Yes.

Dr. SWAGEL [continuing]. And, you know, we are trying to track it—

Mr. SMUCKER. These were actions that you could not have been aware of, correct?

Dr. SWAGEL. That is correct.

Mr. SMUCKER. Because they were done unilaterally by the Administration outside of the authority of Congress.

Dr. SWAGEL. That is right.

Mr. SMUCKER. I think it is important we get that on the record. This was extraordinary activity by the President in spending what we would allege were—he was unauthorized to do so and this was outside of his authority. So that is number one.

And then number two, I think about a third of the projections where you just simply missed the economic projections.

Dr. SWAGEL. That is right.

Mr. SMUCKER. Why? Why would you have missed—I mean, again, that is a big miss. So can you tell us why you would have missed that in this particular time?

Dr. SWAGEL. Yeah. So there are two pieces to it, and I will talk about inflation, but the same thing applies to interest rates, and there, what you said, it is just a miss and it affects the, you know, revenues and outlays.

The economy was changing rapidly at the beginning of 2022 when we were doing our forecast, and our process is that we have to do the economics before we do the budget. You know, the analyst for unemployment insurance, she has to know what is the unemployment rate going to be seven years from now. So we have to do the forecast early.

And when the economy is changing quickly, as it was in early 2022, even two months, you know, doing a forecast two months early—so there is a mix of those documents.

Mr. SMUCKER. I wish we had more time, but I don't. I want to go back to something the Chairman said. It does appear that other organizations, like Penn Wharton, were closer and perhaps have been closer in previous years as well on their economic projections. Do you track that?

Dr. SWAGEL. We do. So we make comparisons to others, including Penn Wharton.

Mr. SMUCKER. Can you provide us with your comparisons on the number of organizations? I don't know the answer to this. I would be interested in knowing how you have done over the past few years compared to some of the other organizations, just share that with the Committee.

Dr. SWAGEL. We will do that.

Mr. SMUCKER. When you look at that and you find if they are more accurate, I don't know if you would agree if they are or not, do you look at your own model? Because obviously, every organization is using different models. Do you think your model is still the best model after missing it by a trillion?

Dr. SWAGEL. So, we do. We go back and look when we miss, and on the inflation side, we went back and looked at, well, why did we miss and what did we miss? And our subsequent inflation forecasts have been much—I mean, not just much better, like really much better. They are really spot-on as inflation has come down over time. So we do go back and try to figure out what do we need to improve.

Mr. SMUCKER. Yeah. Have you made changes to your model after this year's \$1 trillion difference?

Dr. SWAGEL. You know, this was a portfolio of models. We have made changes to—on the macro side, on the inflation side, again, in particular, where the miss was the biggest, we have made changes. We thought much more carefully about how the economy is changing as on the supply side, the labor supply, supply chain disruptions, other things.

Mr. SMUCKER. Again, I do appreciate your work. I have been asking some pointed questions. I just think it is really, really impor-

tant that we all can continue to have confidence. So we appreciate your answers to these questions. Thank you.

Chairman ARRINGTON. I thank the gentleman from Pennsylvania and yield to our friend, the gentlelady, Ms. Schakowsky from Illinois, for five minutes.

Ms. SCHAKOWSKY. Thank you. First, let me just say to my friend and colleague Brian Higgins that I will definitely miss sitting next to you and hearing the wisdom that you bring to this Committee. We will all miss that.

So very recently, this Committee marked up a bill to create a fiscal commission. I was on a fiscal commission, the Simpson-Bowles Commission in 2012, and I have to tell you, as a consequence of that experience, I strongly objected to the idea of creating a fiscal commission, believing that the Members of Congress are fully capable of coming up with budget decisions, and because they seem to focus on things like cutting Social Security and other benefit programs.

So what I am interested in is what is the cost of a fiscal commission? This is not free, and I am wondering, in addition to having Members of Congress working on this, how much would a fiscal commission cost? What is your estimate?

Dr. SWAGEL. So our estimate of the cost of the legislation was \$12 million in discretionary spending, some for the operation of the commission and then much of it for the public outreach campaign that was part of the legislation.

Ms. SCHAKOWSKY. And, you know, what is your view in terms of what it would cost? What kind of requirements would be made of you that would be of additional work if there were a fiscal commission?

Dr. SWAGEL. Well, so we would support the Congress and the commission. You know, depending on what else is happening, what other legislation we are working on, it could challenge us.

I mentioned some of the vacancies we have on the macro side. On our macroeconomic team we have vacancies as well; on our Social Security team. So I would want to make sure we had the resources really to support the commission wherever it went.

Ms. SCHAKOWSKY. Okay. Well, I think we should relieve you of that and just take care of it ourselves. Anyway, let me ask you about another issue.

I am very concerned about income inequality in the United States, and Republicans have long claimed that cutting corporate taxes somehow is going to pay for itself. This has never really happened. We saw during the Trump Administration a large tax—what I feel like is a tax giveaway to the wealthiest Americans.

I am just wondering, what was the cost of that Trump tax cut when he was President?

Dr. SWAGEL. So, you know, we put out a cost estimate at the time. It was before my time as Director, so I don't have the number in my head. We did an analysis, I will answer the question in this way, we did an analysis of the effects of it, and we said there would be economic effects on investment and some rent.

Ms. SCHAKOWSKY. Well, my understanding was that there was an estimate that there was \$1.1 trillion over ten years would be the cost.

Dr. SWAGEL. That sounds right.

Ms. SCHAKOWSKY. Yeah, which is a heck of a lot of money.

What I really would want to comment on your thoughts about the legislation that we are going to vote on today and on the tax cut, and what we see is that for the Child Tax Credit, that there would be \$33 billion for the Child Tax Credit, but \$177 billion for the corporate tax cut, and we know that some of the companies, some of the companies, like Meta and Netflix and General Motors, would actually have tax refunds as a consequence.

I feel that that is inequitable, and I wanted to have your comments on what you think the impact will be.

Dr. SWAGEL. Okay. So we haven't analyzed the specific tax bill that will be voted on today just because that is, the Joint Committee on Taxation has done that. We will, though. Every year we do a report on income inequality, looking at the tax system.

So in the future, we will go back and look at the effect of how the tax system has changed and what that means for inequality, including the effect of the Child Tax Credit in narrowing inequality. So we will get that. I just won't have that until after the fact.

Ms. SCHAKOWSKY. I look forward to seeing your conclusions. Thank you.

And I yield back.

Chairman ARRINGTON. I thank the gentlelady from Illinois and yield five minutes to our good friend General Jack Bergman, who is the Chair of our Oversight Task Force.

Mr. Bergman, for five minutes.

Mr. BERGMAN. Thank you, Mr. Chairman, and thank you, Doctor, for being here.

There is a current country song by Bailey Zimmerman, the title is, "Between a Rock and a Hard Place," and the first lyrics are, "We have been swinging and missing, it ain't broke yet, but it damn sure needs fixing."

We could probably apply that, but I would suggest to you, unlike the song, we are pretty broken right now in a few different areas. I am going to focus my comments because as a Member of the House Veterans Affairs Committee, I want to discuss the CBO scoring of the VA-related bills in relation to the Toxic Exposure Fund, TEF.

In short, the PACT Act allowed VA to use TEF for a wide variety of services for veterans exposed to toxins, shifting some traditionally discretionary costs, like health care, to mandatory spending. As a result, the CBO developed a rule of thumb scoring all veterans legislation, classifying a percentage of total discretionary costs as mandatory costs to any authorizing legislation which would affect one of nine VA appropriations accounts. I know this is getting a little technical here, but some of this you may have to take for the record if you don't have it, but I will stay with the big picture.

The mandatory spending portion is currently 24 percent of the total authorizing legislation cost, and it is projected to increase to 42 percent by Fiscal Year 2032. This decision by CBO has forced the VA Committee to find offsets to advance even the most basic bills, including several that I have introduced and has greatly hin-

dered our work in Committee to improve the lives of veterans and their families.

While I understand the statutory requirements for CBO under the PACT Act, it is essential that toxic exposure fund-related scoring by CBO is accurate and based on actual data.

So my main question here is when, if ever—because you are kind of between a rock and a hard place here. It is kind of like you designed, or you got involved with the FAA in figuring out how airplanes should work, but yet you never built them and you never fly them. So you are kind of somewhere out there because you got to make sure of the safety of everything that works.

When, if ever, will the CBO be able to dispense with its rule of thumb to assign a certain percentage of total cost as a mandatory cost for all affected legislation?

Dr. SWAGEL. Okay. No, thank you, and everything you described is the way we do it. So when we looked at the TEF, we, you know, talked to the VA about how they would implement, you know, as best they could tell us, and the rule of thumb was developed based on that and based on the data on the Gulf—

Mr. BERGMAN. Yeah, I want to—because you could go on this and the rest of my time would be gone in a heartbeat, but the point is—

Dr. SWAGEL. Yep.

Mr. BERGMAN [continuing]. You know it. Did the Congress not get the wording right in the legislation? Because we are looking in the mirror here, and we could have done better because what the House did was good wording, but we ended up taking the Senate wording in the end game, and it created that loophole, or that created that uniquely soft area that puts us all between a rock and the hard place. I am not trying to lay blame on the Senate, but I think the House should have pushed back, and we have a chance to rectify this in the future. Is that fair?

Dr. SWAGEL. That is fair, and we are ready to work with you and with the Committee to think about different legislative approaches to get out of the rock and hard place.

Mr. BERGMAN. Because this is on us as the Congress, the House and Senate together working on this.

Oh, by the way, as an aside, in the last 30 seconds, the \$12 million price tag for the fiscal commission, billboards and all that, I mean, where did that come from?

Dr. SWAGEL. Oh, so we looked at past commissions that had a mandate to do public—

Mr. BERGMAN. Well, do we have to do billboards just because, I mean, now we do digital as opposed to analog?

Dr. SWAGEL. Right. So we—yeah.

Mr. BERGMAN. That was an attempt at humor. I know my time has run out. Yeah.

Dr. SWAGEL. But this is our process. If there is something new, we say, well, what is an analog to it in the past? And so that is where the figure comes.

Mr. BERGMAN. Okay. So we are going to all help ourselves, whether it be here in the House under the Chairman's leadership here on Budget or use the CBO and definitely our friends over on

the north side of the Capitol to do better and be more detailed in our guidance.

With that, I yield back.

Chairman ARRINGTON. I thank the Chairman, General Bergman. I now yield five minutes to our friend from Portland, Earl Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman, and I appreciate your being here Doctor.

We take a step back and think about the complexity that you face. You have to operate under assumptions about how Congress operates. Very difficult. We have had conversations with your predecessors about how Congress could do a better job of present value accounting without going over the edge in terms of dynamic scoring, but that is the reality that you face and the horizons that you have to deal with in terms of the interaction between the two bodies.

The extraordinary set of circumstances that we face, I can see you being off a trillion dollars. We were on a roller coaster three years ago in terms of the projections about how bad the economy was going to be, and there are some people on the other side of the aisle who had some pretty apocalyptic projections, and in the popular media. We keep talking about uncharted territory, and you were attempting to work that.

But what has happened in the course of the last 18 months? We have seen the historic investments paying off. The GDP growth for the first three years of the Biden Administration is 3.4 percent, outpacing the first three years of the prior administration. Inflation, which we were deeply concerned about, is now down to between two and three percent, very close to the Fed's target rate. We have almost three million jobs created last year. Unemployment is at a historic low, 3.5 percent. I think it has been below four percent for 23 consecutive months.

The work that we did, some of it was bipartisan, a lot of it was part of the work we did with the Administration on things that were modestly controversial, but they appear to have been working. The landscape that you have now going forward appears to me to be much less uncertain than the historic efforts that we faced in the aftermath of the pandemic.

So I am less concerned about attacking your modeling. I know you are 270 people. I mean, this is the smallest of the agencies, and you are doing a lot in uncertain areas.

I am wondering if, based on the success of policies recently, if that raises your confidence level in terms of the projections that are on the table now looking forward?

Dr. SWAGEL. It does, and the lower inflation gives us much more confidence that we have got it better and that our projections on inflation are more on target than what we had that I talked about in my testimony, and that affects revenues, it affects outlays.

Mr. BLUMENAUER. Mr. Chairman, I just feel that we may have different opinions about the efficacy of policies, but I think they are working. I think the empirical evidence that CBO and other outside experts are looking at that this is really extraordinary growth. We are doing better than any other major economy and the minor economies as well.

So it seems to me that it is important for us to focus on the big picture. We ought to focus on being able to help the CBO be able to have the resources to meet our needs and that we need to have realistic expectations coming off the roller coaster that we have been on.

A number of us have been through these challenges before. We have watched hits and misses, but I think we are in a trajectory now where we can have much greater certainty. Rather than sort of challenging the CBO, the assumptions, I would like to work to strengthen the agency to be able to focus on ways that they can meet our needs and that we can have more realistic expectations for this impossible job that will never be done with complete accuracy in terms of projection.

But we have got an agency that is doing a good job. We have seen the success of policies in place, and I think we ought to build on this degree of stability to be able to help CBO help us, and then we do our job, like collecting taxes that are owed and looking at areas of reform that we can agree on, which I think there is real potential for our moving forward.

Chairman ARRINGTON. I thank the gentleman, and since you referenced me, I would just say realistic expectations is a good thing for us to keep in mind, and I appreciate that. It is complex and difficult.

Constructive criticism, continual improvement, and expectation, that we look at benchmarks and make sure that we are best in class and committed to excellence is also essential for our customers back home, but I appreciate Mr. Blumenauer, as he knows.

I am going to yield five minutes to one of my best buddies who is also leaving this great and yet dysfunctional institution, Drew Ferguson.

Mr. FERGUSON. Thank you, Mr. Chairman. Director Swagel, first question to you. How does it feel to wake up every day, go to work and feel like you are shooting rubber bands at the moon?

Dr. SWAGEL. I am here to support you. So that is my—

Mr. FERGUSON. Well, we do it, too. My point is, you shoot rubber bands at the moon every single day, year-in and year-out, and you don't hit the target. You don't hit the target. So let's go back.

And when I say "you," listen, I profoundly respect you. I think you are a smart guy. I think you are an honest guy. So when I say you, I could say y'all, I mean the entire CBO operation, past and present.

If you go back, let's pick a number, 20 years, 25 years. Every time you give us a 10-year score, from that date forward to the 10-year mark, what is your accuracy? How accurate are you on day one when you tell us a program is going to cost \$5 billion or \$12 billion and you get to year ten, what is your hit and miss rate?

Dr. SWAGEL. You know—

Mr. FERGUSON. What is your hit and miss rate?

Dr. SWAGEL. You know, it varies so much. Yeah, I can't give you an overall because I can give you some quick examples on, like, where we got it wrong, where we got it right, but it varies so much.

Mr. FERGUSON. No, no, no, no, no. What I am looking for is that I want this body to understand, and we all want to understand, the predictability that our friend from Oregon talked about, if you are

going to give us a 10-year number, okay, and then we go out ten years and we are not even in the ballpark, we are half of that number, we are not making really sound decisions because the accuracy is so far off at the 10-year mark. I don't think that is a function of you not being able to do your job. I think that is a function of a really bad system. Static scoring.

Why in the world are we not using dynamic scoring? Okay. Why in the world are we—I mean, a question that I am going to submit to you in writing that I would like for you to answer is to look at every 10-year window that you give us on a score and then look at the accuracy rate at that 10-year mark. Okay? All right. Now that is number one.

Number two, because you are off—and again, when I say “you,” I am talking about CBO, and CBO is off consistently, and I was on the Budget Committee in 2017, and I have kind of gone back and looked at what they said was going to happen in 2017, and here we are coming up on eight years later, and we ain't even close. Okay? We are not even in the ballpark of it. All right.

So we should be doing—do you think that the quarterly audits of your numbers, where they are, and some suggestions about how to make that better on a quarterly basis would be helpful?

Dr. SWAGEL. It is something I have been thinking about. So every month we put out the monthly budget review that provides information against the last year. You are thinking from this bigger picture, you know, not like program by program, but the big picture is something I have committed to the Chair to, to think about how we can provide you with more information that you don't need to ask us, that we just push the information to you.

Mr. FERGUSON. Okay, all right. That is good. All right. More information is helpful.

One of the challenges is that every time you all are wrong, which has been damn near every quarter that I have been up here, okay, every quarter you are wrong. You always say why you are wrong to some degree. You know, it is a little opaque. All right? Sometimes you make that clear as mud, but you never come back with a solution about how to fix that problem, and CBO hasn't offered meaningful solutions to us to consider, and if you are not going to do that, then maybe we are going to suggest those to you.

This is an absolute—if you think about where we are, since 1974, we got so many good men and women on both sides of the aisle that have run with the promise of getting our fiscal house in order, okay, to make sure we can take care of our most vulnerable, defend this nation, do all the things that we want to do as a great nation, and we are consistently off, consistently way off, and the result is trillions of dollars in debt, 36, 37 trillion now.

We are not making real smart decisions because I don't think our information is really good because you are operating by rules that don't lead to where we need to be. It just begs the question, we are doing the same thing over and over again, and we are getting the absolutely same horrible results over and over again from the Congressional Budget Office.

Mr. Chairman, I know my time is about to expire. Again, Director Swagel, I am not trying to attack you directly. I am trying to attack a process that is badly broken, and I look forward to Con-

gress maybe making suggested—not suggested, telling how we are going to reform this and do this the right way.

I yield back.

Chairman ARRINGTON. I couldn't associate myself more with those comments, especially your conclusion.

Before we lose our friend, Mr. Higgins, for the last time, I got a YETI cooler here. The guys that created YETI coolers are graduates of Texas Tech University, my alma mater. So it says, Budget Committee. And we appreciate—this is the best your Budget Committee colleagues could come up with was a YETI Cooler mug, and then I am going to give you, as your friend, a Food, Fuel, and Fiber shirt. That is on behalf of the people from God's country in West Texas.

Mr. HIGGINS. Thank you, Chairman. Thank you very much.

Chairman ARRINGTON. Y'all give it up for Brian, please.

Scott Peters, our friend from San Diego, five minutes.

Mr. PETERS. Brian, you tell us if that Texas Tech mug holds water.

Director, thanks so much. You are an understated guy. I could be an understated guy, and I just want to call out what you said, which is you are not able to get people to fill these jobs. We depend so heavily on CBO. It is the sort of guideposts we use to have a common set of facts about what things cost. What do you need to have the capacity to solve these problems before we even talk about what the techniques or approaches would be?

Dr. SWAGEL. So we are shrinking down under 270. I think I need about 285 people to really serve the Congress the way the Congress works now. If we had reconciliation every year, I would need more.

Mr. PETERS. I got that.

Dr. SWAGEL. But 285 in a kind of normal—I don't know what normal is, but, you know—

Mr. PETERS. Do you have the money for that or is it an issue of you can't find people to take the jobs?

Dr. SWAGEL. No, our budget, you know, since December 2022 has, you know, been much lower than keeping up with inflation, and we are 90 percent people. You know, that is our cost.

Mr. PETERS. So you need money.

Dr. SWAGEL. Yeah. The only thing I can do to fit our budget—

Mr. PETERS. For 15 positions.

Dr. SWAGEL [continuing]. Is shed people.

Mr. PETERS. Okay, I just offer to the Chair, maybe we ought to think about supporting that. This is sort of the backbone of—it is not a big expenditure, and, you know, we have to have people who have the capacity to do this work even before we talk about critiquing the work itself.

I also wanted to just thank you for meeting last year with researchers for Rady Children's Hospital in San Diego to discuss California's Baby Bear Project and how its findings might help inform your analysts' scoring assumptions.

For those who don't know, Project Baby Bear used whole genome sequencing to diagnose a statistical sampling of our state's sickest infants. Over the course of the study, they found that immediately sequencing and diagnosing these babies prevented 513 unnecessary days in the hospital, 11 unnecessary major surgeries, and 16

invasive diagnostic tests. Even one day with your child in a neonatal intensive care unit can cost thousands of dollars, and early sequencing gave those families answers and saved an average of nearly \$4,300 per patient by the time they left the hospital. Don't even think about lost earnings or all the other treatment that was avoided by that early detection.

Now, that brings up the issue with the Federal Government scoring, because when we talk about things like screening and prevention, infrastructure, education, buying fuel for the military, we only talk about the impact of the budget this year, and we don't really account for the future benefits of that saving. So, you know, that is something no family would do. You wouldn't say, I can save \$10,000 on fixing the roof this year, knowing that when the storm comes through, you spend \$30,000 on replacing your furniture next year. I mean, we have to figure out a way to handle that.

So I wonder, how do you propose we get a better job? How would you propose we would get a better job of accounting for the returns we get on the Federal investments that we make so we really are accurate about what things really cost over time?

Dr. SWAGEL. No, thank you, and I have heard that from you and many of your colleagues, that we need to provide you with information beyond the 10-year window for exactly what you said. You know, you help a child at age two, well, at age 22, they will have higher earnings, they will pay taxes, and that applies to many things.

So we are working on that for the budget, you know, the sort of budget enforcement mechanisms, those are generally within the 10-year window. So that is, you know, our requirement, but we are working hard to figure out ways to provide you with that information over the 10-year window and out. This is as far as useful to you.

Mr. PETERS. Just so maybe flesh out a little bit, because we have been talking about this for a long time. How do you propose we—what do you think those tools are going to look like? Can you preview that for us?

Dr. SWAGEL. Yeah. I will tell you some of the challenges. You know, one is just a dollar in year 22 is different than a dollar in year two, and so providing information not just in nominal dollars, but in net present value, so that's one, and finding a way, you know, that you don't need a finance Ph.D. to kind of understand what is going on. So that is one thing we are working on.

Another one is the comprehensiveness. So there will be benefits, you know, improve a child's life. They pay taxes, but they are also going to draw on some benefits, whether health subsidies or other things, and try to get all of those pieces at all of the stages of their life. That is the kind of thing that is a challenge, but that we are working on.

Mr. PETERS. Maybe with your predecessor and you I talked about only tobacco was the only thing that had enough evidence to actually nail down future benefits, avoiding tobacco. I would suggest, you know, we have a lot of evidence that may not be as extensive as that, but you could give us some benefit, you could discount it by 75 or by 50 percent for uncertainty. At least give us a chance

to talk about things in a way that is realistic, in the way that, you know, businesses and families do all the time.

Mr. Chairman, I have exceeded my time. Appreciate the hearing and I yield back.

Dr. SWAGEL. Mr. Chairman, can I mention the two things that we are working on that I think are of general interest? One is obesity or anti-obesity, which has that, you know, long run property. A second is hepatitis C, which also has that same, you know, you help someone today, their life is better for 20 years, and so we are working hard on that, and I will come back to you when we have more on that.

Chairman ARRINGTON. Great points about the timeframe and how we measure the time horizon of benefits and ROI, and I think that is a really good topic. We could spend a whole hearing on, and we probably—these are things we are going to come back to, Dr. Swagel, for more of a deep dive.

With that, five minutes to our friend from Utah, Mr. Blake Moore.

Mr. MOORE. Thank you, Chairman, and to continue on that point, we could do a whole hearing on health care and those long-term factors, and it relates to what I wanted to talk about, but, Chairman, thank you for holding this hearing on oversight. Regardless of who is in the Administration, regardless of whatever Congress' majority or minority, we cannot be scared, we cannot be afraid to do our oversight responsibility. We don't exist as a separation of power, the congressional branch, the congressional side of this, if we are unwilling to do that on the legislative side.

To the Ranking Member, thank you for always keeping the time on your remarks. Appreciate that, but I also appreciate your mentioning, you know, Democrats, if it is favorable, will highlight the CBO. They will blast it on the other side, and Republicans will do the same thing, and we have got to be able to get away from that. We have to look at it.

That, ultimately, does go back to the CBO and your responsibility, Director, that accuracy, and getting to that point where you have got accurate data that can extend over several years and looking forward, if we can have accuracy, then we will take more of a responsibility. I will commit to it to make sure that we are delivering that, and even in our rhetoric and our tone, that we have got to look at a score, regardless if it is a Republican- or Democratic-led bill, and recognize, okay, that is going to be accurate. So that has to exist back here. We cannot get ourselves in fiscal order if that doesn't exist.

The point I wanted to make is that net interest spending—so the numbers I have here, \$217 billion in 2023, it was several hundred billion dollars higher than the CBO's May 2022 baseline projection. These are significant increases and extremely hard to predict going forward.

It is my biggest concern. It is what keeps me up at night knowing that when my kids have their first job and they just graduated from their, you know, education program, whatever they are going to be doing, that they are going to have 40 cents on the dollar of whatever Federal revenues are, it is just going to be our net interest. That is the part that keeps me up at night.

Director Swagel, a lot of legislation proposals that are introduced have—the significant long-term costs would be much larger if interest on the debt was factored in. Can you give us some perspective on the authority or ability at this moment to be able to project net interest costs associated with this scored legislation? Does CBO need an act of Congress to be able to make this more a part of the factor?

Because as our net interest increases by hundreds of billions of dollars year over year, every time you score, even if it is a small bill, will have a much more significant impact than it did in the previous decades, and that has to be something that we take into consideration. Can CBO enhance their efforts on this?

Dr. SWAGEL. No, you have got it exactly right that more debt, higher rates, we are more vulnerable to that. So we have the ability to do that for any legislation. What is the interest cost?

What we have done so far is put up a spreadsheet on our website that has our interest rate projection, and anyone can do that, say, okay, if a bill costs, you know, \$10, well, here is the sequence of interest costs coming out of it. So we haven't put that into a cost estimate, but we have given everyone a tool that they can do with that on their own.

Mr. MOORE. I would argue, and I would speak to our leadership, like, just having that on the website is great. I am glad that it is accessible, but I think we need to move past just the theoretical conversation about it and move that into a more concrete element, because it is a concrete factor, and it is our nation's number one issue on the fiscal side, is how much our net interest will continue to grow, and especially when you add in inflation, you add in interest rates, taking a quick little hike that is devastating to the entirety of the budget.

I mean, we can predict Social Security, Medicare, defense, Medicaid, the approps bills, we can predict their growth rate pretty accurately with the standard things that go on here, but that net interest is going to be a huge burden.

With my remaining time could you describe the collaborative process between CBO and JCT in developing fiscal projections? Do you share the methodologies and responsibilities and what lessons are learned? I was fascinated to kind of come in and I always want to find as much of anything that is duplicative, like, I want to just get rid of it back here. Can you just share some of your comments on that?

Dr. SWAGEL. Okay. I will say 23 seconds' worth and happy to come and tell you more.

So we are sister agencies. Anything that changes the Tax Code, they do; we stay out of their lane. So the bill today, that is being voted on today, there is a cost estimate that says CBO. Every number in there is from JCT—

Mr. MOORE. From JCT.

Dr. SWAGEL [continuing]. From JCT by statute. Health care, the people and taxes are so woven together, we work collaboratively with them, and so that is just two examples of it.

But it is, you know, sort of statute by—piece of legislation by legislation. We work collaboratively, but some things are theirs and we stay out of their lane.

Mr. MOORE. Thank you. I thank the Chairman.

Chairman ARRINGTON. I thank the gentleman. I yield five minutes to our friend from California, Jimmy Panetta.

Mr. PANETTA. Thank you, Mr. Chairman, and thank you, Director Swagel, for being here. Obviously, we appreciate your candor and your honesty because we know that congressional scorekeeping can definitely be a pretty fraught topic on Capitol Hill.

But you have always been a trusted resource, especially when it comes to our debt and deficits and the cost of legislation, and I think, as you heard today, and as you know, both sides of the aisle have taken issue with CBO's methods or particular scores from time to time, and often it is politically motivated, but other times there are legitimate criticisms of methods.

Now, I am glad that we are here today to discuss the CBO's role, examine where some of our differences lie, and see how we can achieve a common understanding of how CBO's models and scorekeeping work. More importantly, we need to get Congress closer to understanding the true costs of debt and deficits, of mandatory and discretionary spending, and the legislation that we bring before Congress. So thanks for being here today to talk about your process and how we might better understand and how we might better improve that process.

Now, can you talk about the importance of interest rates to our debt and deficits? And pretty straightforward question, should Congress consider prioritizing deficit reduction when interest rates rise?

Dr. SWAGEL. You know, as the debt has risen, our vulnerability to higher interest rates has gone up, and by the same token, if there were credible deficit reduction, that would lead to a positive effect in terms of lower interest rates. So there is a virtuous circle to be had there.

Mr. PANETTA. Got it. Now, let me kind of hit on something that I think we are going to be seeing a lot, especially coming up with our vote tonight. The Employee Retention Tax Credit, I think, was something that obviously helped out during the pandemic, kept businesses afloat. Unfortunately, years after the pandemic closures, we have been bombarded with these ads. I think all of us have heard it in this room, telling small businesses to apply for a credit that they really, I think we have seen, don't need and likely aren't eligible for.

Now, I will note that we would end this credit early as a pay-for for the tax credit deal that we passed out of Ways and Means, which raises \$70 billion and appears that the ERTC alone contributed to both about \$50 billion in outlays and an overestimate of \$70 billion in revenues. Can you explain how this credit contributed to the overestimates and underestimates and how they impact your corrected projections?

Dr. SWAGEL. You know, so, as you said, the ERTC was meant to support businesses, you know, for the challenges they had in the pandemic. Businesses now can amend their tax filings from several years ago during the pandemic, and that is the activity that we see in 2023. There is this, I think cottage industry is the right word of the business of the ads that you said, helping businesses do that

amending, and then the IRS, you know, would be expected to send out checks in response.

Mr. PANETTA. Okay, great. Once again, thank you for being here. I appreciate your information, not just today, but as we go forward and continue to try to do our jobs. Thank you.

Dr. SWAGEL. Thank you.

Mr. PANETTA. I yield back.

Chairman ARRINGTON. I thank the gentleman from California. I yield five minutes to our friend from Kansas, Ron Estes.

Mr. ESTES. Well, thank you, Mr. Chairman, and thank you, Dr. Swagel, for being here today.

We appreciate the time and all the Congressional Budget Office does to help facilitate the work we do here in Congress, but frankly, the CBO has fallen short in recent years on some of its work, and I hope that after today's conversation, you feel emboldened to actually address some of the needed changes to make sure that you continue to address and support Congress over the years to come.

Obviously, CBO plays an important role in our lawmaking process. In order to address issues, Members of Congress depend on organizations like CBO to assist in legislation, and accurate budgeting and economic analysis and accurate projections are essential tools that help us craft legislation and weigh how we vote.

One of the key things that I always look at in terms of forecasting is making sure we have small variations between the forecasted amount and the actual amount. Whether the forecasting error, which there is some because it is difficult to do, but whether the error is on the high side or the low side, as long as it is a small variation between the actual and the forecasted, we will have the best opportunity to have the best results, and with our debt the way it is now at \$34 trillion, obviously that analysis is important. With the debt increasing over the last year by over \$2.6 trillion, it means we are now spending \$85,000 each second that is being increased to the national debt. It is not sustainable, and we have got to be able to make those spending decisions with the best information we have available, and so that is the focus that I want to talk a little bit about.

One of the things that was mentioned, and one of the things that is really important, and I want to highlight this here, is that, you know, when the TCJA, the Tax Cuts and Jobs Act, was implemented, part of the discussion and part of the estimate was that there would be a loss in revenue, and I think one of the numbers thrown around was about \$1.5 trillion over the 10-year window.

Just to highlight, now, if I look at what the revenue projections that CBO made after the Tax Cuts and Jobs Act passed versus what the revenue has come in from 2018 to 2023, actually, we have already collected a trillion dollars more than what was projected, and if the next two years before the Tax Cuts and Jobs Act expire continues on at the same rate as the last couple of years, it will more than pay for that \$1.5 trillion.

So that is one of those things as we make decisions about tax cuts or about other things, I mean, something like this that shows that the Trump tax cuts paid for themselves over that time period from 2018 to 2025, we need that accurate information.

So one of the things I wanted to ask is, you know, what kind of ideas are you looking at or plans that you are looking at on how to revise what CBO does to make sure that we have greater accuracy in budgeting or assessing key pieces of legislation? And how do we compare that with other models like Penn Wharton or University of Chicago, and their differences in projections?

Dr. SWAGEL. No, no, thank you, and I agree with the importance of what you said.

One key area that I am pushing on is our ability to do dynamic analysis to get those relationships between changes in tax policy in the economy and then the feedback to revenue. We have done it in the past. We did it with the 2017 Tax Act, but we haven't—and we have done a few other little things, but I am looking at what major legislation could we, you know, make sure that we are in position to do? So tax is one, immigration is another, and obviously, CBO has no opinion on what the right immigration legislation is, but I want to make sure that we are in position that if there is, we would be ready to say, what is the effect on the economy? What is the effect on—you know the dynamic effect, and again, whatever legislation comes forward.

Mr. ESTES. What kind of comparison or analysis do you do today of actuals versus what you have forecasted? I mean, do you actually sit down at the end of the year and end of the quarter and come back and look and say, well, this worked, this didn't, and how do we adjust that or tweak that and, you know, kind of a scorecard yourself?

Dr. SWAGEL. No, that is right. So we do that in two ways. One is on the account level that generally twice or sometimes three times a year, lately it has been twice just because the press of business, every analyst sits down with managers and with me, and we go through line by line. Okay, you know, SNAP benefits, it was higher and here's why, you know. Whatever. Every line, it is on the micro level. Then we look at the overall, and so that is the trillion-dollar miss that came from our report at the end of last year, going at the big picture level of the miss that we had.

Mr. ESTES. Thank you. Mr. Chairman, my time has expired. Obviously, it is an important issue. We want to make sure we get good, accurate information to help us make those decisions. I yield back.

Chairman ARRINGTON. I thank the gentleman from Kansas. I now yield five minutes to Ms. Balint from Vermont.

Ms. BALINT. Thank you so much, Mr. Chair.

Doctor, I really appreciate you being here today. As you know, you and I had a rich conversation about the work of the CBO last year in my office, and I really appreciate the commitment that you have to evidence-based policymaking. That is the way we should be doing our work always.

So one lesser known, I think, CBO function is the reports that you do on the effects of policies over the long term, and I am keenly interested in the Federal response to the opioid crisis.

In Vermont, many of my neighbors, community members, and friends have tragically been impacted by the opioid crisis, and in 2022, we have already lost, you know, hundreds of people to drug

overdoses. Drugs like xylazine and fentanyl are making the crisis so much worse.

I have been working on this issue both here in Congress and also my time in the state legislature, and I know it is an issue that we actually have agreement on across the aisle. This is killing our constituents. It is killing the people who sent us here to do work on their behalf, and it is really important that the resources that we commit to this are actually doing a good job at combating this.

So Congress has committed significant resources through the Comprehensive Addiction and Recovery Act in 2016, the 21st Century Cures Act, the Substance Use Disorder Prevention that promotes opioid recovery and treatment known as SUPPORT for Patients and Communities Act, and according to one study referenced in CBO's 2022 report, the opioid crisis and recent Federal policy responses, discretionary spending to combat the opioid crisis increased from \$2.1 billion in Fiscal Year 2017 to \$6.1 billion in Fiscal Year 2020.

Your report stated, though, that opioid-involved deaths have continued to increase after Federal laws on this issue were enacted, and initially we had a slowing, but then it was preceded by years that we saw rapid increase in deaths related to the pandemic. So clearly, our investments, while significant, you know, haven't gone far enough or haven't been as effective as we need them to be.

So can you just tell us a little bit about why it is so important to review the impact and efficacy of enacted legislation in charting a better path forward?

Dr. SWAGEL. No, thank you. We are working hard on that, on looking at the impact of legislation and providing you with information on this worked, this didn't seem to work. You know, never to tell you what to do, but to help you decide.

It is one of the—it is the shortcomings of that first report that you said that we couldn't evaluate what Congress had done just because it was too new, and so that is what we are working on now, we are continuing to work on, is a follow up to that report with more evaluation, and some of it might be tentative, but if we can point you to say, here was the impact of, you know, this program and that program. We are not there yet, but I agree, it is essential for us to do it and we are working hard on it.

Ms. BALINT. I really appreciate that, and as I said, I know it is something, it doesn't matter what congressional district you represent, every community is dealing with this, and it is really important for us to examine the work, make sure we are targeting the resources to the right places, figure out what is working and what is not.

I know that it is impacting families in every single town, county, and city in our country. We have to get beyond the partisan rhetoric around this. We really, really do. This is lives. I am a former teacher, and the number of students that I have had that have been impacted by the opioid epidemic and their friends and their families, it is just absolutely devastating.

The other thing I want to ask you about is the fact that, you know, Congress really does have some power that we can leverage to reduce health care costs, and again, I think this is something both sides of the aisle can agree on, and Doctor, as you know, there

is a lack of competition in the health care sector and it is driving up costs for Vermonters and for people across the nation. So I am wondering, you know, what do you see as Federal legislation that can help combat exorbitant health care costs?

And I know I am almost out of time, but if you just point us in that direction again.

Chairman ARRINGTON. You bet, go ahead.

Dr. SWAGEL. I will give a quick response and I will come and bring the health team and we will tell you more.

Ms. BALINT. Yeah.

Dr. SWAGEL. It is an issue across many aspects of the health system and challenges, the system is so complex and there are so many sort of noncompetitive aspects to it that there is not like one thing to do, and so there is a little bit of we are looking at piece by piece, you know, hospitals, pharma, other providers, and so I will come back.

Ms. BALINT. I appreciate that.

Chairman ARRINGTON. I thank the gentlelady from Vermont—

Ms. BALINT. I yield back. Thank you.

Chairman ARRINGTON. You bet. I now yield five minutes to our friend from Indiana and the Chair of the Budget Process Reform Task Force, Rudy Yakym, for five minutes.

Mr. YAKYM. Thank you, Mr. Chairman, for holding this hearing, and thank you to Dr. Swagel for being here today.

For over 50 years, the Congressional Budget Office, or CBO, has been tasked with providing objective, nonpartisan data and information to help support the Federal budget process. Ensuring the accuracy of CBO's modeling, legislative scoring, and academic reports is essential to helping us as legislators make the best and most informed decisions possible.

I believe that in some ways the CBO has been successful in meeting those objectives, and in other ways it has certainly fallen short. For example, the CBO's initial projection for drug price quote negotiation provisions in the Inflation Reduction Act, the IRA, estimated that only one less drug would come to the market in the ten years following passage, but a year and a half later, we have already seen multiple treatments and cures pulled from the research pipeline due to these forced government negotiations. This includes potential treatments and cures for rare eye disorders and other cancers.

Another area I am deeply concerned about is the CBO's underestimation of the 2023 budget deficit projections by \$1 trillion. In a time where Federal spending is certainly out of control, we need to take meaningful steps to rein in our spending, and it is critical that we have accurate projections.

Dr. Swagel, in your testimony, you addressed the various components that contributed to CBO's trillion-dollar underestimation of our 2023 deficit, but briefly, what changes are you making to the model to ensure that these errors aren't repeated again next year?

Dr. SWAGEL. No, thank you. So, you know, I have looked at this carefully and the pieces that—the miss was entirely ours. That is what I have been focusing on. You know, the things the Administration did something, you know, I don't think I could have reasonably predicted that, but like the inflation forecast, the interest rate

forecast, that was our—we were off, and we have worked hard to get that right.

Mr. YAKYM. So specific to my question, what changes are you making at this point in time to ensure that we get a more accurate forecast next year?

Dr. SWAGEL. Yeah. So I look carefully at, well, why did we get it wrong? We had high inflation, but inflation was much higher even than we said. So why? What did we miss?

And we missed some aspects of what was happening on supply chains, and so we have worked much harder, and then the interaction of the instance of the fiscal policy with the supply chain disruption, we missed some of that interaction, and so we have worked hard to get that better.

Mr. YAKYM. You mentioned you are focused on the things that you can control, which I think is the appropriate steps to take, but you also mentioned things that the Biden Administration did last year that exacerbated our deficit. Can you provide maybe an example or two of the single biggest things the Biden Administration did in terms of their executive orders of what you might call broad interpretation of legislation that contributed to last year's sky high deficit?

Dr. SWAGEL. Okay, and I will mention maybe three quickly. One is on student loans, and there we estimate current law, and when they take these actions, we tally them. We work with the Ed and Workforce Committee so they understand them, but it is going to be an error for us.

Two is the revenue delays from the disaster tax declaration. That is going to be a shift of timing. Revenues, instead of coming in in 2023, will come in in 2024. So as a miss for 2023, we have to work hard to make sure we don't, you know, get the same miss in the other direction.

Then the last one is the corporate minimum tax. The Administration—the law was enacted. The Administration hasn't yet put out a guidance, so corporations haven't yet paid the money. It will show up, but again, it is going to show up in the future.

Mr. YAKYM. Thank you, Dr. Swagel. I am a strong supporter of preventative health care measures. They are essential to the long-term health of all Americans, and frequently preventative health care bills score poorly given their higher upfront costs, and they don't necessarily take the long-term benefits into play.

How is the CBO trying to adapt their models to accurately reflect the long-term savings of preventative health care?

Dr. SWAGEL. Okay. No, very good, and it is something we are working hard on.

We need to be able to understand the benefits in the future, including outside the 10-year window and then, you know, a challenge with the preventative care. So we are working hard on that.

So I mentioned Ozempic, the weight loss, anti-obesity. We are working hard to understand the cardiovascular benefits of those medications, as an example.

Mr. YAKYM. So the ability to look longer than ten years for potential savings might—would be a benefit to CBO.

Dr. SWAGEL. That is an important piece of it. I will mention one other piece which relates actually to what Mr. Peters had said with

the hospital we talked to in San Diego, is the targeting, and they were working hard to say, well, which children need this genetic screening, you know, where it will have the biggest difference? And so that is also a piece in substances with the obesity medication. How can, you know, policymakers target that, at the people who will be sick in the future and, therefore, avoid the costs?

Mr. YAKYM. Thank you, Director Swagel, and, Mr. Chairman, as Chair of the Budget Process Task Force on Reform, we will be looking into that in terms of a longer window.

Chairman ARRINGTON. Well, we appreciate your diligence on that front, and I thank the gentleman from Indiana. Ms. Jackson Lee from the great state of Texas, five minutes.

Ms. JACKSON LEE. Thank you very much, Mr. Chairman. Dr. Swagel, welcome.

Just because our time is short, what is a singular major point that you look at when you score legislation?

Dr. SWAGEL. You know, for many things, it is how many people are affected and what is the cost or savings per person? And so a lot of times that is what it boils down to is the sort of P times Q.

Ms. JACKSON LEE. So you want to look at really benefit to the American people, ultimately.

Dr. SWAGEL. We try to provide information on that. We focus on the cost, and then sometimes the cost and the benefit are just—you know, they can be the same, but they can also be separate. So we try to provide you with information on the benefits, but our mission really is focused on the costs.

Ms. JACKSON LEE. I think you did an analysis of the Trump tax cuts, and my understanding is that analysis showed that they did not pay for themselves. In fact, the Tax Act was estimated to increase the deficit by more than \$1 trillion over ten years. Is that accurate?

Dr. SWAGEL. That is correct, yes.

Ms. JACKSON LEE. And how did you assess that impact, negative impact?

Dr. SWAGEL. Okay. I will just say briefly, first of all, we worked with the Joint Committee on Taxation, which does the estimates of tax legislation. We looked at the effects of the tax cut on businesses, on households, and then the effect from there to the economy, and then back to revenue, and so we said there'd be a positive impact on some businesses and some households, but not enough to fully pay for them.

Ms. JACKSON LEE. I think that is important to put on the record, they did not pay for themselves.

One of my colleagues just asked about Biden proposals that impacted the economy. The student loans, wouldn't that give more fluidity in one's income as one of the student loan recipients, if you will? And to benefit from that reduction, wouldn't that counter any impact on the economy for there to be more cash flow in their pockets using the economy?

Dr. SWAGEL. Yes, that is exactly right. Those actions, we tally the cost. We also try to say, well, what is the impact on consumer spending and households and so on.

Ms. JACKSON LEE. The student loan reduction might, in fact, generate an impact in the economy for the use of more cash in their pockets.

Dr. SWAGEL. That is right.

Ms. JACKSON LEE. So if we had to make an analysis of going further, this is just me speaking, I might look at that as a positive step to go forward to help that generation that seems to be plagued with one student loan after another, because that is what I'd like to see happen.

Dr. SWAGEL. Oh, I see. No, no, no, that is right, and the forgiveness, as you said, would affect certain generations younger rather than older. That is right.

Ms. JACKSON LEE. Let's take a journey down a racial equity road and give us a sense in particular of the numbers that we find in people of color, and particularly African Americans. I think they have made at least some progress under the Biden Administration on unemployment, but it is not in housing, health care, and so have you taken a look, since we serve a very broad, diverse nation, the issues that we are confronting with racial inequities?

Dr. SWAGEL. Yes. If it is okay, can I mention three ways that we are trying to meet that?

Ms. JACKSON LEE. Yes. I think we spoke before of the H.R. 40 concept of reparations.

Dr. SWAGEL. Reparations, right, and I apologize, we haven't analyzed that.

But on health care that you mentioned, we have been working to make it so that we can analyze health insurance and coverage, breaking it down by race that, as you said, there is great inequality, you know, by different dimensions, and one of them is race, and we haven't been able to analyze that. We are getting close, and so we will be able to do that.

The same on tax policy. There is a slideshow on our website from some of our analysts. We have been working with the Census Bureau to be able to relate tax information by race, which, of course, you don't put your race on your tax, on your 1040, but we have been trying to make it that we could at least say something.

And then the last one we are doing is flood insurance, and this is—Representative Waters has been, you know, instructing us to do this, is to say, well, what is the effect of flooding by different communities, not just by location, but by race? And so we have been working hard on that as well.

Ms. JACKSON LEE. Well, can I ask you to add again, my discussion on H.R. 40 is to raise that as an analysis that speaks to the historical record of African Americans and how that trajectory impacts their economic status even today. That would cover—I think, I would like to have you emphasize housing affordability, housing access, which is everyone's pathway to wealth. Ownership of property and, or in the form of housing is a door opener to wealth.

Dr. SWAGEL. Okay. No, and I understand that because these past inequities play out today on household wealth. So the inequalities of the past and the injustices of the past affect the families of today. We are not working on it now. If we had the ability to, I agree, we need to work on that.

Chairman ARRINGTON. I thank the gentlelady.

Ms. JACKSON LEE. Thank you. I yield back.

Chairman ARRINGTON. I now yield five minutes to my friend from the Palmetto State, Ralph Norman.

Mr. NORMAN. Thank you, Mr. Chairman. Thank you, Director Swagel, for coming.

You know, you have heard over and over again the accuracy of what your reporting has been. Would you agree spending is the cancer in this country, overspending.

Dr. SWAGEL. Overspending presents economic difficulties.

Mr. NORMAN. Let me just give you a rundown. In May of 2022, the projected outlay was \$5.9 trillion. In 2023, the actual from the CBO was \$6.5 trillion. Net interest spending was \$217 billion higher than projected. Higher education, \$143 billion higher than projected by the CBO. FDIC, \$99 billion higher than projected. SNAP, \$18 billion higher than projected.

Now, I am in the real estate business. If you and your family were starting a business, and I consistently gave you figures that were much higher that you had to get a loan for, would you keep me on board?

And as I heard one of my friends from the other side, they said what you needed, I mean, it is costing us taxpayers to fund the CBO, \$63 million a year. You have got 275 employees. Would you tell me that if I were, the scenario I presented you, would you want to give me more money to put bad figures in front of you?

Dr. SWAGEL. Well, I would say two things. One is I would want to know, well, what was it? What went wrong? And that is what I tried to explain some of that in my testimony.

And then two is I would say, well, with the additional funds, what would you do? Would it make it better or would you get more of the same?

Mr. NORMAN. But you would be pretty mad, wouldn't you, if I gave you bad figures consistently?

Dr. SWAGEL. I mean, well, you can see I don't get mad easily. So I wouldn't get mad, but I would be just curious.

Mr. NORMAN. Who is your boss? Do you do a customer survey? Do you get with them? Who do you answer to, in your opinion?

Dr. SWAGEL. So we answer to you. We work through the Budget Committees, but we work for all the Committees of jurisdiction, and so we work in services in both of those levels, and so on health legislation, our boss would be the Committees that work on health legislation.

Mr. NORMAN. Well, I think you would get—if you didn't get mad, if it were coming out of your pocket, you would get mad because, you know, you can't reward bad behavior.

On what method of estimating cost of the Federal credit programs would be the most comprehensive assessing the market-based risk?

Dr. SWAGEL. That is right. No, the market-based risk would provide a comprehensive assessment, and, for example, student loans, we don't have that in there because by statute we are required—you know, we are directed not to put that in there.

Mr. NORMAN. Is it fair value?

Dr. SWAGEL. Fair value would do it. It would give you the most comprehensive assessment of risk.

Mr. NORMAN. Okay. On the Fair Credit Reporting Act, FCRA, give me your take on that.

Dr. SWAGEL. It is, you know, it is something we evaluate when it has budgetary consequences, and it is a balancing act between protecting consumers and affecting the flow of credit and what that means to consumers who don't have access to credit.

Mr. NORMAN. Describe the green energy loan programs and the costs on the FCRA fair value analysis.

Dr. SWAGEL. So the green tax credit programs, the challenge there is that—well, first of all, those are JCT numbers that we then update. You know, the market has evolved quickly and the Administration has implemented those programs in ways that were more expansive than I think JCT had put into their estimate.

So next week with the economic outlook, we will have more details. They are going to be substantially more expensive than the Joint Committee on Taxation originally estimated.

Mr. NORMAN. Let me just suggest to you from our side, and you have kept hearing it, we have got to get accurate figures and heads need to roll in your department. I don't think you need more money. The 270 employees, the \$63 million we are paying CBO to get numbers that never match up, particularly on the spending level, is atrocious, and all I would ask you to do is whoever your boss is that you consider, whoever in your, under you is giving you bad numbers, they need to do their job and we need to get numbers that are accurate. The things that come up that I hear now with CBO, we basically just start laughing because we don't believe the numbers.

Thank you for coming and appreciate your time. I yield back.

Chairman ARRINGTON. I thank the gentleman from South Carolina. I now yield five minutes to our friend from Michigan, Dan Kildee.

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

I have been around a long time. There are still two things that are mysteries to me: pro wrestling and CBO scoring. So if you can help me figure out either one of those, I think we will be moving in the right direction.

But I think we equally sometimes share curiosity about how some of the conclusions are drawn. I would understand that some of your challenges, when policy decisions are made after your analysis is done, that it is obviously going to affect the outcome.

But I do want to focus on a particular question, and that has to do with what I refer to as legacy industrial cities. I come from Flint, Michigan. I was the county treasurer back home. Much of my career before Congress was focused on the condition of older industrial cities. I represent Saginaw, Flint, Bay City, communities that have great legacies but have difficult current conditions, but are starting to see some renaissance as a result of some of the work that we have done here in Congress: the Bipartisan Infrastructure Law, making a difference; CHIPS and Science Act, seeing us reshore manufacturing and investing in new technology that delivers really good jobs.

My curiosity is that these investments I have seen firsthand, the impact they can have on those older industrial legacy communities

in terms of their ability to not be a drain on the national fisc, but actually contribute to a more stable economy and a more stable budget outlook for the country, and I am curious as to the extent that the CBO is able to analyze those sorts of investments and looking at the all in effect of those sorts of investments on those communities and ultimately on their contribution to our economic and fiscal situation.

So if you could just discuss momentarily the research CBO has done on the impact of Federal policymaking on employment, on economic growth in these most distressed communities, and then what additional resources or technical capabilities you would need if we were able to expand that work.

Dr. SWAGEL. Okay, and I will start by saying we do some, but not a lot and not enough, and so I am grateful to this for pointing me to it as something that we need to focus on more.

In the future we will, we will go back and look at the effect of the infrastructure bill and the CHIPS bill, and I know that these regional effects are going to be an important part of the story of those bills. So we will get there in the future.

We have done a little bit of it in the past, and so as an example, some of the provisions in the Build Back Better legislation that we scored when it was voted on in the House had a regional aspect, and so the, say, childcare subsidies or preschool subsidies, we called state by state to talk to them to figure out, okay, are you going to take up the program? What would you do? And then we added that up, and that was our estimate.

So, you know, that sort of thing a little bit, but not, really not the big picture issues that you are focused on, and so I can only apologize, and we got to do better.

Mr. KILDEE. Well, I appreciate that, and I think one of the other aspects of your work that I just want to call out and see if you might comment on, I have long been of the view that the window over which we examine the efficacy of our investment decisions, whether it is tax policy or investments, in, say, early childhood education since you referenced it, the 10-year window is interesting. I think it might be the wrong 10-year window.

If you think about the impact of early childhood education, there is often criticism of programs like Head Start, for example. Looking at the next ten years for a 3-year-old is interesting. Looking at the ten years from age 13 to 23 or the ten years from age 23 to 33 is where that investment bears its greatest fruit. Do we ever look at that? Do we ever supply data on those longer term impacts?

Dr. SWAGEL. Okay. No, and I agree with everything you said. We have started. So we have a project that so far we have put out one paper on to look at investments in children is what we think of it as, that if you provide health care to a child, including in utero, what does it do to their long-term trajectory? And like you said, age 23, 33, and on, and so we have looked at that, what is the additional revenue that is spun off? And then how does that compare to the cost?

And so we will get you that, but in some sense, that is the proof of concept, and I want to make sure that we are ready to provide you information on future legislation that has that property, that kind of long-term benefits.

Mr. KILDEE. I appreciate that. That is very helpful. And in the remaining ten seconds, anything at all on pro wrestling?

Dr. SWAGEL. You know, I have a former student who is a pro wrestler.

Mr. KILDEE. You do?

Dr. SWAGEL. He briefly played for the Dolphins and then went into pro wrestling. I will hook you up. No, no, no, no.

Mr. KILDEE. Thank you very much.

Chairman ARRINGTON. We have such broad authority here. I am not surprised when anything, including pro wrestling.

Ms. JACKSON LEE. Mr. Chairman.

Chairman ARRINGTON. Thank you, Mr. Kildee. I now yield five minutes to our friend from Oklahoma—yes, ma'am.

Ms. JACKSON LEE. Just procedural. Just procedural. Thank you so very much.

In the financial commission markup, I would like to place on the record at the appropriate place my vote for aye for the Ranking Member's amendment and the Jackson Lee amendment. I was unavoidably detained, and so I would like the record to reflect I would have voted aye for those two amendments.

Chairman ARRINGTON. Without objection, so ordered.

Ms. JACKSON LEE. I thank you. I yield back.

Chairman ARRINGTON. Mr. Brecheen, five minutes, our friend from Oklahoma.

Mr. BRECHEEN. Thank you, Mr. Chairman. Director, thank you for coming before us.

You know, the CBO has a unique relationship to the Budget Committee, as was mentioned by the Chairman. You know, the lack of true oversight by this Committee for a number of years has been lacking, and I appreciate the Committee actually taking our responsibility seriously.

Many of us came to get our spending issues under control, that is inclusive, both revenue and the spend, and I appreciate the fact that, you know, there is an attempt made to get accurate numbers. I am concerned that maybe there is some mission creep that has occurred. You have heard the statement, jack of all trades, master of none, and so I want to kind of talk about the dabbling by the CBO in areas that may be stealing the intellectual heft to focus on the things that are the priorities and the original reason, the original mission.

According to the CBO report titled "CBO's Recent Publications and Work in Progress as of December 31, 2023," there were several items of concern—for me, concern—about how you guys are moving into the climate hysteria realm.

So I will quote from the CBO's drafting report. You were evaluating the effects of climate change on markets for property and casualty insurance. You were summarizing the risk that climate changes pose for the budget and the economy. CBO spent countless hours and resources publishing reports titled, "Carbon Capture Storage in the United States." I can't see how that has anything to do with the budget. "Emissions of Carbon Dioxide in the Electric Power Sector," again, how does that relate to core mission? "Emissions of Carbon Dioxide in the Transportation Sector."

So mission creep, absolutely to me is clear in this and the intellectual heft borrowing of assigning staff to work on that type of activity when we are missing projections in the trillion-dollar range.

So I would just like for you to put your bipartisan, straight reasoning. What is the mission of CBO? Why are we getting involved in this?

Dr. SWAGEL. Okay. No, thank, and thank you, this is something that started with me as Director, is this quarterly report on what we are working on. So, you know, thank you for mentioning it.

We do have a pretty robust work program on climate, and you mentioned some of it, in terms of there is two pieces to it. One is that—well, yeah, I will say the two pieces and say why we got there. I will be fast.

It is to say if there is eventual climate legislation, we want to be ready for it, and so that is why we are looking at the transportation sector, we are looking at manufacturing, electric power generation, the places where, well, the Biden Administration and others have focused on as potential legislation, and of course, we have no view on what the right thing is. I want to make sure we are ready to estimate it, and so that is a big piece of it.

And then secondly, we respond to Members. If a Chair or a Ranking Member of a Committee has jurisdiction, wants a report on something, and I can do it, we are going to do it, and so some of the reports that you mentioned were, you know, directed, we were directed to do it, and so we were responding to congressional interest.

Mr. BRECHEEN. Is the CBO the proper placement for those requests? Is there not GAO, Congressional Research Service? It is the better placement when they are asking you to analyze the amount of storage capacity for carbon in the United States. Again, staff devoted to that, when it could go to CRS or GAO, that steals from the time and placement of getting the numbers correct that this Committee absolutely has to have to make, you know, the biggest decision Congress is tasked with, which is power of the purse.

Dr. SWAGEL. No, that is right, and that is part of the management challenge, is allocating resources, and there is substantial congressional interest in the topic, and that is why we have, you know, these people working on it.

Mr. BRECHEEN. Do you have the ability to say, we are not the proper entity for this? This needs to go to CRS. This needs to go to GAO.

Dr. SWAGEL. You know, there are some things that does happen, essentially something backward looking, evaluate past legislation, GAO, you know, has many more people, so we do it sometimes.

Mr. BRECHEEN. How many staff are—I have nine seconds. I apologize for interrupting.

Dr. SWAGEL. Yeah, yeah, sorry.

Mr. BRECHEEN. How many staff are associated with anything in this realm? How many total staff do you have associated in this realm?

Dr. SWAGEL. Well, it could be a dozen, eight. I mean, there is a dozen working in micro, but that—

Mr. BRECHEEN. So 12 people at approximately \$100,000 salaries, that is real numbers.

Dr. SWAGEL. I am including people who work on lots of different things because, you know, like our financial modelers would help with our flood insurance, for example. So there is a core group that is four or five, and then there is, you know, six to eight others who contribute in various ways.

Mr. BRECHEEN. I will just yield to this, Mr. Chairman, I appreciate your indulgence. We are missing it by miles in terms of our projections. This is a new initiative. Maybe there is a correlation. I yield.

Chairman ARRINGTON. I thank the gentleman from Oklahoma, and yield to my dear friend from the great state of Texas, Mr. Chip Roy, for five minutes.

Mr. ROY. Thank you, Chairman. Dr. Swagel, great to have you here. Appreciate your service, and I have just got a couple of different questions.

The first question is, I want to make sure that I have my facts right, and we visited about this, and I appreciate your willingness to visit with staff and offices at a moment's notice, and I will say that you guys are great and responsive, and we appreciate that.

Recently you all found, and I believe put out a letter to this effect, that a full year continuing resolution under the statutory caps that were in the Fiscal Responsibility Act from last year that were passed on a bipartisan basis with majority votes by Democrats and Republicans in the House and the Senate, that doing so would decrease nondefense discretionary spending by \$73 billion while holding defense spending and veterans spending harmless, i.e., flat. Is that roughly correct?

Dr. SWAGEL. Yes, that is correct, and you can see that at the bottom of our cost estimate for each of these continuing resolutions.

Mr. ROY. So it is fair to say, without you opining on the merits, obviously, substantively, in terms of the legislation or the political decisions we have to make, that that passing of a continuing resolution, a full year CR that would basically come in somewhere around the \$1.564 trillion level, roughly, that that would be significantly lower than the \$1.59 trillion cap in the FRA. It would be significantly lower than the current appropriations deal on the table, which adds in additional—again, whatever merit there is for doing so, or lack of merit, that the additional spending that would come in at \$1.66 trillion. Right?

So the point is just a simple matter of fact, a continuing resolution passed right now, a full year continuing resolution, worded appropriately, that talks about it being a full year appropriation, would save the American people about, give or take, \$100 billion or a significant amount of savings, give or take, off of the deal currently being negotiated at roughly \$1.66 trillion and significantly less than even the \$1.59 trillion levels at the top levels of caps. Am I roughly articulating that correctly?

Dr. SWAGEL. Yes, if it is okay, I want to add just one. So yes, period. One note is that the legislation now being negotiated and, obviously, we haven't evaluated yet.

Mr. ROY. Correct.

Dr. SWAGEL. So I can't speak to that, but as a broader—

Mr. ROY. Understood, yeah. To the extent that news accounts are suggesting that it would be at the \$1.59 trillion plus some addi-

tional spending based on whatever side agreements were reached there would be a materially lower spending level, if we simply, as a body, passed a CR that adheres to the caps that this body passed by majority votes by House Republicans, House Democrats, and the Senate passed by majority House Republicans, literally, we will save the American people \$100 billion by adhering to law that was enacted, signed by the President of the United States. I just want everybody to know that as these deals are being discussed.

Second question is, you and I have discussed, and again, I appreciate you all's office's attentiveness and responsiveness, we struggle as a body to get what I would say is accurate, dynamic scoring on bills when we get out of the kind of typical static scoring that we do here.

When you have got something, for example, I have got bills. A lot of my colleagues have bills on health savings accounts and what I might call health care freedom, ways to massively empower individuals with dollars that go to them, give them the tax break that we are largely giving to corporate America or rejigger how we handle the tax breaks for corporate America that those can go into savings accounts instead of being, you know, paying for the, you know, health insurance premiums.

We have got to find a way—and I just want to say this in a public setting, so again, I want to give you credit. We have had good conversations about all these kinds of things. It is important to say in a public setting how CBO can be responsive going forward, and what can Congress do and what can this Committee do to get CBO to have the tools necessary, you know, that might be Budget?

And my friend was talking about your budget and what your staff looks like or outside groups or whatever. We have got to be able to do that to be able to take into account, I just wanted to hear your comments on it, the dynamic impact of driving prices down by having transparency. You don't have to comment on the policy of it, but to be able to assess what that impact would be if we do that, right? No one knows, but yet we get told, oh, that will cost a trillion dollars. So then it is dead on arrival.

But we can never have a creative way to approach making sure that American people have doctors and, you know, can go to the doctors of their choice and have choice. Instead we are stuck with "that will cost a trillion dollars."

I am not faulting you, but I am faulting this very broken system. We have got to find a way to break that. So I just wonder if you have any comments on what that might look like besides what I know would be an easy answer, which is more staffing, which I get, but if, could you comment on that? Then I will yield back.

Dr. SWAGEL. Okay, and you have hit on what was not just my goal, but my mission, to be responsive and to be transparent, to respond to your interest in this legislation. I know many others have the same interest and to do it in a way that you can understand. If you agree or disagree, at least we will understand what the differences are. On something like this, the kind of change to the tax benefits in the health care system, we would work with the Joint Committee on Taxation, so it would depend on their capacity as well.

But, you know, we have the ability. It is just the health committees, boy, they keep us busy basically full time, and so we are just constantly struggling to get——

Mr. ROY. We call that a hamster wheel, but anyway go ahead.

Dr. SWAGEL. Yeah, yeah. I can do the water level to here instead of here, but we absolutely have the ability. It is just the time and the——

Chairman ARRINGTON. I thank the good Director. I thank the gentleman from Texas, and I know there is a longer conversation about a lot of these things. I appreciate those comments.

I now yield to another great Texan from——our Health Care Task Force Chair, Dr. Burgess, for five minutes.

Mr. BURGESS. Thank you, Chairman Arrington, and Director Swagel, thank you for participating in the roundtable that we did in the Budget Task Force. I thought it was particularly revealing. We had a former CBO Director, Doug Holtz-Eakin, we had someone from the investor class, someone from the inventor class to talk to us about the effects of the Inflation Reduction Act and on basically delivering the cures for the future. I think we had a pretty good discussion.

Then the plus side of all of that is, because of some discussions that you and the Chairman and I had, you have opened up a portal on the CBO website allowing stakeholders to submit research and data that they have regarding the reality of drug innovation. So I am grateful that this request was received and granted.

I have a letter that I want to introduce to the record, Chairman Arrington, responding to the CBO's call for research in the area of drug development. This letter is signed by more than 350 biotech investors and innovators, representing \$309 billion.

Chairman ARRINGTON. Without objection, so ordered.
[The information follows:]

JANUARY 17, 2024

To: **The Honorable Phillip Swagel, Director**
Congressional Budget Office
441 D ST SW
Washington, DC 20024

RE: [A Call for New Research in the Area of New Drug Development](#)

Attached is a response to the Congressional Budget Office's (CBO) December 20, 2023 "[Call for New Research in the Area of New Drug Development](#)" from investors and innovators who specialize in funding biotech R&D and represent \$309B of assets under management and 624 drug candidates in development.

CBO's ability to correctly model investor decision-making is vital to our country's ability to establish policies that achieve lasting biomedical affordability and continued innovation. In support of CBO's efforts to improve its model, this letter emphasizes a number of economic and financial first principles, notably that investment is incentivized by expected returns based on discounted profits, not revenue, and adjusted for expected dilution from financings.

Making these adjustments to CBO's model would reveal why the Inflation Reduction Act (IRA) has not merely reduced incentives for the development of new small molecules but essentially eliminated incentives for the earliest stages of funding for non-exempt small molecules aimed at diseases of aging, the effects of which may not be evident today but are clear over time. The letter makes the economic case for a legislative fix to equalize negotiation for all drugs at 13 years.

The letter offers the following resources for CBO's review:

- [No Patient Left Behind's \(NPLB\) recommendations on how CBO can improve its Rx modeling innovation impact.](#)
- [An NPLB explainer on how the small molecule penalty already is impacting investor and innovator new R&D decision making,](#) why the IRA's "exceptions" will not work as intended, and relevant data on revenues over the course of a small molecule's product life-cycle. A more detailed discussion can be found in this [NPLB Webinar](#).
- ["Beyond Total Revenues, how IRA impacts investors' early-stage R&D decision-making,"](#) an explainer prepared by investors on how and when biotech investment decisions are made, showing how models based on global revenues need to be adjusted for profits, discounting, and dilution to recognize the impact of revenue cuts on incentives for early-stage R&D funding.

Please contact me (prubin@nopatientleftbehind.org) for more information about the letter or its accompanying resources.

Peter Rubin

Peter Rubin
Executive Director
No Patient Left Behind

This letter continues to gather signatures. Please [click here for the most recent version](#).

Dear Director Swagel:

Thank you for your December 20, 2023, blog post seeking additional information on the drug development R&D process, particularly “how changes in pharmaceutical companies’ expected future profits affect the development of drugs with differing characteristics, such as small- or large-molecule drugs or those that target certain diseases or patient populations (such as the elderly).”

As healthcare investors representing \$309B in assets under management and executives of companies developing 624 drug candidates, we believe that the Congressional Budget Office’s (CBO) ability to correctly model investor decision-making is vital to our country’s ability to establish policies that achieve lasting biomedical affordability and innovation.

As such, in this letter we outline an analysis that incorporates the real-world experience of investors and drug developers, including the types of financial metrics that drive decisions around investment in portfolios of R&D projects. Our primary goal is to illuminate some of the economic first principles that have caused recent drug pricing policy changes to alter the attractiveness of all drug development with amplified cuts to incentives for funding the earliest stages, from which all else stems. We also aim to provide the foundational arguments for a legislative fix: equalizing small and large molecule negotiation timelines at 13 years after FDA approval.

Why the CBO’s modeling matters to us

We appreciate that Congress looks to the CBO for the potential implications of policy proposals on the federal government’s 10-year budget. What specifically concerns us is how the CBO forecasts the impacts of policy changes on innovation. When the CBO examined the implications of the Inflation Reduction Act’s (IRA’s) Medicare Negotiation of NDA-path medicines just nine years after they launch, what we sometimes refer to as the “nine-year small molecule penalty,” it forecast only a very slight decrease in the number of such medicines coming to market in the coming decades.¹

Yet, this is very much at odds with the fact that our funding for early-stage small molecule programs has plummeted and, in the event they even make it to market, they will have the vast majority of their US revenues subjected to the nine-year penalty. While success of any early-stage program is never assured, the seeds we *aren’t* planting are the drugs that definitely *won’t* come to market a decade or more from now.

That we continue to fund early-stage small molecule programs after the passage of the IRA is because of its exemptions, not because the nine-year penalty only partially discourages early-stage funding of programs with mostly Medicare revenues. For reasons we outline below, knowing that market-based pricing will be terminated after only nine years is thoroughly discouraging of early-stage investments, especially preclinical development and, even more so, drug discovery. Were the nine-year penalty applied to all drug programs without exemption, funding for both small

¹ <https://www.cbo.gov/publication/57449>

This letter continues to gather signatures. Please [click here for the most recent version](#).

molecule and biologics-based early-stage programs would be similarly discouraged (it's hard to even think of possible exceptions).

We appreciate that some policymakers and policy advisors trust the CBO's predictions more than they trust the word of people actually funding drug R&D. Some policymakers have said that the IRA's nine-year small molecule penalty won't impact innovation much *because the CBO said so*.² This disregards our and others' relevant expertise and knowledge that such policy has already curtailed investment in such programs. We fear that policymakers will fail to grasp the IRA's impact on new medicines' and other technologies' development and potentially legislate other penalties on innovation until the CBO's forecasts better capture their real consequences.

So we hope to make a case to you and the CBO that our behavior aligns with economic and financial first principles. We believe this is not a matter of opinion but rather math, to which those of us who are economists can attest and that we believe the CBO can confirm for itself. Following that, we hope that the CBO will adjust its models to more accurately advise policymakers on the more probable consequences to innovation from the IRA and future policy proposals.

Why the Nine-year Penalty for Small Molecules Matters

For the last 40 years, investors and innovators have been calibrated by Hatch-Waxman and its patent-term restoration maximum of 14 years when making early-stage R&D investment decisions. That led to today's level of innovation and a mountain of now-generic drugs that continue to improve patients' lives and reduce overall healthcare costs. On average, drugs have gone generic approximately 14 years after launch^{3,4}, aligning with expectation.

When presented with early-stage preclinical projects that would end up with no more than nine years on the market before going generic due to insufficient intellectual property (IP), we have not funded them unless that entrepreneur can come up with fresh IP. Nine years is not enough to justify the risk and cost of a program in the early stages of R&D.

The IRA has now imposed that same limitation on all kinds of novel molecules and so it should be no surprise that our answer is the same. Nine years is not enough. Except fresh IP is now not a solution since the nine-year penalty disregards all IP. The workable solution would be a legislative fix that would give these molecules the same 13 years that biologics are granted under the IRA. Thirteen years is close enough to 14 that we cannot claim it will meaningfully slow the pace of innovation (or at least we cannot currently discern a meaningful change in our interest in funding early-stage biologic R&D as a result of the IRA limiting those products to 13 years).

²See, e.g., Rep. Kathy Castor's remarks at 9:00 in <https://www.youtube.com/watch?v=gTBv4iubNiw>

³ <https://pubmed.ncbi.nlm.nih.gov/30055271/>

⁴ <https://pubmed.ncbi.nlm.nih.gov/34253119/>

This letter continues to gather signatures. Please [click here for the most recent version](#).

The CBO previously has recognized that more than 70 percent of Phase III drugs emerge from small biotech companies largely funded by private investors (i.e., many of us signing this letter).⁵ But we should note that even large biopharmaceutical companies make investment decisions using the same financial calculus that we do. They are similarly deterred from early-stage investing in certain programs due to the nine-year penalty. The signers among us with relevant experience at large biopharmaceutical companies can attest to that.

Appreciating Elasticity of Innovation

While in some recent instances, the CBO has moved toward a simulation model, other CBO models appear to rely on academic studies of *elasticity of innovation* that correlate the number of drug launches with the size of a market in terms of the global revenues it supports.⁶ Such correlations overlook A) the costs of those revenues and therefore the resulting profits and B) when in the future those profits are realized and therefore how heavily they are discounted back to the moment when an early-stage funding decision is made.

The following is a summary of what we believe may be at the root of the difference between the CBO's forecast and how we actually make investment decisions, which we hope will be useful regardless of how the CBO decides to model innovation.

1. **Investors and companies are mindful of profits, not just revenues.** So US and ex-US revenues are not equivalent in our models because US margins are much higher than ex-US margins, due to lower prices and higher commercialization costs abroad.⁷
2. **All profits are discounted in our models.** So a reduction in revenues more than 13 years after product launch matters less than the same magnitude of reduction imposed nine years after launch. And since ex-US revenues and profits often take longer to scale due to many countries dragging their feet on reimbursement⁸, ex-US profits contribute even less to investment incentives than their modest share of overall profits might suggest. Taking time and discounting into account reveals that lowering the price of a drug 13 years after it launches has a notably lesser impact on its NPV than lowering the price after just nine years.
3. **The dilutive effect on early-stage investment returns from future financings amplifies the effect of revenue cuts such that a small reduction in the NPV of an approved drug may be a big reduction in the NPV of the portfolio of early-stage investments required to yield that approved drug.** After all, the IRA does not alter the risks of R&D nor how

⁵ <https://www.cbo.gov/publication/57126> "Small drug companies (those with annual revenues of less than \$500 million) now account for more than 70 percent of the nearly 3,000 drugs in phase III clinical trials."

⁶ <https://www.jstor.org/stable/43895619>

⁷ The observation that what matters is not revenue but profit was actually made recently in [an NBER paper](#), though it came out after the CBO modeled the impact of the nine-year penalty. Still, it's good to see the academic literature starting to advance beyond just correlating global revenue with innovation.

⁸ Resulting in delayed access to medicines for their patients.

This letter continues to gather signatures. Please [click here for the most recent version](#).

much capital it takes to fund the entire portfolio of projects required to yield one approved drug. Therefore, the NPV on the early investments into a portfolio of projects may fall substantially (even become negative) from what seems like only a moderate reduction in the value of the successful drug that emerges from that portfolio, explaining why it's important to look for the effects of pricing regulations on funding at the origin point separately from overall funding (See "A coin flip analogy" sidebar below.)

4. **One should not assume that drugs that end up generating lower revenues on the market had lower development costs**, as CBO states on slide 23 of this deck.⁹ When we fund a portfolio of projects, we often hope that a drug will be a blockbuster and invest accordingly, but only after the drug launches do we realize that it will disappoint. There may be surprisingly weak correlation between the cost to develop a drug and what it earns once it's on the market. However, there is a strong correlation between what we expect a drug to earn and our willingness to fund its development. To the extent that our predictions are borne out, there should be correlation between the cost of development and revenues. However, we are often wrong in our predictions of revenues, especially in the early stages of a project. When we realize that we are wrong, we apply what we learn to future decisions. Therefore, you would expect a greater correlation between the revenues of a drug and investors' willingness to fund the costs of future such medicines. If a heart failure drug sells well, then we are more likely to invest more in the development of better heart failure medicines, some of which may not sell well despite significant R&D investment. Therefore, cutting the value of the blockbuster drugs will reduce incentives for investment in a whole portfolio of drugs that will result in lack of development of not only more blockbusters but also drugs that would earn middling and low revenues.

Today, investors continue to fund development of small molecules that will be subject to the nine-year penalty, but increasingly these are at least somewhat de-risked programs already in the middle stages of development. This activity masks the loss of funding for the earliest-stage programs, making any analysis of total venture funding or late-stage small molecule program discontinuations irrelevant (the relevant research question would be: how much venture funding is going towards seeding small molecule programs that will be subject to the "penalty"? Which would be better answered through surveys such as the one we highlight in our "conclusions" section, below).

Therefore, it is no surprise that the CBO did not notice any change in investment immediately before or after the passage of the IRA¹⁰; cuts to early-stage funding (discovery of molecules) would be hard to perceive in the context of so much venture capital flowing to mid-stage programs already in development. But the impact of not planting those seeds may become more evident in the future from not only fewer small molecule drugs launched for diseases of aging but also the fewer

⁹ <https://www.cbo.gov/publication/57449>

¹⁰ <https://www.cbo.gov/system/files/2023-12/59792-Letter.pdf>

This letter continues to gather signatures. Please [click here for the most recent version](#).

indications listed on the labels of those drugs that do launch (e.g., due to orphan exemption), though even then it's hard to see what's not there.

The early-stage programs receiving funding today are those whose future revenues are unlikely to be significantly curtailed by the nine-year penalty, which include drug candidates for diseases that affect younger populations, single-orphan indications, or biologics. And the proposed SMART Prices Act¹¹, with its five-year penalty for all drugs, would expand investor disinterest to many more programs, not because nine years isn't already discouraging of early-stage investment (once an incentive isn't big enough to incentivize early-stage investing, it hardly matters how small it is) but because of its breadth. Proposals to extend these penalties to the commercial market (non-Medicare) would mean that investors would have no expectations of a return from funding any early-stage biopharmaceutical R&D. And a policy like H.R.3 that would have imposed

A Coin Flip Analogy

While the statistics governing drug development are hardly as knowable as those of coin flips, consider the following example. Let's say you have to pay \$1 per coin flip and four heads in a row results in a \$50 payout. You'll need a portfolio of 16 such attempts to get four in a row. Those first 16 flips cost \$16. Eight attempts land tails and terminate after that one flip, and the other eight cost \$8 for a second flip. Four of the remaining eight terminate after the second flip, and the other four cost \$4 for a third flip. Two of the remaining four terminate on the third flip, and the final two cost \$2 for the fourth flip. The cost of developing the portfolio ($16 + 8 + 4 + 2$) adds up to \$30. On average, one of the initial 16 attempts wins the \$50. That winning series of flips will cost \$4 yet pay out \$50, a highly profitable blockbuster.

Reduce that reward from \$50 to \$30 (a \$20 penalty) and, compared to \$4, winning would still seem compelling. But consider that it cost \$30 to fund the entire portfolio of coin flips. Spending \$30 to make \$30 is not an investment. That's a waste of time (and note that we haven't even discounted for time). Reducing the reward for winning by even 40% results in eliminating the incentive to fund those first 16 coin flips. If the penalty is introduced after many projects are underway, then the eight projects that survived the first flip (e.g., the drug candidates that are past discovery and are in development) would only cost \$14 to play out to the end ($8 + 4 + 2$), so a \$30 reward for success still yields a positive expected return.

And now consider that the \$20-penalty only applies in a special case we'll call the "non-exempt medicine" and the reward remains the same for all others. Let's say that each coin can only be flipped once per year and investors fund a large portfolio of coin flips such that every year there are 160 first-flips, 80 second-flips, 40 third-flips, 20 fourth-flips, and therefore 10 medicines are successfully developed. Only a tenth (16) of the 160 first-flips are aimed at winning the reward for what will turn out to be the penalized class.

This portfolio of coin flips costs \$300 per year with a total expected reward of \$500. But once Congress passes the penalty and the \$50 reward has been cut to \$30 for the non-exempt class, they stop funding the non-exempt 16 first-flips each year. Therefore, in the first year after the penalty is implemented, the reward drops by 4% from \$500 to \$480 and R&D investment drops by 5.3% immediately from \$300 to \$284, a difference that is only clear in this coin flip example but would be hard to discern in the normally volatile real world (if the difference were even 5.3%). Over the next three years, as the 2nd, 3rd, and 4th flips for the non-exempt portfolio have played out and the consequences of no longer doing first-flips flow through the pipeline, R&D investment drops by 10% from \$300 to \$270 and rewards drop from \$500 to \$450. After four years, we stop seeing any new non-exempt medicines coming to market.

Therefore, as soon as the penalty is announced, it may appear that many projects are still being funded and that the reward reduction did not reduce investor interest in funding coin flips, but that's wrong. Because to understand the impact on innovation in the long run, one must stay focused on the origin point (the first flip) of the non-exempt field of R&D. As long as those first flips aren't worth funding, the pipeline eventually runs dry.

¹¹<https://www.baldwin.senate.gov/news/press-releases/baldwin-colleagues-introduce-legislation-to-cut-seniors-prescription-drug-costs>

This letter continues to gather signatures. Please [click here for the most recent version](#).

price setting at launch would wipe out an expectation of return from even late-stage investing. To us, the effects of such policies are clear from the first principles of an NPV model.

The CBO's writings suggest it recognizes that there would be a delayed effect from the IRA since the reduction in incentives would be felt most acutely at the earliest R&D stages and take time to show up in the number of launched drugs. We think that, for the above reasons, the CBO has notably underestimated the degree to which the nine-year penalty reduces incentives to fund the earliest stages of R&D.

A Comment on the CBO's Assumptions about Launch Prices and CMS Price Reductions

The CBO makes a number of assumptions about how market participants will respond to the IRA that differ from investors' expectations. We highlight some key differences below and would encourage the CBO to revisit these assumptions with input from the investor community and pharmaceutical decision-makers.

5. **Investors cannot assume that companies will compensate for the nine-year penalty by launching at higher net prices.** The CBO has stated that it believes that drug companies will compensate for the shortening of their profitable period of market exclusivity by raising launch prices.¹² We cannot make this assumption without also considering how payors might introduce more friction into coverage decisions (e.g., utilization management such as prior authorization, step therapy, and high patient out-of-pocket costs), thereby reducing volume. After all, we already assume that if drug companies could charge more without sacrificing volume, they likely would. Consider also taking the nine-year penalty to an extreme. If it were five years, as the SMART Prices Act bill proposes, should we assume that launch prices would be yet higher? How about three years? Or one year?
6. **We have to assume that CMS price setting will reduce drug prices by >50%.** As the CBO notes,¹³ the consequences of not agreeing to the price "negotiated" by CMS are so severe (excise tax of up to 1900%, withdrawal from all HHS agreements) that companies are unlikely to opt-out of offering their drug at the final price proposed by CMS. We consider the nine-year penalty is functionally rendering a drug as barely profitable as a generic because Medicare Negotiation has no floor on how low the government can set the price, and we have to assume some future administration will seek maximal savings regardless of how benign the cuts might be on the first sets of drugs negotiated.

Quantifying the Impact of the IRA Market Distortions - Beyond the Mere Number of Drugs

The CBO analyzes the impact of the IRA on the number of new drugs that come to market. However, the IRA introduces a number of market distortions that will impact the type of drugs that

¹² <https://www.cbo.gov/system/files/2023-02/58850-IRA-Drug-Provs.pdf>

¹³ Slide 10, <https://www.cbo.gov/system/files/2023-02/58850-IRA-Drug-Provs.pdf>

This letter continues to gather signatures. Please [click here for the most recent version](#).

come to market, the overall utility of those drugs, and competition among branded drugs. Finally, when fewer drugs reach the market, this will ultimately impact spending on healthcare services, which should also be factored in. We would encourage the CBO to expand their analysis to include these consequences to more fully characterize the impact of the law.

7. **The IRA will result in lower investment in small molecules for diseases of aging** in broad indications such as heart failure, Alzheimer's disease, or breast cancer. This may not result in merely fewer drugs launching but in our inability to justify development of existing drugs for these indications. For example, SGLT2 inhibitors were first approved for diabetes, which would have started their nine-year clock had the IRA been in place 10 years ago. But signals of their efficacy in heart failure resulted in companies funding large trials in this primarily Medicare-covered indication, and the first of these drugs was approved for heart failure five years after its launch for diabetes.¹⁴ Under Hatch-Waxman, that drug still had at least nine years of patent protection before it would go generic. But under the IRA, it would have had only four years, which might not have been enough to motivate funding of the large, risky, and expensive trials necessary to get the drugs approved in heart failure (or in chronic kidney disease [CKD], another primarily Medicare-covered indication for which SGLT2s eventually gained approval).

So had the IRA passed 10 years ago, we would still have SGLT2 inhibitors but would not fully appreciate how effectively this class could help manage heart failure or CKD. Considering that these medicines will soon be generic and continue to help manage heart failure and CKD inexpensively for the rest of time, this would have been a costly error. So although it's good that the nine-year penalty wasn't in place back then, it is in place now and imposing the same disutility on medicines going forward.

8. **The IRA will result in fewer approved indications and formulations for small molecule drugs.** In response to the nine-year penalty, investment in small molecules for diseases of aging has shifted towards those with a large enough single orphan exemption to justify development. This means that the law creates a strong incentive to constrain to a single, large orphan indication any such drug that could have utility in other indications, orphan or non-orphan. We are not suggesting that the proper fix is to expand the exemption but to address the nine-year penalty itself by changing nine years to 13 years.

Because the first approval starts the clock, companies are also discouraged from seeking approval in the later lines of cancer therapy where they typically first demonstrate efficacy; the law creates a strong incentive to delay launching an effective drug until it has approval for an earlier line of therapy that will serve more patients.

Because the IRA treats any drug with the same API (active pharmaceutical ingredient) the same, the nine-year penalty also cuts incentives to develop better formulations of existing drugs.

¹⁴ <https://www.drugs.com/history/farxiga.html>

9. **The IRA will also result in fewer approved indications for biologics.** While biologics have historically enjoyed a longer period of branded pricing, the upside of that has been that companies have continued to develop them for more uses long after they launched. The lack of incentives to develop aging small molecules for new uses as they become known (because they will soon go generic) has long been a shortfall of the Hatch-Waxman framework.¹⁵ It is outside of the scope of this letter to explore how to fix that, but at the very least it is important for the CBO to take into account the IRA's reduction in incentives for developing marketed biologics for new uses as they approach 13 years on the market. Policymakers might consider granting extensions to the pre-negotiation period as an incentive for meaningful upgrades to a drug post-launch, akin to how the six-month pediatric extension incentivizes companies to study how a drug meant for adults might work in children.
10. **The IRA will result in less branded competition within the same indication for small molecules impacted by the nine-year penalty.** Even if there were a case where investors were willing to back early-stage funding to develop a drug that would have its revenues substantially curtailed by the nine-year penalty, there would be less competition in that drug class once it came to market because the entire class's clock essentially starts with the first drug.

Currently, the typically 14-year clock started by the first-to-market drug still means that a laggard that comes to market four years later can compete with the first-in-class drug for a decade. With the nine-year penalty, coming four years late would leave only five years on the market before the first drug's price is reduced by Medicare Negotiation. Investors would likely abandon funding that laggard as soon as it became clear that it was more than one-to-two years behind the first drug. It's often not clear at the early stages which drug will be the first to market. And even then, it's not clear which will work best for patients.

Under the 14-year framework of Hatch-Waxman, drug development is not a winner-take-all proposition, which is why there are so many competitive drug classes; most drug classes have two or more drugs and it's not uncommon for there to be as many as four, offering payors ample leverage to negotiate lower prices (though most plans still make patients pay full list prices until they hit their deductible). But nine years requires investors to back what they think will be the one winning horse and maybe a close second. A smaller window for market-based branded pricing shrinks the margin for error. Yet drug development timelines are highly uncertain, especially in the earlier stages. With only a nine-year window before the first drug is negotiated, the consequences of coming to market when the clock has been run down by a few years result in a follow-on drug not being worth launching.

The end result will be that even in the rare cases when the nine-year penalty does not discourage the development of a drug, it will discourage the development of a competitive field of candidates in that class. There will be less competition during the nine-year period

¹⁵ SGLT2s were an exception because their potential utility in heart failure was discovered around when they first launched for diabetes, so they were not yet too aged to pursue new uses.

This letter continues to gather signatures. Please [click here for the most recent version](#).

and less of a chance that the best possible drug will even come to market. Consider that the best drugs in many drug classes were not the first of their class. And yet, once those best drugs go generic, those are the drugs that everyone benefits from forever, inexpensively.

11. **Fewer drugs will lead to higher spend on healthcare services.** Drugs go generic, while services do not. In the long run, if there are fewer drugs, that means more spending on healthcare services. It's also important to take into account the aging of the population, that healthcare services costs have been climbing faster than inflation for a long time, and that the US will be facing labor shortages due to demographic inversion in the coming decades, which will exacerbate the problem of staffing hospitals and nursing homes. Meanwhile, drugs keep people productive and out of hospitals. The spillover consequences of cutting incentives to develop new medicines, particularly the kinds that readily will go generic, should not be underestimated.¹⁶

On Affordability vs Value to Society

We include this section for anyone reading this letter who is understandably focused on affordability for patients, something we have not touched on and yet is very much on all our minds. We are all patients or else someday will be. And there are people we care about who need treatment. So the issue of both affordability of today's medicines and the development of new medicines is not only a professional matter but personal for all of us.

We all support the idea that appropriately prescribed medicines must be affordable to patients who need them. We don't fund drug development for any patient to then have to go without access.

We believe that the solution to affordability is insurance reform to lower what plans can charge patients out of pocket. Very little in healthcare can be expected to be affordable without health insurance, and when someone has health insurance, it's only delivering on its promise if people can actually afford what their physicians prescribe.

Ostensibly, plans charge an out-of-pocket cost to ensure that patients only take the medicines they need and don't over-utilize them. Yet insurance already has the electronic means to confirm when a medicine is inappropriate for a patient and often does, in those cases, simply deny coverage. But when even insurance knows that a medicine is right for a patient, we don't understand why it would then impose a cost that patients can't afford. It's not clear to us why there should be any out-of-pocket cost for chemotherapy or insulin, for example; it strikes us that no one tries to take these treatments unless they really need them, in which case why would insurance deter access? This feels unjust. The IRA's capping of out-of-pocket costs in Part D is therefore an initial step in the right direction to solving affordability.

¹⁶<https://www.thewellnews.com/opinions/fix-bbbs-rx-provisions-so-patients-arent-stuck-with-high-bills-and-more-needles/>

This letter continues to gather signatures. Please [click here for the most recent version](#).

On the other hand, forcing down prices of novel medicines, except maybe in the extreme, does not do much to solve affordability. Someone with a high deductible they cannot afford will still face that deductible even if the cost of any novel specialty cancer treatment were cut in half or more, and yet such a cut would eliminate incentives for investment in innovation. However, this does not mean that there is no role for policy to lower the prices of drugs; consistent with how the IRA treats biologics, the role for such policy is to ensure that all medicines eventually become inexpensive, as intended by the patent system, saving all of us money on what we pay for insurance, without interfering with innovation.

The intent of the patent system is to incentivize the development of novel technologies that then enter the public domain and become essentially inexpensive public goods for the rest of time. In the case of medicines, that has long been the case for small molecule drugs that went generic on average about 14 years after they launched, as intended by Hatch-Waxman. When biologics and other drugs fail to abide by the intent of the patent system and remain expensive for longer, we recognize the utility of regulation to bring down prices.

So while price-setting has a role to play in ensuring that the pricing of older drugs abides by the intent of the patent system, using it to attempt to solve affordability of today's novel medicines has implications for investment in tomorrow's.

We hope that policymakers will fix the nine-year penalty to restore incentives for innovation and continue to focus on insurance reform and lowering out-of-pocket costs to ensure that patients can afford the treatments that are right for them. By generating more complete models of the IRA's impact on early-stage investment in innovative therapies, the CBO can help guide them toward policies that benefit all Americans – today and in the future.

In Conclusion

As policymakers consider potential changes to the IRA, such as implementing Medicare price negotiation just five years after FDA approval, extending IRA's timelines to all market segments, or equalizing small and large molecule timelines at 13 years after FDA approval, the CBO has the sober responsibility to advise policymakers on the actual, real-world impact of their decision-making.

As the CBO works to revise its modeling assumptions, we encourage you and your team to review the below resources that reflect the decision making of biotech investors that fund and advise a significant portion of new US and global biotech private R&D:

A) [No Patient Left Behind's recommendations on how CBO can improve its Rx modeling innovation impact](#). In particular, NPLB emphasizes the need for the CBO to i) incorporate the net present value of when in the product life-cycle revenue cuts occur to reveal that the earlier price cuts are introduced the bigger the impact on future innovation, ii) take a longer modeling view (70 years), and iii) incorporate an appropriate societal discount rate when evaluating a

This letter continues to gather signatures. Please [click here for the most recent version](#).

JANUARY 17, 2024

policy's Rx innovation impact, consistent with long-range models used to inform energy and carbon capture provisions of the IRA.

B) An explainer prepared by some of the signatories, "[Beyond Total Revenues, how IRA impacts investors' early-stage R&D decision-making](#)," that illustrates investor decision-making at each stage of drug development and warns about the significant impact arbitrary price-setting will have on the number of future drugs and their utility to treat new indications post-FDA approval.

C) [An NPLB Webinar](#) that goes into detail about how investors and industry executives think through the IRA and what business model changes would or would not work to preserve the profitability of programs targeted by the IRA as well as the potential impact on drug commercialization of changes to how Medicare reimburses payors.

D) An [explainer on how the small molecule penalty already is impacting investor and innovator new R&D decision making](#), why the IRA's "exceptions" will not work as intended, and data on revenues over the course of a small molecule's product life-cycle.

Thank you for taking the time to review our feedback to CBO's information request. Please contact Peter Rubin (prubin@nopatientleftbehind.org) if you would like us to share additional information and relevant examples with your team.

Sincerely,

David Beier, Bay City Capital, *Investor*

Tess Cameron, RA Capital Management, *Investor*

Grace E. Colón, Inaya Therapeutics, *Executive*

Lou Garrison, University of Washington, *Economist*

Peter Kolchinsky, RA Capital Management, *Investor*

Peter Thompson, Orbimed Advisors, *Investor*

Co-Signers,

INVESTORS:

David Kroin
Deep Track Capital

Elena Viboch
General Catalyst

Roderick Wong, MD
RTW Investments, LP

Ellen Hukkelhoven, PhD
Perceptive Advisors

INVESTORS:

Brook H. Byers, PhD Hon.
Kleiner Perkins

Reid Huber
Third Rock Ventures

James B. Tananbaum, MD, MBA
Foresite Capital

Alex Karnal
Braidwell

This letter continues to gather signatures. Please [click here for the most recent version](#).

JANUARY 17, 2024

INVESTORS:

Jason Rhodes
Atlas Venture

Bong Y. Koh, MD
Venrock Healthcare Capital Partners

Rajeev Shah
RA Capital Management

Jay Lichter, PhD
Avalon Bioventures

Luba Greenwood
Binney Street Capital

Nick Olsen
Innovation Endeavors

D.A. Wallach
Time BioVentures

Derek DiRocco
RA Capital Management

Andrew Levin, MD PhD
RA Capital Management

Clay B. Thorp
Hatteras Venture Partners

Vasudev Bailey, PhD
ARTIS Ventures

Joseph E Edelman
Perceptive Advisors

Alexis Borisy
Curie Bio

Fuad Naser, PhD
RA Capital Management

Alex Strasser
RA Capital Management

Laura Tadvalkar, PhD
RA Capital Management

David H. Crean, PhD, MBA
Coast Bioventures LLC

Nikhil Thatte
Lumira Ventures

Zach Scheiner, PhD
RA Capital Management

Jorge Becerril, PhD
Novo Holdings

Takashi Moriguchi, MBA
Globalbrain

Geeta Vemuri
Agent Capital

Richard Gaster, MD, PhD
venBio Partners

INVESTORS:

Bihua Chen
Cormorant Asset Management

Jørgen Søberg Petersen, MD, PhD, DMSc, MBA
Novo Holdings

David Sable, MD
Special Situations Life Sciences Fund

Jeff Huber
Triatomic Capital

Gregory I Frost, PhD
F1 BioVentures

David Steinberg
Longwood Fund

Evan Markegard, PhD
AuGC Partners

JF Formela
Atlas Venture

Linda Ave,
Humain Ventures

Jory Bell
Playground Global

Vicki Campbell
LYFIX

Rich Aldrich
Longwood Fund

Steve Derby
General Ventures

Paul Weiss, PhD
Venture Investors Health Fund

Douglas M. Fambrough, PhD
KCap Biotechnology Fund

Kate Moreau, PhD
RA Capital Management

Kenneth N. Horne
AN Venture Partners

Matthew Duffy
Lucius Partners, LLC

Matthew Hammond, PhD
RA Capital Management

Paulina Hill, PhD
Sanofi Ventures

John Averill, MBA
RA Capital Management

Derek Yuan, PhD
LYFE Capital

Thomas Michael Brady, BS
Brady family fund

This letter continues to gather signatures. Please [click here for the most recent version](#).

INVESTORS:

Peter Haberz, PhD
LYZZ Capital

Armando Cuesta, MD
Korion Life Sciences

Allan Gobbs
ATEM Capital

Jacqueline Rhuda
RA Capital Management

Otello Stampacchia, PhD
Omega Funds

Walter H. Moos, PhD
Pandect

Jeff Williams
Summit Life Science Partners

Nate Chang
Playground Global

Neil Littman
Bioverge Ventures

Gerry Brunk
Lumira Ventures

Drew Zhu
TB VC

Jens Eckstein, PhD
Hevolution, Apollo Health Ventures

Mike Amend

Josh Baldwin
RTW Investments, LP

Philip M Maurer, MD
PMM Investments

Benjamin Chen
Crimson Capital

Norman T. Ferguson Jr., MBA

Lily Yi Li, PhD
Sixty Degree Capital

Steven S Lehmann
Portal Innovations

Dylan Reid
Zetta Venture Partners

Giovanni, Rizzo, PhD, MBA
Indaco Venture Partners

INVESTORS:

Sonia Maryam Setayesh, PhD
Civilization Ventures

Stuart Hwang, PhD
Remiges Ventures

Arjun Goyal
Vida Ventures

Brian Bloom
Bloom Burton & Co.

Garrett Vygantas, MD, MBA
Riverine Ventures

Patrick Nosker, PhD
Affinity Asset Advisors

Ahmad El Nagggar
Piper Heartland Healthcare Capital

Adam Stone
Perceptive Advisors

Prithviraj Singha Roy
RA Capital Management

Shinichiro Fuse
TPG Life Sciences Innovations

Matt Renna
Westfield Capital Management

Daniel S Lyons, PhD, CFA
Janus Henderson Global Life Sciences

Anish Kaushal, MD
Amplitude Ventures

Granville A. Ungerleider
NSIP LLC

Art Pappas
Pappas Capital, LLC

Karen Drexler, MBA
Astia, Portfolia

Assad Aslam
Desire Ventures Inc.

Jonathan Hostens
Insight Partners

Peter Balogh
RA Capital Management

Chris Garabedian
Perceptive Advisors

Mary E Wheeler, PhD MBA
BioRock Ventures

This letter continues to gather signatures. Please [click here for the most recent version](#).

JANUARY 17, 2024

EXECUTIVES:

Ramani Varanasi
ReVive

Ivana Magovcevic-Liebisch, PhD, JD
Vigil Neuroscience

Joshua Boger, PhD
Alkeus Pharmaceuticals, Inc.

Susan Hill, PhD
Mestag Therapeutics

Nancy Whiting, PharmD
Rexludix Pharma

Nancy Lurker
Eyepoint Pharmaceuticals

Jane Lapon, BSc, MRPharmS
Atorvia Health Technologies

Timothy A. Durso, MD, FAAD
Veradermics Inc.

Christopher R Meyer
Inhibikase Therapeutics

Deepak K. Jha
Merck & Co.

Eric Dube, PhD
Travere Therapeutics

Gautam Kollu
D2G Oncology

Allan Shaw
Portage Biotech Inc./CalciMedica/Evecxia

Stanley Miele
Aqualung Therapeutics Corp.

Brett Newswanger
ClostraBio, Inc.

Laksh Aithani
CHARM Therapeutics

Nicolas Tilmans, PhD
Anagenex

Mark Velleca
Black Diamond Therapeutics

Stanley Miele
Aqualung Therapeutics Corp.

Trisha Millican
Architect Therapeutics

Sofie Qiao, PhD
Vivace Therapeutics, Inc.

Christopher R Meyer
Inhibikase Therapeutics

EXECUTIVES:

Mario Barro, PhD
GIVAX Inc, *Executive*

Gunnar Esiason, MBA, MPH
Blackbird Clinical

Paul J. Hastings
Nkarta Therapeutics

Keith Murphy
Viscient Biosciences

Steve Potts
SLAM BioTherapeutics

Jeremy Levin, D.Phil, MB BChir
Ovid Therapeutics

Adam Simpson
Icosavax

Paul Bolno, MD
Wave Life Sciences

Laura Shawver, PhD
Capstan Therapeutics

Adrian Rawcliffe
Adaptimmune

Jon Congleton
Mineralys Therapeutics

Mark H Corrigan, MD
Silver Creek Pharmaceuticals

Cedric Francois, MD, PhD
Apellis Pharmaceuticals

Edward P. Monaghan, PhD
Catch Therapeutics, Inc.

Mark Lappe
Inhibrx

Ken Takanashi
Satsuma Pharmaceuticals

Angie You, PhD
Architect Therapeutics

Shehnaaz Suliman, MD, M.Phil., MBA
ReCode Therapeutics

Amanda Banks, MD

Joanne D Kotz, PhD
Jnana Therapeutics

Katherine Vega Stultz
Ocelot Bio

Elizabeth Jeffords
Iolix Therapeutics

This letter continues to gather signatures. Please [click here for the most recent version](#).

EXECUTIVES:

Todd Harris
Tyra Biosciences

Samuel Lee, MD, MBA
Eikonoklastes Therapeutics, Inc.

Carlos Loya, PhD
Aldebaran Therapeutics

Vincent Hennemann
Covant Therapeutics

Jeffrey Martini, PhD
Palvella Therapeutics

David N. Cook, PhD
Edgewood Oncology

Santhosh Vadivelu, PhD
AkiraBio

Carl A J M Firth, PhD
ASLAN Pharmaceuticals

Dominique Verhelle, PhD, MBA
NextRNA Therapeutics

Wei He, PhD
DTRM Biopharma

Scott Clarke
Ambagon Therapeutics

Courtney, Miller, PhD
Myosin Therapeutics

Timothy Cooke, PhD, MBA
Omniose

Harry R Trout III, MBA
Enanta Pharmaceuticals

Mark Rus, MSc
Delix Therapeutics

Sergei Pustylnikov, PhD
100XBIO

John M. Maraganore, PhD
JMM Innovations, LLC

Randy Milby
Tharimmune Inc.

Bill Enright
Barinthus Biotherapeutics

John A Tagliamonte
Mellitus LLC

Anjan Aralihalli
Raya Therapeutic, Inc.

John A Tagliamonte
Mellitus LLC

Anjan Aralihalli
Raya Therapeutic, Inc.

EXECUTIVES:

Edward A. Mascioli, MD
ZWI Therapeutics

Gregory Divis
Avadel Pharmaceuticals

Bharatt Chowrira
PureTech

Cyrus Arman, PhD, MS, MBA
CytoDyn

Kim C Drapkin
Graphite Bio

Michael N. Dudley, PharmD
Qpex Biopharma

Bernat Olle, PhD
Vedanta Biosciences, Inc.

Philip J Young
Lobe Sciences Ltd.

Kevin Green
Elsie Biotechnologies

Stephen T. Kulp
Peptilogics, Inc.

Daniel Camardo, MBA
Athersys, Inc.

Jonathan D. Steckbeck, PhD, MBA
Peptilogics

Elizabeth Wood, PhD
JURA Bio, Inc.

Brian Horsburgh
Immunova LLC

Rob Shaffer, PhD
Vrata Therapeutics

David Sherman, PhD
Endegen Therapeutics

Curtis Tyree, PhD
Organovo

John King, MBA
Vor Bio

Joseph P Sterk, MBA, MS, CFA
Boehringer Ingelheim

John King, MBA
Vor Bio

Joseph P Sterk, MBA, MS, CFA
Boehringer Ingelheim

Fredrik Wiklund
Bright Peak Therapeutics

Mehdi Chelbi
BIPER Therapeutics

This letter continues to gather signatures. Please [click here for the most recent version](#).

EXECUTIVES:

Gareth Morris-Stiff, MBBCh MD MCh PhD
InCym Biopharma

Harvey J. Berger, MD
Kojin Therapeutics, Inc.

Adam Gridley
Allay Therapeutics

Tim Walbert
Horizon Therapeutics

Matt Gilne
Roivant

Ali Fattaey, PhD
Metabomed Ltd.

Jonathan Sporn, MD
Gilgamesh Pharma

Matthew De Silva
Pathos AI

Nobuhiro Kawai, PhD
Atransen Pharma Ltd.

James A. Garner
AllerGenis

Arvind Kush
RayzeBio

Marcelo E Bigal, MD, PhD
Ventus Therapeutics

Brian P. McVeigh
Code Biotherapeutics, Inc.

Peter Lanciano
Periphagen, Inc.

Robert Ang, MBBS, MBA
Vor Biopharma, Inc.

James A. D. Smith
Matrix Biomed, Inc.

Gregory Weaver
Cognito Therapeutics

David J. Mazzo, PhD
Lisata Therapeutics, Inc.

James Wassil
Vaxcyte, Inc.

Atul Deshpande, PhD, MBA
Peptilogics

John Bencich
Achieve Life Sciences

Tony Johnson, MD
Domain Therapeutics

Jeffrey S Humphrey, MD
Charged Biotherapeutics

EXECUTIVES:

Derek A. Small
Luson Bioventures

Pawel Zawadzki, PhD
Gordion Bioscience

Vardan Harutyunyan
Denovo Sciences, *Executive*

Eddie Pauline
Ohio Life Sciences Association

Robert W Clarke, PhD
Kinaset Therapeutics

Kyle Carver
Evommune

Jeb Keiper
Nimbus Therapeutics

Jing Liang, PhD
Helicore

Jodi A. Cook, PhD
SkylarkBio

Marcelo E Bigal, MD, PhD
Ventus Therapeutics

Will Adams, PhD
Riparian Pharmaceuticals

Vardan Harutyunyan
Denovo Sciences

Eddie Pauline
Ohio Life Sciences Association

Mary J.C. Ludlam
Calm Biosciences

Baxter Phillips III, MBA
Lobe Sciences

Andrew J Hirsch
C4 Therapeutics

Joseph Truitt
IECURE

Timothy A. Durso, MD, FAAD
Veradermics Inc.

Peter Smith
Remix Therapeutics

Theodore (Ted) Ashburn, MD, PhD
Convergence Therapeutics

Eef Schimmelpennink
LENZ Therapeutics

Amit Munshi
ReNAgade Therapeutics

Julie Anne Smith
Nuvig Therapeutics

This letter continues to gather signatures. Please [click here for the most recent version](#).

JANUARY 17, 2024

EXECUTIVES:

Ian Yang, MBA, MFIN
Gene Bio Medical

Richard Potts
Alpha Cancer Technologies Inc.

Ravi Kiron, PhD, MBA
SIC Venture Studio, BioPharm Strategy

Peter S. Heinecke
Leapfrog Bio

Maura Lane Warner
Sideral Therapeutics

Joseph Oliveto
Milestone Pharmaceuticals

Nikole Kimes, PhD
Siolta Therapeutics

Christopher A. Viehbacher
Biogen

Karthik Musunuri
Avstera Therapeutics Corp.

Maria Soloveychik, PhD
SyntheX

Christopher J. Barden, PhD
Trevantis

Nima Farzan
Kinnate Biopharma

PJ Anand
Alcyone Therapeutics

Mingfu Zhu
20n Bio

James M Coffin, PhD
NTx Bio (Nature's Toolbox)

Ali H. Munawar, PhD
Pledge Therapeutics LLC

Darrin Miles
Nestled Therapeutics

Eli Berlin
Terray Therapeutics

Jordan Jarjour, PhD
Moonlight Bio

David A. Esposito
ONL Therapeutics, Inc.

Mike Grey
Mirum Pharmaceuticals

Pamela Esposito, PhD
Replimune

EXECUTIVES:

Robert Linke, MBA
Osmol Therapeutics, Inc.

Wyatt J. McDonnell, PhD
Infinimmune

Jack O'Meara
Ochre Bio

Sophia Lugo, MS, MBA
Radar Therapeutics

Joshua Muntner
Invax, Inc.

David-Alexandre C. Gros, MD
Eledon Pharmaceuticals

Sven Karlsson, MBA, CFA
Bioviida Venture Studio

William J. Newell
Sutro Biopharma, Inc.

Ted W. Love, MD
BIO

Sam Davis, JD
Scipher Medicine

Mark A Collins, PhD
Undaunted Bio, Inc.

Sam Rasty, PhD
Yale Ventures

Dr. Peter Nara, MSc, DVM, PhD
Keystone Bio Inc.

Spencer Heaton, MD, MBA
Espervita Therapeutics

Jeffrey L. Cleland, PhD
Ashvattha Therapeutics, Inc.

Laura E. Randa, MPA
Toivoa, Inc.

Tom Alapaattikoski
Brinter Inc

Jonathan P Northrup, BA, MBA
Stingray Therapeutics, Inc.

Quang Pham
Cadrenal Therapeutics

Jay M. Short, PhD
BioAtla, Inc.

Thijs Spoor
Perspective Therapeutics

Gregory J. Flesher
Reneo Pharmaceuticals

This letter continues to gather signatures. Please [click here for the most recent version](#).

JANUARY 17, 2024

EXECUTIVES:**David M. Margulies, MD**
Quiver Bioscience**Eric E. Easom**
AN2 Therapeutics**Hunter C. Smith**
Rhythm Pharmaceuticals Inc.**Kevin Pojasek, PhD**
Enara Bio**Joseph Payne**
Arcturus Therapeutics**Martina Roos, PhD**
Sardona Therapeutics**Bobak Azamian, MD, PhD**
Tarsus Pharmaceuticals**Charles Legg**
Zea Biosciences**Per Kallblad, PhD**
Beactica Therapeutics**Milind Kamkolkar**
Network Bio**Gina S. Chapman**
CARGO Therapeutics**Frederic Godderis**
Tranquis Therapeutics Inc.**Shreefal Mehta, PhD MBA**
Pulmokine Inc.**Mark S. Wilson, MBA**
Endure Bio**Raphael G. Ognar, MSc MBA**
NKILT Therapeutics, Inc.**Remis Bistras, PhD, MBA**
Diorasis Therapeutics**Ronan C O'Hagan**
Bectas Therapeutics Inc.**Troels Jordansen**
CellResearch Therapeutics Pte. Ltd.**Pamela Reilly Contag, PhD**
BioEclipse Therapeutics**Kejin Zhou, PhD**
Reinvigoron Theratech Inc.**Dirk Thye, MD**
Quince Therapeutics**Itziar Canamasas, PhD**
AtG Therapeutics**EXECUTIVES:****Jennifer Cheng, PhD, JD**
PTM Therapeutics, Inc.**Kennedy Schaal**
Rejuve Biotech**John Beadle, MBBCh MBA**
InnDura Therapeutics Inc.**Panna L. Sharma**
Lantern Pharma Inc.**Pedro de Noronha Pissarra, PhD**
Chrysea Limited**Mallikarjun Sundaram Srivatsan, PhD, MBA**
Accurius Therapeutics**Jim Foote, MBA**
First Ascent Biomedical**John Freshley**
Akeila Bio**Akeem Gardner, LLB**
Canurta Inc.**Doug Cai, MD, PhD**
Accendatech USA, Inc.**Elaine E. Haynes, RPh, MBA**
KaloCyte, Inc.**Jerome D. Jabbour**
Matinas BioPharma Holdings, Inc.**Shelley A. Hartman**
Aegle Therapeutics Corp.**Sebastian, De Beurs**
Healis Therapeutics, Inc.**Javier B. Szwarcberg, MD, MPH**
Spruce Biosciences**Anil Diwan, PhD**
NanoViricides, Inc.**Mark de Groot**
Pattern Pharma**Minghong Zhong**
GeneLancet Biosciences, Inc.**Hamid, Mahini, PhD**
Koi Biotherapeutics Inc.**Joseph J. Ferra**
Elevation Oncology, Inc.**Dai Takehara**
PRISM BioLab Co., Ltd.**Kerrie L. Brady, BPharm MS MBA**
OcuTerra Therapeutics Inc.This letter continues to gather signatures. Please [click here for the most recent version](#).

JANUARY 17, 2024

EXECUTIVES:

Iraj Ali, PhD
Achilles Therapeutics

EXECUTIVES:**INDEPENDENT DIRECTORS/OTHERS:**

Richard Xie, PhD
RA Capital Management, *Economist*

Heidi L. Wagner, JD
Wave Life Sciences, *Independent Director*

Sheila Gujrathi, MD
ADARx, *Independent Director*

Hilary M Malone, PhD
Independent Director

Paul B. Rothman, MD
Independent Director

Joan Koerber-Walker, MBA
Opportunity Through Entrepreneurship Foundation,
Economist

John L. LaMattina, PhD
PureTech Health, *Independent Director*

George P. Vlasuk, PhD
Independent Director

Michael Higgins
Sr. Biotechnology Research Analyst

Lekhan Shivashankar
Consultant

Joseph Patti, MSPH, PhD
Independent Director

Akash Datwani, PhD
Independent Director

Stephen J Hoffman, PhD, MD
Independent Director

Chinmay Kommuru, MBA
Independent Director

Muna Bhanji, R.Ph, MBA
Independent Director

Robert M Berman, MD
Koax Investment Partners, *Independent Director*

William K. Heiden
Independent Director

Scott L. Rakestraw, PhD
Independent Director

Mark Andrew Murcko, PhD
Dewpoint Therapeutics, *Independent Director*

INDEPENDENT DIRECTORS/OTHERS:

Steven Holtzman, BPhil
OXON, CAMP4 Therapeutics, *Independent Director*

Tim M. Mayleben
Marinus Pharmaceuticals, *Independent Director*

Sadjad Fakouri Baygi, PhD
Syntekabio, *Research Scientist*

Olav Hellebo
Antev Ltd, *Independent Director*

Brian M. Cali , PhD
Jnana, *Independent Director*

Brian DeBeer
Allele Capital Partners, *Banker/Advisor*

David Kraemer, BA, MBEE
10 || 2 Capital Partners, *Banker*

James Greenwood
Biotechnology Industry Organization
Former President and CEO

Robert Finizio
Chairman of BioFlorida

Mary Ann Gray, PhD
Independent Director

Gregory Benning
Strategic Advisor

Michael McAllister
Independent Director

Stephen Rapundalo, PhD
CEO, MichBio

Tony Russo, PhD
Russo Partners

Donna L. LaVoie
LaVoieHealthScience

Ted Haack
Independent Director

Kendalle Burlin O'Connell, Esq.
CEO, MassBio

Sara Jane Demy
Demy-Colton

Glenn P. Muir
Independent Director

This letter continues to gather signatures. Please [click here for the most recent version](#).

JANUARY 17, 2024

INDEPENDENT DIRECTORS/OTHERS:

Thomas Lonngren, Dr
Egetis Therapeutics, *Independent Director*

Alexander Vos
BioGeneration Ventures, *Independent Director*

INDEPENDENT DIRECTORS/OTHERS:

David Lubner
Independent Director

This letter continues to gather signatures. Please [click here for the most recent version](#).

Mr. BURGESS. So, Director Swagel, I appreciate your cooperation over the last few months as the Task Force has engaged with you and your staff about the accuracy of your models. What has the CBO generally, and you specifically, learned from those conversations facilitated by the Task Force stakeholders?

Dr. SWAGEL. Yeah. Thank you, and thank you again for having us participate and putting us together with these outside groups, and we have continued to engage with them. So the letter, it has shown up in my social media feeds, and I have read it. Our analysts working on this have read it, and there are some things in there which, you know, I wish they would do a little bit more to understand what we are doing, but there are some things where we are like, oh, yeah, they are right. We need to do it differently.

So we are continuing to work on our modeling of the effect of negotiation on innovation, and we are going to implement some of what, as I understand it, is in the letter. So I appreciate that.

Mr. BURGESS. I appreciate that response. Mr. Yakym's discussion about preventative health and the 10-year window that came up from Mr. Kildee, and we are going to have an opportunity next week, I think, to mark up a bill for the Preventive Health Savings Act, particularly germane. I mean, it has always been germane. I have been working on this for 20 years. It has always been germane.

But really, the introduction of the new anti-obesity medications has kind of changed the equation. Of course, you have got Medicare that says we are not paying for any of that. You have got the Joint Economic Committee that says current obesity rates are responsible for a two and a half percent reduction in the aggregate labor supply, and that is a two percent reduction in the level of real GDP. From 2024 to 2033, this labor supply reduction is a potential GDP loss of \$5.6 trillion and a \$1 trillion reduction in Federal income tax receipts. So that is pretty significant.

Are you assessing how the anti-obesity medication coverage could affect the Federal budget with the broader economic factors that the CBO needs to take into account?

Dr. SWAGEL. Yes, sir, we are. We are doing it both for anti-obesity and the related issue of hepatitis C, which has some similarities and some differences.

And there is actually important developments. The FDA is considering adding a cardiovascular indication for the anti-obesity medications in the sense that that would change current law. You know, if they do that, then Medicare presumably would cover those indications and some of the costs of additional, you know, broadening coverage for anti-obesity medications would move into the baseline. As a society, we'd still pay it, but it would be attributed to the baseline and not to any legislation. So that is a development that we are tracking carefully and we would update our analysis once that happens.

Mr. BURGESS. Great. I really appreciate your office's putting out the budgetary effect of the Center for Medicare and Medicaid Innovation. It has been a burr under my saddle for a long time. I never expected that CMMI was actually going to deliver the cost savings that was promised, and you weren't there when CBO scored the Affordable Care Act in 2010, but there was a big deliverable that

CMMI was going to deliver, and I was never successful in bringing legislation to repeal the CMMI part of the ACA because, oh, look, it would cost money because we have already booked the savings that they are going to deliver for us.

Of course, in your report, we got—at least I kind of get the inkling that those savings never actually materialized, and in fact, there may be an increase in spending.

So I just want to point out to you that absent the CMMI, it is not like there is not any oversight over to the quality of some of the things that go in at the Center for Medicare and Medicaid Services, because in a bill signed by President Obama in 2015, the Physicians Technical Advisory Commission was created. It has existed now for almost ten years. It has been populated. A couple of the folks have resigned in disgust because they were not listened to by HHS.

And I hope you would work with me to explore how, if CMMI is not working out, perhaps the Physician's Technical Advisory Commission, which was already established in law in the macro legislation, how we could use that to, in fact, achieve some of the savings models that were supposed to be achieved in CMMI.

Dr. SWAGEL. Okay. No, no, you have that commitment.

You were right on CMMI. We finally acknowledge it.

Mr. BURGESS. Wait, wait, say that again.

Chairman ARRINGTON. The record will reflect. So ordered. I approve. Hear ye, hear ye.

Dr. SWAGEL. It took a while, but we put it out, and no, seriously, I look forward to working with you on the physicians—the other advisory committee.

Mr. BURGESS. Can I get you to call my wife and tell her that I was right?

Chairman ARRINGTON. Dr. Swagel, thank you.

Mr. BURGESS. Thank you. I yield back.

Chairman ARRINGTON. Dr. Burgess, that exchange is an example of why you are an institution and a great asset for the conference, our Congress, and the American people on the issues of health care policy.

Thankfully, we have got health care policy leaders, like the gentleman to your left, who limped on in to the Committee today, literally, Buddy Carter, the gentleman from Georgia for five minutes.

Mr. CARTER. Thank you, Mr. Chairman, and thank you, Director, for being here. I appreciate it.

Let's start with this. Let's start with timely and responsive scoring. There has been a lot of discussion and concern among Members of the Committees regarding the amount of time it is taking CBO to score these bills. Because, as you know, and it is no secret, everybody here knows that the CBO score is very important. We pay attention to it. Regardless of how many instances we might be able to point out where you were grossly wrong, we still depend on it, and I think you understand that.

And look, I am being practical here. I know that in the 118th Congress that we are in right now, we have had over 7,000 bills introduced. I know that is a heavy lift. I know that is a lot of work. So I am not trying to be impractical, but, you know, and I suspect most of them need CBO scores. I don't know what percentage of

them, but I would suspect it is the vast majority of them that need a CBO score.

So, again, I understand it is a heavy lift, but I have got a bill. It is a bipartisan bill, H.R. 1770, the Equitable Community Access to Pharmacist Services, that was introduced in March of 2023. It is my understanding that the bill was sent to CBO for scoring in June by committee staff, yet we still don't have a score.

Is it unreasonable for Members of Congress to think that seven months is not enough time to come up with a score for something like this?

Dr. SWAGEL. No, you know, you have put your finger on one of the challenges I face, is that the bill would recognize that pharmacists provide health care services and are a key way that people get health care provided to them.

Mr. CARTER. You do also realize that pharmacists are the most accessible health care professionals in America. Ninety-five percent of all Americans live within five miles of a pharmacy. All of us, Republicans, Democrats, Independents, want the same thing when it comes to health care: accessible, affordable, quality health care.

Dr. SWAGEL. That is right, and the challenge I face is that the committees with jurisdiction over Medicare, their workload has been so heavy that, you know, they would never say to us, and we would never listen, don't do that bill, but they will have other priorities, and I have to, you know, do where the committee is going first. That is what I have to do first.

So I can only apologize that we haven't been able to do it yet, and I agree with you, it has been a long time.

Mr. CARTER. Can you commit to me that you will come up with a score for me soon?

Dr. SWAGEL. Let me come back to you on that. I can't give you that commitment now, but I will come back to you.

Mr. CARTER. Well, and it was kind of my next question, and that is, how do you determine which ones move to the top of the stack? I mean, what determines that? Just the amount of pressure you get?

Dr. SWAGEL. You know, it's really we work with the committee staff, and so that means the Chair and the Ranking Member of the Committee will set our priorities, and then, you know, we work, of course, with leadership in both chambers to say, well, what is going to the floor of the chamber? And then everything else comes after those two priorities.

Mr. CARTER. All right. Well, look, I need help on this one, okay? I am a subcommittee chair, but I am not a committee chair, so I am sure I don't carry as much influence as the committee chair does, but we need this. Four percent of all retail pharmacies, of independent retail pharmacies, are closing every year. That is going to impact the accessibility of health care here in America, and again, all of us want accessible, affordable, quality health care.

Let's move on. In December of 2023, your office published a report on the accuracy of your projections for the Fiscal Year 2023. Is that a statutory requirement? Is that something you have to do?

Dr. SWAGEL. That particular report is not required, but we do it as a transparency exercise.

Mr. CARTER. What kind of methodology did you use in determining whether to make it a public report? I mean, what inspired you to make it a public report?

Dr. SWAGEL. I mean, anything that reflects on whether we get it right or wrong, I want the public to see that. In this one, we got it way wrong. It was a trillion dollars and that is, you know—I want that out there. I want people to be reactive.

Mr. CARTER. Would you be supportive of a law that required it?

Dr. SWAGEL. I am sorry, say it again.

Mr. CARTER. Would you be supportive of a law that required you to have that report, to publish that report, every year?

Dr. SWAGEL. I mean, like I said, it is not needed, but whatever the Congress thinks is the way we can support them, I'm happy to do it.

Mr. CARTER. I am going to take that as a yes. Okay. All right. One final question, if I could get it in. Panel of advisors, I know that that is important, but on your website, you say members of this panel generally serve two-year terms and are sometimes re-appointed, but that is kind of vague. Tell me, who appoints these members and these boards, and how do you ensure bipartisanship?

Dr. SWAGEL. So they are appointed by me as Director. Most of them—or many of them were on the panel when I arrived. It is a very distinguished group.

Mr. CARTER. Are they compensated?

Dr. SWAGEL. It is like \$500 a year, and the travel to——

Mr. CARTER. That would be a no.

Dr. SWAGEL. I mean, virtually no. I mean, it is——

Mr. CARTER. Yeah, yeah.

Dr. SWAGEL. And it is bipartisan, so we have members—we have people who worked in the Trump Administration, Obama, Bush, Clinton.

Mr. CARTER. Does anybody check you on this?

Dr. SWAGEL. We do.

Mr. CARTER. Do you submit them to the Committee?

Dr. SWAGEL. They are on our website, so it is public. The meetings, we have two meetings a year, and congressional staff attend the meetings.

Mr. CARTER. Now, one of the reasons for this hearing is to see how we can do better in helping you, and we do want to help you, and perhaps there should be a process where you submit names and the Committee approves them. You know, that would keep you from—whoever is in that position—it would keep them from criticism and make sure that we were getting bipartisanship in that.

Dr. SWAGEL. Yeah. You know, I guess I wouldn't support that because this is a group of, you know, of really distinguished academics, mainly academics, not all, but mainly, who are doing this. They are basically not paid, as you said, and they do it for public service and to help us, and I would just want to keep them out of the political—kind of the political realm as much as possible and be as transparent as we are.

And your staff can attend the meeting. I mean, we have lots of congressional——

Mr. CARTER. All right. I am going to have to absorb that and kind of think about that for a while before I press on with it, but thank you very much.

Dr. SWAGEL. I am happy to come—happy to come and talk more about it.

Mr. CARTER. And it is 1770. Did you write that down? House—

Mr. SWAGEL. I got it, 1770.

Mr. CARTER [continuing]. Resolution 1770.

Mr. BURGESS [presiding]. The gentleman's time has expired. The Chair now recognizes the gentleman from Virginia, Mr. Good, for five minutes for questions.

Mr. GOOD. Appreciate you being here today and submitting yourself to these questions. Appreciate the help you were a day or two ago with the information on my other committee, the Ed and Workforce Committee, on the cost of the higher ed reform bill that we are looking at.

I want to talk about accuracies and particularly as it relates to the Inflation Increase Act. Again, the Inflation Increase Act they may refer to as the IRA, but it is not the IRA, it is the Inflation Increase Act, and it is now even admitted that it really wasn't about reducing inflation, of course, and it never was.

But part of how that was sold by the Administration, by what was then the majority party in the House and the current majority in the Senate as well, was it was supposed to cost less than \$400 billion, and now we have got Goldman Sachs saying \$1.2 trillion, you got Credit Suisse saying \$800 billion, and I think there is acknowledgment, and mostly because of the climate credits, I guess, but can you speak to that inaccuracy of how that was sold and presented by the Administration and the majority party at the time, and we have missed so poorly on that?

Dr. SWAGEL. I can. I will say something now. In a week when we publish our economic update, we will have a full page or two going into the details, so we will get you more in writing.

The score was from the Joint Committee on Taxation. Anything tax they do, and then we update it. What has changed is there has been subsequent regulation. So the EPA put out a tailpipe emissions regulation that we think is going to basically push people toward electric vehicles. So that means more people are going to take up that EV tax credit. The Administration implemented the credit in a way—

Mr. GOOD. Let me interject for a second.

Dr. SWAGEL. Yeah, please.

Mr. GOOD. It looks like the consumer is actually going the other way right now on vehicles.

Dr. SWAGEL. No, that is right. That is right, and the EPA regulation is right now, it is a proposal. It is meant to, according to EPA, take effect for the 2027 model year. Will it actually happen? We don't know, because it really would go very far in pushing people toward electric vehicles, and as you said, that doesn't seem to be the market demand at the moment.

So, you know, we are going to have to track it, but that would be the effect of greatly increasing the cost of that part of the bill, and I will just say other—

Mr. GOOD. Now, is that portion alone responsible for some nearly trillion dollars to be offered?

Dr. SWAGEL. It is about a third of it. The original JCT score was 400-something billion dollars and it is going to go up. It is not going to get up to a trillion dollars, but it will be like the \$800s, and about a third of the difference is going to be that EPA regulation by itself.

Mr. GOOD. Well, with respect to the Inflation Increase Act generally, will you give the scoring rubric on how you calculated this to Congress so we can look at it?

Dr. SWAGEL. We can do that. I mean, in the report we publish next week, we won't go into the technical details, but we can provide that to you, to your staff.

Mr. GOOD. I think that would be important for appropriate oversight and accountability, and there is some perception that you may or may not be aware of, I don't know if it has been alleged today, that CBO has leaned left, has leaned to the other side.

With the IRS funding, it was projected, the increased IRS funding that was part of the Inflation Increase Act, it was projected that it would bring in \$2.9 billion in Fiscal Year 2023, but it only was \$160 million. This year CBO has expected the IRS funding would bring in \$7.8 billion this year, but so far it is only \$360 million. Can you speak to that?

Dr. SWAGEL. Yeah. Again, it is a challenging part for us because we have to figure out, well, where is the IRS going to spend their money and how quickly? They wouldn't tell us. You know, maybe they didn't even know at the time, and so we just said, okay, they are going to put the money in the place where they get the highest return, you know, from the past studies.

In the end, they did it differently. They went into customer service. So, as you said, they didn't spend the money on the kind of tax collection.

Mr. GOOD. Again, that is some of the justification that they made for the IRS expansion was, here is the revenue that is going to come from it, but conversely, if you go back to the TCJA tax bill from a few years ago, CBO projected revenue would be \$22.6 trillion from 2018 to 2023, but actual revenue was over a trillion dollars higher, \$23.6 trillion, than what was projected.

Dr. SWAGEL. Yeah, yeah. So, you know, there is so much water under the bridge since—so many developments since the TCJA. We said that would boost investment. It did. We said that would boost GDP. It did, and it would boost revenue.

In the middle of 2018, there was a large set of tariffs put in place that went in the other direction with business investment, and we can't separate out those effects, and then, of course, the pandemic.

So, yes, you know, and the subsequent high inflation. So revenues are higher, exactly as you said. How much of that is TCJA? How much of that is the inflation? We can't parse those out.

Mr. GOOD. My time has expired. Thank you, sir.

Dr. SWAGEL. Okay. Thank you.

Mr. BURGESS. The gentleman yields back. The Chair thanks the gentleman. Seeing no other Members to ask questions, I do have several letters from authorizing committees to submit for the record, highlighting the need for oversight and stronger collabora-

tion between CBO and Congress. These include letters from the Committee on Ways and Means, Committee on Agriculture, Committee on Veterans' Affairs, Committee on Small Business, Committee on House Administration, the Committee on Armed Services.

[The information follows:]

JASON SMITH
MISSOURI
CHAIRMAN
MARK ROMAN, STAFF DIRECTOR
(202) 226-3625



RICHARD E. NEAL
MASSACHUSETTS
RANKING MEMBER
BRANDON CASEY, STAFF DIRECTOR
(202) 226-4021

U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS
1139 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

Chairman Jodey C. Arrington
House Committee on the Budget
210 Cannon House Office Building
Washington, D.C. 20003

January 29, 2024

Dear Chairman Arrington:

Thank you for requesting feedback and insight from your fellow House Committee Chairmen ahead of the upcoming House Committee on the Budget hearing titled “Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office,” to be held on January 31, 2024. I appreciate the opportunity to respond on behalf of the House Committee on Ways and Means.

The analysis of the nonpartisan Congressional Budget Office (CBO) is critical to our work at the Ways and Means Committee in ensuring we are informed of the fiscal and economic impacts of all policies and legislation we consider. As you are aware, the programs within the jurisdiction of the Ways and Means Committee are wide-ranging and encompass a significant portion of the federal budget, including Medicare, Social Security, welfare programs, and debt interest payments, to name a few. Robust oversight of this agency is critical to ensure the budget arm of the entire Legislative Branch conducts its work in a nonpartisan, professional, responsive, and, most importantly, transparent fashion.

There have been cases in which a lack of applicable laws, scorekeeping guidelines, conventions, or rules to rely on has led CBO to use its own discretion to make decisions that had an enormous impact. Today I write specifically regarding an instance in which the discretion of CBO has been called into question – the delay of the Trump Administration “rebate rule.”¹ Delaying this rule has resulted in significant budgetary implications for the Medicare program, and with Ways and Means Committee having jurisdiction over the entire Medicare program, I request discretionary actions by CBO such as the treatment of this rule be clarified.

This regulation was finalized in 2020 with a scheduled implementation date of January 1, 2022. During the 117th Congress, Democrats delayed the implementation of this rule on three separate occasions with the intention of using CBO’s assumed budgetary savings to offset costly policies, including the Inflation Reduction Act. However, after amassing more than \$190 billion in budgetary offsets, CBO has since used its discretion to remove the rule from the most recent CBO baseline. They have also indicated that further delaying the rule will not result in any scoring effect. This action does not appear to be dictated by Congressional intent, law, or any

¹ 85 C.F.R. §76666 (2020).

Letter to the Honorable Jodey C. Arrington
January 29, 2024
Page 2

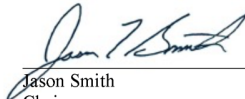
guidelines that CBO traditionally follows on a bipartisan basis. While future assumptions are unpredictable by nature, the sheer size of this discretion-based decision shines light on a scoring practice in need of clear oversight and reform.

I urge the House Budget Committee to use their upcoming hearing to explore the following questions regarding any instances in which CBO has no guidance or precedent to follow and uses their own discretion.

1. Who in the agency makes the decision for what is included in the annual baseline?
2. Is there an internal debate process?
3. Does the CBO Director sign off on all decisions that have a large budgetary impact?
4. Does CBO consult the bipartisan staff of the Committee of program jurisdiction prior to making their discretionary decisions?
5. Does CBO consult the Budget Committee when making these decisions?
6. Does CBO notify the Budget Committee when a decision has been made of this nature?
7. Does CBO notify the Committee of program jurisdiction and/or Congressional leadership about their decision in advance?
8. Does CBO publish a blog post or other official notice to note their decision?
9. Does CBO apply the same decision going forward?
10. Does CBO always apply the use of precedent in a bipartisan manner? If not, what are the exceptions?

I encourage the House Budget Committee to use judicious oversight to investigate this issue and explore avenues for limiting opportunities for case-by-case discretion by unelected bureaucrats to sway significant legislative policy. Again, thank you for the opportunity to respond to your request for insight. Feel free to contact my Committee staff with any further questions.

Sincerely,



Jason Smith
Chairman
House Committee on Ways and Means

U.S. House of Representatives
Committee on Agriculture
 Washington, DC 20515

January 29, 2024

The Honorable Jodey Arrington
 Chairman
 Committee on the Budget
 United States House of Representatives
 Washington, D.C. 20515

The Honorable Brendan Boyle
 Ranking Member
 Committee on the Budget
 United States House of Representatives
 Washington, D.C. 20515

Dear Chairman Arrington and Ranking Member Boyle,

Thank you for the opportunity to share the House Committee on Agriculture's (Committee) concerns regarding systemic issues with the Congressional Budget Office (CBO, Office). There are certainly procedural problems the Committee has identified over the last year in engaging with CBO, however my intent is to address two major issues: the lack of transparency and policy interpretation.

First, the lack of transparency when developing the baseline and providing scores is of grave concern. The actual methods and formulas that inform CBO's baseline and policy analysis are not public, and therefore not subject to academic or public review. Restricting access to this data obfuscates dialogue between CBO and Congress. With CBO's official scorecard standing as the final, unbiased ruling on the cost of policies, there is no reason the Office should not make public the internal methodology of published estimates. Subject matter experts, professional economists, and the public should be permitted to question the Office's analysis, which would only serve to improve forecasts, and ultimately, the policy objectives of Congress.

Additionally, those drafting proposals are often asked to manipulate language to meet CBO's understanding of proposed policies. Analysts—who are not necessarily subject matter experts—seemingly interpret language to a level of personal understanding. In the case where a CBO analyst and the original drafter of a policy do not agree on the proposal's intent, the Committee finds CBO rejects the proposal, in essence only siding with their personal convictions. It is not unprecedented to have years of drafting, much of which includes technical assistance from the relevant Agency, stakeholder groups, and subject matter experts, be dismissed because of a single CBO analyst's interpretation. The Committee does not believe that is the role of the Office.

This unilateral authority of individual analysts contributes to inconsistent scoring convention and, at times, a lack of consistency and accuracy. On multiple occasions in the last year alone, analysts at CBO have considered law *status quo ante* as a settled matter that will be followed without exception, while simultaneously assuming Agencies will dismiss the letter of the law and Congressional intent of proposed legislation. This dichotomy highlights a flawed system that clouds final estimates, further exacerbated by the lack of transparency.

I believe each of these systemic issues contribute to inaccuracies in CBO's baseline as well as analysis of individual bills. For example, in the last 10 years, CBO has consistently overestimated the cost of certain programs while simultaneously underestimating the costs of others. Specifically, CBO overestimated the cost of commodity programs 80 percent of the time by, on average, 11 percent; overestimated the cost of conservation programs 100 percent of the time by, on average, 14 percent; and overestimated the cost of crop insurance programs 50 percent of the time by, on average, 3 percent. Each of these errors significantly impedes Congress' ability to provide an accurate safety net for producers and sufficient conservation programs to protect our nation's land. During the same ten-year period, CBO

underestimated the cost of the nutrition title of the farm bill 60 percent of the time by, on average, 6 percent, an error totaling \$37 billion over five years. This single error in forecasting not only would have paid for the implied costs of the errors in the commodity space—four times over—but also creates unnecessary angst for policymakers deliberating programs.

While I appreciate the logistical challenges CBO faces, Congress should expect reasoned, consistent, and transparent economic assessments. I implore the Office to take these issues seriously, and work to course correct so that CBO regains not only the trust of Congress, but of the American people we bestow laws upon.

Sincerely,

A handwritten signature in black ink, reading "Glenn Thompson". The signature is fluid and cursive, with the first name "Glenn" and last name "Thompson" clearly distinguishable.

Glenn "GT" Thompson
Chairman
House Committee on Agriculture

REPUBLICANS
 MIKE BOST, ILLINOIS, CHAIRMAN
 ALUMIA AMATA COLEMAN RADEWAGEN, AMERICAN SAMOA
 JACK BERDMAN, MICHIGAN
 NANCY MACE, SOUTH CAROLINA
 MATTHEW M. ROSENDALE, MONTANA
 MARIANNETTE MILLER-NEEKS, IOWA
 GREGORY E. MURPHY, NORTH CAROLINA
 SCOTT FRANKLIN, FLORIDA
 DERICK VAN ORSEN, WISCONSIN
 MORGAN LUTTRELL, TEXAS
 JUAN OSCOMANI, ARIZONA
 ELI CRANE, ARIZONA
 KEITH SELF, TEXAS
 JEN KIGGANS, VIRGINIA
 JON CLARK
 STAFF DIRECTOR

U.S. House of Representatives
 COMMITTEE ON VETERANS' AFFAIRS
 ONE HUNDRED EIGHTEENTH CONGRESS
 364 CANNON HOUSE OFFICE BUILDING
 WASHINGTON, DC 20515
<http://veterans.house.gov>

DEMOCRATS
 MARK TAKANO, CALIFORNIA, RANKING MEMBER
 JULIA BROWNLEY, CALIFORNIA
 MIKE LEVIN, CALIFORNIA
 CHRIS PAPPAS, NEW HAMPSHIRE
 FRANK J. MRVAN, INDIANA
 SHEILA CHERIFUS-MCCORMACK, FLORIDA
 CHRIS DELUZO, PENNSYLVANIA
 MORGAN MCGARVEY, KENTUCKY
 DELIA RAMIREZ, ILLINOIS
 GREG LANDSMAN, OHIO
 NIKKI BUZINSKI, ILLINOIS
 MATT REEL
 DEMOCRATIC STAFF DIRECTOR

January 29, 2024

The Honorable Jodey C. Arrington
 Chairman
 Committee on the Budget
 Washington, DC 20515

Dear Chairman Arrington:

On August 10, 2022, the President signed into law the *Honoring our PACT Act of 2022* (Pub. L. No. 117-168). Prior to enactment of the PACT Act, in June 2022, the Senate adopted an A.N.S. that included budgetary scorekeeping language to create the Toxic Exposure Fund (TEF). This language directs the Congressional Budget Office (CBO) to not score *any* appropriations in the new TEF, either as discretionary or mandatory, notwithstanding the legislation's stipulation that, "amounts appropriated to the Fund pursuant to this subsection shall be counted as direct spending." It also expanded the scope of the TEF from, among other things, "expenses incident to the delivery of veterans' health care" to more broadly, "delivery of veterans' health care."¹ This has led to significant scoring consequences regarding veterans' legislation as a whole, and the TEF now affects activities pertaining to nine VA appropriations accounts.²

TEF has introduced a new budgeting concept that lies outside of CBO's budgetary scorekeeping guidelines and the process for developing and assessing the budgetary effects of proposed veterans' legislation. As a result, CBO has been forced to develop a rule of thumb for scoring all veterans' legislation, CBO's assigns a rising percentage of total discretionary costs as mandatory costs to *any* authorizing legislation which would affect one of the nine VA appropriations accounts. This new budgeting approach has negatively impacted authorizing legislation scoring and created unprecedented budget scoring implications for my Committee. The mandatory scoring portion is currently 24 percent of the total authorizing legislation cost, and it is projected to increase to 42 percent by fiscal year 2032.

Your Committee's upcoming CBO oversight hearing is appreciated to ensure that the government's spending projections regarding proposed legislation are estimated correctly. This will help policymakers plan accordingly and ensure taxpayers investments are worthwhile. Therefore, I encourage you to ask CBO the following questions during your oversight hearing:

¹ Comparison of March 3, 2022, House engrossed version of H.R. 3967 to P.L. 117-168, codified at 38 USC 324; Cost of War Toxic Exposures Fund

² The nine accounts are Medical Community Care, Medical Support Compliance, Medical Services, Medical and Prosthetic Research, Veterans Electronic Health Care Record General Operating Expenses, Veterans Benefits, Administration, General Administration, Information technology systems, and Board of Veterans Appeals.

1. How long will it take before CBO's TEF scoring rule regarding authorization legislation reflects actual VA expenditure data? When, if ever, will CBO be able to dispense with its rule of thumb to assign a certain percentage of total estimated cost as a mandatory cost for all affected legislation?
2. From a scoring perspective, does CBO believe VA will ever be able to provide data that can fully separate toxic exposure costs from non-toxic exposure costs, or PACT Act-related toxic exposure costs from non-PACT Act-related toxic exposure costs?
3. What are CBO's TEF modeling assumptions when determining authorization legislation's discretionary and mandatory scores?
4. Has CBO considered using a commercial model to determine VA health care expenditures instead of generating its own? Why or why not?
5. Has CBO considered incorporating into its scoring approach actual VA spending decisions about whether to fund individual programs and legislation from TEF rather than assuming that any program or legislation implicating one of the nine accounts will be funded by TEF??

I appreciate your continued commitment to our nation's veterans and your assistance with this matter. Please contact my committee staff if you, or your staff, have any questions.

Sincerely,



MIKE BOST
Chairman

Cc: The Honorable Mark Takano, Ranking Member

ROGER WILLIAMS, TEXAS
CHAIRMAN

NYDIA M. VELAZQUEZ, NEW YORK
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2501 Rayburn House Office Building
Washington, DC 20515-6515

January 31, 2024

The Honorable Jodey Arrington
Chairman
House Committee on the Budget
204 Cannon House Office Building
Washington, DC 20515

The Honorable Brendan Boyle
Ranking Member
House Committee on the Budget
507 Cannon House Office Building
Washington, DC 20515

Dear Chairman Arrington and Ranking Member Boyle:

Thank you for the opportunity to provide comments regarding your hearing entitled “Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office.” This hearing is an essential part of the House Committee on the Budget’s oversight responsibilities. The House Committee on Small Business (the Committee) applauds your efforts to conduct robust oversight of the Congressional Budget Office (CBO).

The Small Business Administration (SBA) took on an outsized role during the pandemic providing \$1.2 trillion in emergency lending. Congress, in designing these programs, had to strike a balance between getting money out quickly and preventing fraud. Upon review of these programs, the SBA’s Office of Inspector General (OIG) found that through the two largest lending programs, the Paycheck Protection Program (PPP) and the COVID Economic Injury Disaster Loan Program (COVID EIDL), the SBA distributed \$200 billion in potentially fraudulent funds. This is an unacceptably high figure. The Committee is determined to hold the criminals who perpetrated this fraud accountable and return a portion of these funds back to the American people.

The Committee has investigated a number of legislative proposals to address recovering fraudulent dollars. Unfortunately, some of these proposals are hamstrung by the rules that Congress has set up for the CBO. A bill that we will be marking up this week, the Put America on Commission Act, will establish a whistleblower office within the SBA to deal with tips from the public about potentially fraudulently obtained loans. This would allow anyone to report suspected COVID fraud and supply the OIG with information and better data to make the investigation process move faster.

Whistleblower programs have proven effective. Most recently the CBO scored H.R. 7195, which established a similar program in the 117th Congress to report money laundering and other financial crimes. The CBO estimated that the bill would collect an additional \$41 million

The Honorable Jodey Arrington
 The Honorable Brendan Boyle
 January 31, 2024
 Page 2 of 4

annually over the 2023-2032 period equaling \$410 million over that time frame.¹ However, due to the Balanced Budget Act of 1997, specifically Rule 14, “no increase in receipts or decrease in direct spending will be scored as a result of a provision of a law that provides direct spending for administrative or program management activities.” In order to more accurately account for the effects of legislation in the scoring process, the House Committee on the Budget and the CBO should consider the increased revenue when scoring the Put America on Commission Act and other similar whistleblower statutes.

In addition to the issue of fraud within the pandemic lending programs, there is another consequence that is going to significantly increase government outlays for years to come: the costs to service these pandemic loans. These costs—including collecting monthly payments, keeping tabs on the outstanding balance, and following up on any delinquencies—are going to be a new cost to the government for the foreseeable future. The pandemic left the SBA with \$379 billion of COVID EIDLs on its balance sheet, which are thirty-year term loans at a fixed interest rate (3.75 percent for for-profit and 2.75 percent for nonprofit). The SBA will have to service these loans for the next thirty years. The SBA is not a loan servicing agency and, as they have admitted many times, they do not have the resources to take on this additional responsibility.

In order to alleviate the long-term loan servicing costs, the Committee is examining legislation to force the sale of a portion or the entire COVID EIDL portfolio. The SBA has requested \$250 - \$500 million per year in appropriations to handle the portfolio and said these requests will continue until at least FY 2026 to hire 2,000 – 5,000 new full-time employees—effectively doubling the size of the agency. Continuing to service the COVID EIDL portfolio in-house will require the SBA to pivot its mission away from supporting small businesses to focus on loan servicing.

The Committee discovered that in 2021, the SBA retained a private consulting firm to develop a report outlining various options the SBA could undertake to maximize value out of the COVID EIDL portfolio—ultimately recommending the SBA sell all or part of the portfolio. The Committee has conducted outreach to various stakeholders and confirmed there is still a private market in which to sell this portfolio. Unfortunately, the way the CBO will look to score this proposal would undermine these efforts and drastically overestimate the cost of a loan sale.

Direct federal credit programs are measured by the Federal Credit Reform Act (FCRA) of 1990, which requires that estimated lifetime net costs of new loans and loan guarantees be recorded in the budget year in which the loans are disbursed.² This methodology does not accurately account for the time value of money or reflect the risk to the taxpayer. This means a 30-year loan will be scored as being paid in full within the 10-year scoring window and fails to fully account for defaults, which the SBA projects to be 37 percent. Additionally, this scoring method fails to realize that if we received money from a loan sale today, it would be more

¹ Geoff Schweller, *AML Whistleblower Reform Would Lead to Increased Revenue*, Congressional Budget Office Says, WHISTLEBLOWER NETWORK NEWS (Nov. 8, 2022).

² RAJ GNANARAJAH, CONG. RESEARCH SERV., R44193, FEDERAL CREDIT PROGRAMS: COMPARING FAIR VALUE AND THE FEDERAL CREDIT REFORM ACT (FCRA), 1 (Sept. 14, 2015).

The Honorable Jodey Arrington
 The Honorable Brendan Boyle
 January 31, 2024
 Page 3 of 4

valuable than money trickling into the Treasury over 30 years. The time value of money is something all business owners understand, and it should be more accurately reflected in the CBO's projections.

The House Committee on the Budget and the CBO should consider a more comprehensive approach to direct federal credit programs that includes the total cost of the credit program. This approach could incorporate market and financial risk to the taxpayer. In addition, the COVID EIDL portfolio is not diversified, and depending on market conditions and appropriations a portfolio of this size carries significant risk to the taxpayer. In the Committee's opinion a sale is in the best interest of the taxpayer.

Chairman Arrington has made budget process reform a key priority. The two legislative proposals outlined in this letter have the potential to bring in real revenue or domestic discretionary offsets. However, they are constrained by budgetary guidelines that were put in place to exaggerate the government's coffers. As budget process reform moves forward these provisions should be reconsidered.

Overall, the Committee has a good working relationship with the CBO. However, there are assumptions that the CBO has made in the past where we have disagreements. For example, when scoring H.R. 1541, Small Business Workforce Pipeline Act of 2023, the CBO wrote the following: "[u]sing information from the SBA, CBO expects that the SBA would award grants to lead Small Business Development Centers (SBDCs) to support an additional 62 counselors annually (at a cost of \$170,000 per employee) to manage work-based learning opportunities at each lead center. Based on historical spending patterns, and accounting for anticipated inflation, CBO estimates that implementing H.R. 1541 would cost \$40 million over the 2023-2028 period, assuming appropriation of the estimated amounts."³

Unfortunately, the CBO had a fundamental misunderstanding of the SBDC program. Providing assistance to career and technical education graduates falls under the current activities of SBDCs—a fact was confirmed by the Committee when talking with state SBDC directors. The Committee also believes the CBO made several improper assumptions when determining the score of this bill as it relates to salaries. For a program that is geographically dispersed throughout the country, the CBO should consider local salaries and not automatically assume a role would command a six-figure salary. In speaking with state program directors, it was clear that the \$170,000 estimate was a gross overstatement of costs, and that very few programs would actually need to hire any new workers.

³ PHILLIP SWAGEL, CONG. BUDGET OFFICE., CBO COST ESTIMATE: H.R. 1541, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON SMALL BUSINESS (May 25, 2023).

The Honorable Jodey Arrington
The Honorable Brendan Boyle
January 31, 2024
Page 4 of 4

This is the first time in nearly six years that the House Committee on the Budget has held a CBO oversight hearing. It is imperative that Committees conduct oversight of agencies in their jurisdiction and applaud Chairman Arrington for holding this hearing. We encourage the House Committee on the Budget and the CBO to take the recommendations outlined in this letter under consideration moving forward.

In God We Trust,

A handwritten signature in black ink, appearing to read "Roger Williams".

Roger Williams
Chairman
Committee on Small Business

BRYAN STEIL, WISCONSIN
CHAIRMAN

BARRY LOUDERMILK, GEORGIA
H. MORGAN GRIFFITH, VIRGINIA
GREGORY F. MURPHY, NORTH CAROLINA
STEPHANIE I. BICE, OKLAHOMA
MIKE CAREY, OHIO
ANTHONY D'ESPOSITO, NEW YORK
LAUREL M. LEE, FLORIDA

TIM MONAHAN
STAFF DIRECTOR

One Hundred Eighteenth
Congress of the United States
House of Representatives

COMMITTEE ON HOUSE ADMINISTRATION
1309 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515-6157
(202) 225-8281 | CHA.HOUSE.GOV

JOSEPH D. MORELLE, NEW YORK
RANKING MINORITY MEMBER

TERRI A. SEWELL, ALABAMA
DEREK KILMER, WASHINGTON
NORMA J. TORRES, CALIFORNIA

JAMIE FLEET
MINORITY STAFF DIRECTOR

January 29, 2024

The Honorable Jodey C. Arrington
Chairman
Committee on the Budget
U. S. House of Representatives
Washington, DC

Dear Chairman Arrington,

I write this letter in advance of the Budget Committee's upcoming hearing with Mr. Phillip Swagel, Director of the Congressional Budget Office (CBO). I want to express my sincerest gratitude for the Budget Committee's dedication to developing and improving CBO's capacity to serve Congress as the nonpartisan and effective agency that it was created to be.

As the Chairman of the House Administration Committee, I have focused on stewarding the institution of Congress and ensuring the legislative branch agencies remain responsive to modern congressional needs. In the 118th Congress, this Committee's oversight efforts have enhanced accountability, transparency, and efficiency throughout the congressional support agencies.

In the 118th Congress, the bipartisan Modernization Subcommittee was created with the task of implementing the recommendations of the bipartisan Select Committee on the Modernization of Congress. During the Select Committee's tenure, it made several recommendations focused on the legislative support agencies, including CBO. The Modernization Subcommittee has held hearings with both the Congressional Research Service and the Government Accountability Office with an emphasis on bolstering and modernizing the legislative support agencies to serve and inform Congress with accurate and nonpartisan legislative expertise.

The Select Committee was particularly interested in ensuring that the support agencies expand and enhance their congressional outreach efforts. The Modernization Subcommittee has been impressed with the steps that CBO has recently taken to increase its presence on the Hill, as well as the information the agency has proactively provided to Members and staff through regular newsletters, primers, the CAO's Coaches Program, and the newly revamped website. These efforts have not gone unnoticed, and we very much appreciate the good work CBO is doing to assist Members and staff.

We recognize the importance of the service that CBO provides to Congress and the challenges that CBO faces. We applaud and encourage the Budget Committee's oversight of CBO and wish to support the Budget Committee however needed.

Sincerely,

105



Bryan Steil
Chairman
Committee on House Administration]

cc: The Honorable Stephanie Bice
Chairwoman
Subcommittee on Modernization
Committee on House Administration

BRYAN STEIL, WISCONSIN
CHAIRMAN

BARRY LOUDERMILK, GEORGIA
H. MORGAN GRIFFITH, VIRGINIA
GREGORY F. MURPHY, NORTH CAROLINA
STEPHANIE I. BICE, OKLAHOMA
MIKE CAREY, OHIO
ANTHONY D'ESPOSITO, NEW YORK
LAUREL M. LEE, FLORIDA

TIM MONAHAN
STAFF DIRECTOR

One Hundred Eighteenth
Congress of the United States
House of Representatives

COMMITTEE ON HOUSE ADMINISTRATION
1309 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515-6157
(202) 226-8281 | CHA.HOUSE.GOV

JOSEPH D. MORELLE, NEW YORK
RANKING MINORITY MEMBER

TERRI A. SEWELL, ALABAMA
DEREK KILMER, WASHINGTON
NORMA J. TORRES, CALIFORNIA

JAMIE FLEET
MINORITY STAFF DIRECTOR

January 29, 2024

The Honorable Jodey C. Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC

Dear Chairman Arrington,

I write this letter on behalf of myself and the Committee on House Administration to contribute our assessment of the role of the Congressional Budget Office (CBO) in preparation for your upcoming hearing with CBO Director Phillip L. Swagel.

As you know, CBO acts alongside its sister legislative support agencies: the Congressional Research Service (CRS) and the Government Accountability Office (GAO). These agencies were created when Congress recognized the need for more expertise to support its legislative and oversight functions. These three agencies serve a vital role in strengthening Congress by providing us with nonpartisan fact-based analysis.

Our Committee has done much work to evaluate and consider what the role of these three agencies are in the modern information environment of today, but the work is far from complete. These agencies have evolved over time and operate differently than they did when they were first created. Today, there are now ambiguities in the distinctions between the functions and expertise of CBO, CRS, and GAO. This matter demands serious consideration to determine how to most effectively allocate resources and expertise to achieve the greatest outcomes and to avoid duplication and overlap between the agencies.

Stewardship over these agencies will take diligent effort today, so that we can put them on strong footing for the future. In that regard, we ought to consider, how should CBO, CRS, and GAO be distinguished from one another, yet support each other and, ultimately, Congress? These are important questions that deserve thoughtful consideration.

The need for accurate and digestible information on the activities of the federal government is more necessary than ever, as the size and scope of the federal government has grown exponentially in the past fifty years. If Congress is to fulfill its constitutional obligation of overseeing federal activities and spending, we must have access to the best information and resources. For that reason, it is critical to ensure that CBO's statute provides the agency with sufficient authority to access data from executive branch agencies. In 2021, Director Swagel

reported to the Select Committee on the Modernization of Congress that¹, while their current statute provides them with access to federal data, CBO still faces challenges and limitations in obtaining digital access to data remotely.

Furthermore, we must ensure that CBO and its sister agencies have the resources and budget to sufficiently afford the expertise and IT tools necessary to equip and inform Congress. Though we remain vigilant of excessive spending of taxpayer dollars, Congress cannot efficiently and effectively combat wasteful and excessive spending without funding its own expert resources.

In addition, these agencies were created over half a century ago in an information environment very different from the one facing us today². Congress and its support agencies face the need for change in an age with not only the internet, but emerging developments such as generative AI. New information ecosystems have transformed the landscape of congressional offices and workflows while these agencies have struggled to keep themselves as timely, meaningful, and accessible to congressional needs. This is an ongoing challenge that needs to be closely monitored in the course of CBO oversight, to ensure that the work of CBO is relevant to Congress.

Another topic of great concern for our Committee is ensuring effective oversight of the entirety of the legislative branch. While there are presently six inspectors general in the legislative branch, there are agencies that lack an inspector general. CBO is the largest bicameral agency that has no inspector general. Inspectors general serve a vital role in congressional oversight efforts and assisting agencies to identify vulnerabilities, improvements, and best practices. Ensuring that legislative branch agencies have proper oversight is an important priority for our Committee.

If you interested in exploring any of these subject further, please coordinate with my committee staff. Thank you for your ongoing work to enhance CBO's capability to inform Congress. We appreciate the work that your Committee is doing to further this institution's capacity to represent and serve the American people.

Sincerely,



Bryan Steil
Chairman
Committee on House Administration

¹ Oct. 21, 2021 Hearing Before the Select Committee on the Modernization of Congress, 117th Congress, Questions for the Record. Serial No. 117-11, Pg. 121.

² GAO originated in 1921 as the Government Auditing Office. CRS originated as the Legislative Resource Service in 1914 but was reshaped into CRS in 1970. CBO was created in 1974.

MIKE ROGERS, ALABAMA, CHAIRMAN
 JOE WILSON, SOUTH CAROLINA
 MICHAEL R. TURNER, OHIO
 DOUG LAMBOURN, COLORADO
 ROBERT J. WITTMAN, VIRGINIA
 AUSTIN SCOTT, GEORGIA
 SAM GRAVES, MISSOURI
 ELISE M. STEFANK, NEW YORK
 SCOTT DESJARLAIS, TENNESSEE
 TRENT KELLY, MISSISSIPPI
 KYLE GALLAGHER, WISCONSIN
 MATT GAETZ, FLORIDA
 DON BACON, NEBRASKA
 JIM BANKS, INDIANA
 JACK BERGMAN, MICHIGAN
 MICHAEL WALTZ, FLORIDA
 MIKE JOHNSON, LOUISIANA
 LISA C. MCCLAIN, MICHIGAN
 RONNY JACKSON, TEXAS
 PAT FALLON, TEXAS
 CARLOS A. GIMENEZ, FLORIDA
 NANCY MACE, SOUTH CAROLINA
 BRAD FINSTAD, MINNESOTA
 DALE W. STRONG, ALABAMA
 MORGAN LUTTRELL, TEXAS
 JENNIFER L. KOSGANS, VIRGINIA
 NICK LALOTA, NEW YORK
 JAMES C. MOYLAN, GUAM
 MARK ALFORD, MISSOURI
 CORY MILLS, FLORIDA
 RICHARD MCCORMICK, GEORGIA

CHRIS VESON, STAFF DIRECTOR

COMMITTEE ON ARMED SERVICES
U.S. House of Representatives
 Washington, DC 20515-6035
 ONE HUNDRED EIGHTEENTH CONGRESS

January 30, 2024

ADAM SMITH, WASHINGTON, RANKING MEMBER
 JOE COURTNEY, CONNECTICUT
 JOHN GARAMENDI, CALIFORNIA
 DONALD NOBLES, NEW JERSEY
 RUBEN GALLEGOS, ARIZONA
 SETH MOUTON, MASSACHUSETTS
 SALUD O. CABALLA, CALIFORNIA
 RO KHANNA, CALIFORNIA
 BILL KEATING, MASSACHUSETTS
 ANDY KIM, NEW JERSEY
 CHRISBY HOLLAHAN, PENNSYLVANIA
 JASON CROW, COLORADO
 ELISSA SLOTON, MICHIGAN
 MIKE SHERRELL, NEW JERSEY
 VERONICA ESCOBAR, TEXAS
 JARED Y. GOLDEN, MAINE
 SARA JACOBS, CALIFORNIA
 MARILYN STRICKLAND, WASHINGTON
 PATRICK RYAN, NEW YORK
 JEFF JACKSON, NORTH CAROLINA
 GABE VASSQUEZ, NEW MEXICO
 CHRISTOPHER R. DELLUDIO, PENNSYLVANIA
 JILL N. TOKUDA, HAWAII
 DONALD G. DAVIS, NORTH CAROLINA
 TERRI A. SEWELL, ALABAMA
 STEVEN HORSFORD, NEVADA
 JIMMY PANETTA, CALIFORNIA
 VACANCY

BRIAN GARRETT, MINORITY STAFF DIRECTOR

The Honorable Jodey Arrington
 Chairman, Committee on the Budget
 U. S. House of Representatives
 204 Cannon House Office Building
 Washington, D.C. 20515

Dear Mr. Chairman,

The House Committee on Armed Services (HASC) appreciates the opportunity to provide input for the record for the Budget Committee's hearing, "Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office", on January 31, 2024.

The Committee relies heavily on CBO cost estimates throughout the process of marking up and passing the annual National Defense Authorization Act (NDAA). Because the Committee aims to pass an NDAA that does not increase our deficit, it is critical that CBO reviews all NDAA provisions, including Committee mark-up and House floor amendments, prior to inclusion in the bill. These estimates inform our review of all proposed provisions.

HASC and CBO staff have developed strong working relationships and instituted standardized processes that facilitate CBO's review of large numbers of NDAA provisions. For the fiscal year 2024 NDAA, CBO reviewed nearly 900 provisions during the committee mark-up process, over 1,800 when the bill went to the House floor, and nearly 800 during final passage. The Committee greatly appreciates the professionalism of CBO's staff as they seek to provide consistent, non-partisan analysis of thousands of NDAA provisions, usually under very short deadlines. CBO could benefit from more staff in its defense unit to handle the incredible amount of work required to pass the NDAA.

It is very common that provisions are not included in the NDAA due to a deficit impact, as estimated by CBO. Usually, the basis for a cost estimate is clear and well understood. However, in some cases, strict scorekeeping guidelines limit our ability to enact good government policies that support national security and may even save money over the long run. For example, scorekeeping rules on third-party financing of federal projects have impeded important infrastructure and public-private partnership initiatives due to the requirement that life-cycle costs be budgeted up-front. The rules for multi-year procurement contracts can also deter the adoption of provisions that save money for the taxpayer and strengthen the defense industrial base. The Committee suggests that CBO, the Office of Management and Budget (OMB), and the

The Honorable Jodey Arrington
January 30, 2024
Page 2

relevant committees review their scorekeeping rules on an ongoing basis to ensure that they remain up-to-date, transparent, and evidence-based.

We commend you on your oversight of CBO's role in providing independent, non-partisan analysis of the Federal budget process. The Committee is happy to share our standardized practices to the extent they may help other committees work collaboratively with CBO to ensure timely and accurate cost estimates that support fiscal discipline and effective legislative outcomes for the American people.

Sincerely,



Mike Rogers
Chairman
Committee on Armed Services

Cc: The Honorable Brendan F. Boyle, Ranking Member, Committee on the Budget

Mr. BURGESS. I also have submissions for the record from stakeholders about reforms to the CBO and increasing transparency, including the Cato Institute, Americans for Prosperity, Economic Policy and Innovation Center, and an opinion letter published in the Wall Street Journal titled, "How to keep the CBO Honest When It Scores Spending Bills."

[The information follows:]



January 31, 2024

The Honorable Jody Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

The Honorable Brendan Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Arrington, Ranking Member Boyle, and Members of the Committee:

My name is Adam Michel, and I am the director of tax policy studies at the Cato Institute. I want to thank the Committee for inviting input on improving congressional scorekeeping. I will highlight a reform to improve how the Congressional Budget Office (CBO) reports tax expenditures.

The CBO works with the Joint Committee on Taxation (JCT) to assess changes in tax policy. CBO also regularly publishes reports on tax expenditures following the convention used by JCT, which measures these expenditures from an income tax baseline. Tabulating tax expenditures in this way biases the tax code and tax reform against investment and growth and toward progressive forms of redistribution.¹

The current definition of tax expenditure is in section 3(3) of the Congressional Budget and Impoundment Control Act of 1974 (1974 Act). It defines a tax expenditure as a special deviation from "gross income."

Defining a tax expenditure as a deviation from gross income misleadingly lumps together two phenomena. Some tax expenditures move the tax code toward a consumption tax base by decreasing the economic distortions of double taxation built into the normal income tax system. Other tax expenditures are true special interest carve-outs and loopholes that grant privileges to some at the expense of others. This distinction also confuses distributional analysis of tax expenditures in regular CBO reports.²

To improve the CBO's educational publications, it should work with the JCT to provide supplementary analysis of tax expenditures measured from a consumption tax baseline. Ultimately, Congress should amend the 1974 Act to specify that tax expenditures are to be measured from a comprehensive consumption tax base rather than from gross income, replacing "gross income" with "consumed income" in the 1974 Act.

Sincerely,
Adam N. Michel
Director of Tax Policy Studies, Cato Institute

¹ Chris Edwards, "[Tax Expenditures and Tax Reform](#)," Policy Analysis no. 954, Cato Institute, July 25, 2023.

² Congressional Budget Office, "[The Distribution of Major Tax Expenditures in 2019](#)," Report, October 27, 2021.



January 30, 2024

The Honorable Jody Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

The Honorable Brendan Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Arrington, Ranking Member Boyle, and Members of the Committee:

My name is Alex Nowrasteh, and I am the vice president for economic and social policy studies at the Cato Institute. Thank you to the Committee for inviting input on improving congressional scorekeeping. Below, I propose a reform to improve how the Congressional Budget Office (CBO) estimates and reports the budgetary effects of changes in immigration law.

Proposed changes in immigration law would often have the effect of increasing the population of the United States, which increases the number of workers and, thereby, GDP. However, CBO's conventional approach to modeling (often in cooperation with the Joint Committee on Taxation) assumes that immigration legislation will not affect baseline GDP.¹ This is an inappropriate methodology for analyzing the fiscal impact of immigration legislation because its primary goal is to increase GDP by expanding the number of immigrant workers. CBO is aware of this problem and reports that "[F]ollowing the standard convention of assuming that employment would remain unchanged relative to current law would have implied that any employment of the additional immigrants would be offset one-for-one by lower employment elsewhere in the population."²

If that methodological problem weren't bad enough, CBO's conventional approach assumes that immigration legislation would affect the number of people receiving government benefits. As a result, CBO's estimates of the budgetary effect of immigration count the cost of government programs consumed by immigrants but not their impact on tax revenues. Thus, CBO's conventional approach is systematically and erroneously biased against finding a positive fiscal impact of immigration because it only counts the fiscal costs and does not include the fiscal benefits from a larger GDP grown by the presence of more workers in the United States.

CBO has occasionally used other methods in the past to estimate the budgetary impact of immigration legislation. One such method is called the population-change approach.³ This method combines the conventional approach above and all the direct budgetary effects of a change in the number of people in the United States, such as increased income tax and payroll tax revenue. The population-change approach is an improvement, but it is incomplete because it does *not* include all the indirect economic effects, such as changes in tax revenue from more investment that occurs in response to a larger workforce.⁴ CBO has applied the population-change approach four times to different immigration legislation, and it produces better results.⁵

Even more rarely, CBO has used a dynamic approach to include the budgetary impact of all economic changes estimated using an enhanced Solow model. In that model, "output depends on the quantity and quality of the labor force, the size and composition of the capital stock, and the

nation's technological progress," according to the CBO.⁶ In other words, the dynamic approach rationally assumes that more immigration will increase the population, which will have other economic effects that result in a larger GDP. Holding tax laws constant, a higher GDP results in more tax payments. CBO has used this method twice in non-official budget estimates of immigration legislation.⁷

The conventional approach used by the CBO to estimate the budgetary impact of immigration legislation mechanically produces erroneous negative-biased net-fiscal estimates. CBO's conventional approach includes the higher costs of government benefits and excludes the higher taxes that would be paid by a greater number of workers and other dynamic economic effects that necessarily follow from an increase in lawful immigration.

CBO should default to using the population-change and dynamic modeling approaches for estimating the budgetary effects of immigration legislation or any other legislation that would increase the population and, hence, GDP of the United States. Adopting these approaches for immigration legislation would produce better estimates of the budgetary effects and are less likely to result in systematically biased estimates of the budgetary effects of immigration.

Sincerely,
Alex Nowrasteh
Vice President for Economic and Social Policy Studies, Cato Institute

¹ Congressional Budget Office, "[The Foreign-Born Population, the U.S. Economy, and the Federal Budget](#)," April 2023, p. 4; See Congressional Budget Office, "[Estimated Budgetary Effects of H.R. 4521, the America COMPETES Act of 2022](#)," February 4, 2022.

² Congressional Budget Office, "[How Changes in Immigration Policy Might Affect the Federal Budget](#)," January 2015, p. 19.

³ Douglas Elmendorf and Heidi Williams, "[How Does Accounting for Population Change Affect Estimates of the Effect of Immigration Policies on the Federal Budget?](#)" Penn Wharton Budget Model, January 18, 2024, p. 2.

⁴ Michael A. Clemens, "[The Fiscal Effect of Immigration: Reducing Bias in Influential Estimates](#)," IZA DP No. 15592, September 2022; Alex Nowrasteh, Sarah Eckhardt, and Michael Howard, "[The Fiscal Impact of Immigration in the United States](#)," Cato Institute White Paper, March 21, 2023, p. 131-134

⁵ Congressional Budget Office, "[H.R. 2131 Supplying Knowledge-based Immigrants and Lifting Levels of STEM Visas Act \(SKILLS Visa Act\)](#)," March 12, 2014; Congressional Budget Office, "[S. 744, Border Security, Economic Opportunity, and Immigration Modernization Act](#)," June 18, 2023; Congressional Budget Office, "[S. 2611, Comprehensive Immigration Reform Act of 2006](#)," May 16, 2006; Congressional Budget Office, "[S. 2611, Comprehensive Immigration Reform Act of 2006](#)," August 18, 2006.

⁶ Congressional Budget Office, "[The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act](#)," June 18, 2013, p. 14.

⁷ Congressional Budget Office, "[The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act](#)," June 18, 2013; Congressional Budget Office, "[S. 2611, Comprehensive Immigration Reform Act of 2006](#)," May 16, 2006.



January 26, 2024

The Honorable Jody Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

The Honorable Brendan Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Arrington, Ranking Member Boyle, and Members of the Committee:

My name is Romina Boccia, and I am an economist and director of federal budget and entitlements policy with the Cato Institute. I would like to thank the Committee on the Budget for convening this Hearing on Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office, on January 31, 2024, and for providing the opportunity to express my views regarding this topic. In particular, I am writing to propose several reforms to CBO scoring and reporting that would enhance transparency and enable greater fiscal responsibility.

- **Require CBO to include projected interest costs in legislative cost estimates.** CBO should include debt service costs in all legislative cost estimates.¹ Doing so would ensure that Congress considers the time-value of money when authorizing new spending or reducing tax revenues without offsetting spending reductions. This change would improve accuracy in congressional scorekeeping, by making sure that lawmakers make an apples-to-apples comparison when considering spending proposals against the budget baseline. It could also help to reduce reliance on budget gimmicks, such as “spend now, save later,” whereby legislators try to offset immediate spending increases with uncertain, future spending reductions or revenues, because lawmakers would be faced with the debt-service costs of this practice. With interests costs now a major and rapidly rising budget category, accounting for interest costs in legislative costs estimates is particularly important.
- **Remove emergency spending from the budget baseline.** Under the current CBO baseline, temporary emergency provisions are treated as permanent and growing expenditures if they apply to discretionary appropriations. Excluding emergency appropriations from CBO’s baseline projections would help to reduce the bias toward higher spending and better reflect that emergency spending is intended to respond to necessary, sudden, urgent, unforeseen, and not permanent situations.² If Congress continues to rely on emergency spending on a regular basis, CBO should provide an alternate estimate of budget projections that retains the inclusion of emergency spending for informational purposes only. Legislative cost estimates, which determine whether Congress is increasing or decreasing spending compared to the previous year’s levels, should rely on the non-emergency baseline.
- **Report regularly on emergency designations.** CBO does not typically release historical data on emergency designated spending, despite this spending composing at times a large and now increasing share of the budget. This obscures how emergency designations contribute significantly to the US fiscal challenge. CBO should report regularly on

emergency designated spending, including by providing historical data in relevant CBO reports.³

- **Make appropriations scores publicly available.** Members of Congress and the public deserve to receive complete, and easily digestible information about what's included in appropriations bills before they are enacted. More transparent reporting is especially critical as Congress has gotten into the bad habit of relying on budget gimmicks, from changes to mandatory programs and inappropriate emergency designations, to evade agreed-upon spending limits. CBO already produces detailed reports for appropriations bills, but they are only available to a limited audiences, including leadership and select committees. Making these reports publicly available would enhance transparency and allow for greater accountability in the service of fiscal restraint. Alongside account-level and aggregate budget authority and outlays, CBO should also include information about changes in mandatory programs (CHIMPs), emergency designations, and other exclusions to enforceable spending allocations.
- **Require the use of fair-value accounting for federal credit programs.** The current approach to report the financial impact of government-sponsored enterprises⁴ and other federal credit programs fails to properly account for the market risk of default, distorting the federal government's fiscal picture. Congress should require CBO to analyze federal loan and credit programs using the same method as used by the private sector. CBO is already performing a valuable service by producing informational reports that compare estimates based on Treasury yields and market yields. Congress should amend the Federal Credit Reform Act of 1990 to formally incorporate fair-value estimates in accounting for federal credit programs.
- **Require CBO to produce legislative cost estimates based on a more realistic alternative baseline scenario.** The current-law baseline makes unrealistic assumptions that are not based on historical experience, such as assuming that time-limited tax cuts will be allowed to expire. CBO should produce a more realistic alternative baseline which would paint a more accurate fiscal picture and reduce the tendency to use temporary provisions or gimmicky offsets to reduce the perceived fiscal impact of policy changes. Relying on an alternative baseline provides better estimates of actual congressional intent from which to assess the future fiscal situation and score policy changes.⁵

Sincerely,

Romina Boccia
Director
Federal Budget and Entitlements Policy

Cato Institute

¹ Romina Boccia, "[Improving Accuracy in Congressional Scorekeeping](#)," Heritage Foundation, September 8, 2016.

² Romina Boccia and Dominik Lett, "[Curbing Federal Emergency Spending](#)," Cato Institute, January 9, 2024.

³ Ibid.

⁴ Romina Boccia, "[Revealing Fannie Mae's and Freddie Mac's Budget Costs: A Step Toward GSE Elimination](#)," Heritage Foundation, March 16, 2014.

⁵ Romina Boccia and Adam Michel, "[Bring back the alternative fiscal scenario to restore fiscal sanity](#)," The Hill, March 22, 2018



CBO can do more to advance fiscal responsibility

Kurt Couchman, Senior Fellow in Fiscal Policy, Americans for Prosperity

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

January 31, 2023

Dear Chairman Arrington, Ranking Member Boyle, and members of the committee:

Thank you for reviewing the Congressional Budget Office's contributions to a culture of fiscal responsibility.

Congress created CBO, the congressional budget committees, and the foundation of the modern budget process through the Congressional Budget and Impoundment Control Act of 1974 to restore Congress' proper role in our constitutional system. Article I, Clause 1, of the U.S. Constitution is clear: "All legislative Powers herein granted shall be vested in a Congress of the United States." Half a century later, [the budget process needs updates](#).

CBO provides incredible support to Congress, and it keeps getting better. Even so, it can do more to give Congress useful and complete information: 1) publish jurisdictions with spending line items, 2) produce cost estimates for appropriations acts, 3) include interest effects in cost estimates, 4) include more intuitive options in CBO's interactive force structure tool, and 5) supplement FCRA estimates with fair value estimates for credit programs.

In addition, the House Budget Committee could conduct a comprehensive markup of CBO's authorizing statute, which is Title II of the Congressional Budget Act of 1974 (Chapter 17 of Title 2, United States Code). Doing so would give committee members an opportunity to review and update CBO's authorities and responsibilities.

1. Report responsibility for spending line items

The Congressional Budget Office publishes "[Spending Projections, by Budget Account](#)" for appropriated and direct spending accounts with each update to the budget baseline, most prominently with the [Budget and Economic Outlook and updates](#). The version of this information that CBO provides the Budget Committees and which underlies the budget resolution's 302(a) allocations to other committees apparently already includes authorizing committees and appropriations subcommittees of jurisdiction, as applicable.

Making that version publicly available would help all members better understand committee jurisdictions and the volumes of associated spending. It would aid efforts to oversee, coordinate, and otherwise manage connected programs across committees. Alternatively, the budget committees

could publish a full set of direct spending program line items for at least the current year and the budget year for each of the 16 non-appropriations committees with spending authority.

Clarifying jurisdictions for spending programs would also support a comprehensive budget. Representatives [Blake Moore](#) and [Marie Gluesenkamp Perez](#) recently proposed such an upgrade in H.R. 6953, the [Comprehensive Congressional Budget Act of 2024](#).

2. Produce cost estimates for appropriations acts

Appropriations bills are the heart of federal budgeting. They are especially important for members of Congress to understand clearly, yet a section of the Congressional Budget Act includes a parenthetical excluding appropriations bills from CBO's responsibility to provide cost estimates for all other legislation.

Rep. Glenn Grothman's Appropriations Transparency Act would strike this exclusion. Then, CBO would provide consistent cost estimates for all legislation. CBO already does so for some appropriations bills, and the law should reflect and routinize this sound practice.

3. Include interest effects in cost estimates

Without including interest effects, cost estimates don't give the full budget picture for legislation. This distortion is greatest when giveaways happen quickly and takeaways (offsets) are toward the end of the scoring window.

CBO has developed a related [interactive tool](#), which it should update as interest and other economic projections change. In addition, legislation by [Rep. Dan Meuser](#) and [Rep. Michael Cloud](#) would require CBO and JCT to include interest effects in cost estimates routinely.

4. Enhance CBO's interactive military force structure tool

CBO's [interactive force structure tool](#) is an excellent resource for those well-versed in the operations of the U.S. armed forces. For members and staff without such a background, however, its value is less clear.

CBO could add options to approximate the fiscal impacts of scaling up or down U.S. military presence in various world regions. Though perhaps less precise than current parameters, such additional options would help more members better understand the fiscal tradeoffs associated with a wide range of geopolitical options.

5. Evaluate credit programs with both FCRA and fair value estimates

Federal credit programs provide debt financing on preferential terms for a wide range of activities. The estimated degree of subsidy differs between Federal Credit Reform Act methods and fair value procedures, however, and fair value provides a more accurate estimate of the expected subsidy.

CBO has produced numerous reports estimating the costs of federal credit programs using both methods and recommends using fair value accounting. [The latest report](#) estimates a FCRA-based overall subsidy rate of 0.7% for a \$10.9 billion annual subsidy, while fair-value estimations shows a 4.9% subsidy rate for a \$76.7 billion subsidy. Even so, CBO must follow FCRA standards in official cost estimates. Meanwhile, GAO agrees that fair-value estimates most accurately capture the subsidy rate, but [it contends](#) that FCRA better captures federal fiscal flows.

Rather than choosing one or the other, CBO should give Congress estimates using both measures because each tells part of the story, similar to the synergy between cash-based and accrual accounting concepts. Rep. Ralph Norman's H.R. 5771, the [Fair-Value Accounting and Budget Act](#), would accomplish this objective by preserving FCRA estimates while supplementing them with fair-value estimates.



Strengthening the Congressional Budget Office

Matthew D. Dickerson | **Director of Budget Policy**
Economic Policy Innovation Center
January 30, 2024

Executive Summary

- The Congressional Budget Office has made strides to increase transparency, but more can be done making data and modeling available, providing cost estimates for appropriations bills, and providing clarity about the true current law baseline.
- CBO scoring could be improved by utilizing more accurate macroeconomic estimates, incorporating debt servicing costs, using fair value estimates for credit programs, and providing updated estimates when the scoring of enacted laws changes from the original assumptions.
- Congress should begin reauthorizing the CBO regularly, using this opportunity to modernize and update the agency's mission as needed.
- The Budget Committees should ensure the CBO is allocating resources and personnel in a way that meets the needs of lawmakers.

Introduction

The Congressional Budget Office (CBO) is an essential resource for the Legislative Branch and the American public.

One of the most important oversight responsibilities of the Budget Committees is of the CBO. The Rules of the House of Representatives state that: "The Committee on the Budget shall review on a continuing basis the conduct by the Congressional Budget Office of its functions and duties."¹ The House and Senate Budget Committees should remain in constant conversation with the Director of the CBO about how to strengthen and improve the agency to meet the evolving needs of Congress.

Similar efforts should be undertaken with respect to the Joint Committee on Taxation (JCT), the official Congressional scorekeeper for revenue legislation.

Increasing Transparency

An important way to improve trust in the Congressional scorekeepers is by increasing transparency. This principle is reflected in the Congressional Budget Act, which established the CBO.²

In response to mounting criticism by Members of Congress and the public, the CBO has made progress increasing transparency in recent years. The CBO has disclosed additional data, published working papers explaining methodology and assumptions, and conducted selected analyses of previous cost estimates. It has also produced a centralized web page and reoccurring reports that increase transparency.³

Building on this progress, the Budget Committees can work with the CBO to accomplish additional reforms:

Expand Availability of Data and Modeling

Transparency is fundamental for the policy making process to function well.

The Budget Committees should require the CBO and the JCT to publish detailed descriptions of how they produce cost estimates, including assumptions, data inputs, and methodologies. A reasonable goal should be to provide sufficient transparency so independent sources could replicate CBO's estimates. H.R. 1492, the CBO Show Your Work Act, introduced by Rep. Warren Davidson (R-OH-08) would require the CBO to publish models used for cost estimates.

¹ Rules of the House of Representatives for the 118th Congress, Rule X, Clause 4(b)(1).

² See, for example, Congressional Budget and Impoundment Control Act Of 1974, Public Law 93-344, Sec. 203.

³ Matthew Dickerson, "Improving Budget Rules and Processes to Achieve Policy Outcomes in the 118th Congress," Heritage Foundation Backgrounder No. 3740, December 12, 2022, <https://www.heritage.org/budget-and-spending/report/improving-budget-rules-and-processes-achieve-policy-outcomes-the-118th>.

Provide Cost Estimates for Appropriations Acts

Appropriations bills are the most important legislation affecting federal spending considered by Congress on a regular basis. Despite this, the CBO does not provide formal cost estimates on the regular appropriations bills. This is because a loophole in Section 402 of the Budget Act carves out bills reported by the House or Senate Appropriations Committees from the requirement that the CBO prepare cost estimates for legislation reported by other committees.⁴

However, the appropriations loophole does not *prohibit* the CBO from conducting analyses of appropriations bills. In fact, the CBO has disclosed that it “provides detailed reports showing estimates of the discretionary budget authority provided and the outlays that would occur in that year, including the estimated budgetary effects of provisions that make changes in mandatory programs,” including “account-level details.” These analyses are provided to the Appropriations Committee and other “interested parties in the Congress.”⁵ However, the data is *not* widely distributed to *all* Members of Congress, their staff, or the public.⁶

In response to questioning from Representative Tom McClintock (R-CA-05) on the House Budget Committee, former CBO Director Keith Hall testified in 2017 that “CBO is developing a plan to make that information available to the public in an accessible format.”⁷ While CBO has since then publicly provided additional information about appropriations bills, it has yet to make all relevant analysis available.

Requiring cost estimates on appropriations bills from Congress’s non-partisan official scorekeeper would be an important step towards transparency and uniformity in understanding the fiscal implications of spending legislation.

The Budget Committees should require CBO cost estimates for appropriations bills to include account-level, agency-level, and summary totals (for the budget year and each of the other years in the budget window) for:

- Gross discretionary budget authority;
- The estimated outlays flowing from such budget authority;
- Rescissions of budget authority and the estimated changes in outlays;

⁴ Congressional Budget And Impoundment Control Act Of 1974, Sec. 402 reads: “The Director of the Congressional Budget Office shall, to the extent practicable, prepare for each bill or resolution of a public character reported by any committee of the House of Representatives or the Senate (except the Committee on Appropriations of each House), and submit to such committee (1) an estimate of the costs which would be incurred in carrying out such bill or resolution in the fiscal year in which it is to become effective and in each of the 4 fiscal years following such fiscal year, together with the basis for each such estimate.” [emphasis added]

⁵ Congressional Budget Office, “CBO Describes Its Cost-Estimating Process,” April 2023, https://www.cbo.gov/system/files/2023-04/59003-cost_estimate_primer.pdf.

⁶ Matthew Dickerson, “CBO Has Made Important Progress in Transparency, But Additional Steps Needed,” The Daily Signal, April 27, 2021, <https://www.dailysignal.com/2021/04/27/cbo-has-made-important-progress-in-transparency-but-additional-steps-are-needed>.

⁷ Keith Hall, “Answers to Questions for the Record Following a Hearing on the Budget and Economic Outlook for 2017 to 2027 Conducted by the House Committee on the Budget,” Congressional Budget Office, March 3, 2017, <https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/reports/52468-outlookqfrs.pdf>.

- Offsetting receipts and collections;
- Changes in Mandatory Programs (CHIMPs) and the changes in outlays;
- Appropriated mandatory budget authority and outlays;
- The effects of any other authorizing provisions in the bill;
- Notations of different categorizations of budget authority and outlays (such as Defense or Non-defense categories subject to discretionary caps, and disaster, emergency, program integrity, and other adjustments to caps); and
- The net total for scorekeeping purposes.

Expose the Myth of the "Current Law" Baseline

The CBO's baseline is often described as reflecting current law. However, this is a myth.⁸

There are four deviations from actual current law in the baseline that the CBO is required to incorporate by the Balanced Budget and Emergency Deficit Control Act:⁹

1. Discretionary appropriations are assumed to be continued and grow with inflation each year.
2. Direct spending programs larger than \$50 million are assumed to be extended beyond their statutory expiration.
3. Entitlement programs are assumed to make all scheduled benefit payments, even if a program's trust fund and financing is inadequate to do so.
4. Excise taxes dedicated to a trust fund are assumed to be continued beyond their statutory expiration.

These distortions make spending look much higher and revenues look slightly higher than they would actually be if Congress made no further changes in law. The distortions in the baseline bias the entire budget process in favor of higher spending and higher taxes.

To increase transparency, the Budget Committees should instruct the CBO to provide information describing a true current law baseline and how it deviates from the official baseline.

For cost estimates of legislation that interacts with one of the deviations, such as expiring direct spending programs, expiring excise taxes that go to trust funds, or spending from insolvent trust funds, CBO should be instructed to provide supplementary information describing how the bill would be scored against a true current law baseline.

⁸ Matthe Dickerson, "The Myth of the Current Law Budget Baseline," Economic Policy Innovation Center, November 28, 2023, <https://epicforamerica.org/blog/the-myth-of-the-current-law-budget-baseline>.

⁹ Sec. 257 of The Balanced Budget and Emergency Deficit Control Act, Public Law 99–177. Codified at 2 USC 907.

Modernize the Public Access to Budget Data Requirements

CBO has been a leader in providing information online, including using different accessible file formats. Unfortunately, the laws governing the public's access to budget data are stuck in the 1970s.

Sec. 203 of the Budget Act provides for "Public Access to Budget Data." However, the specific requirements placed on the CBO reflect a time when individuals had to go to an office in person to create a copy of a physical document. The law does not consider the opportunities and challenges of our modern information age.

As a part of the Budget Committee's review of the CBO, Sec. 203 could be modernized and future proofed.

Improving Scoring Methods

Improve Macroeconomic Estimates

Understanding the economic effects of legislation is more important now than ever. However, Congress must also ensure that scorekeeping agencies use best practices when conducting so-called dynamic scoring.

CBO has used outdated models assuming simplistic Keynesian "multipliers" to government spending, which attempt to quantify the change in the gross domestic product (GDP) associated with an increase in government spending. A complete score should include "the other side of the equation" – the diversion of resources from the private sector by taxes or deficit (future taxation) financing for the government spending; those private resources could have otherwise been put to uses with a higher productivity than the government spending.¹⁰ A CBO working paper has shown there are significantly different effects on the economy depending on the sources of financing government spending.¹¹

The Budget Committees should require to CBO update its macroeconomic scoring methodology to incorporate the budgetary effects of changes in economic output, employment, capital stock, tax revenues, sources of financing new outlays, total debt of the federal government, international trade, and international capital flows resulting from the legislation. The Pro-Growth Budgeting Act, introduced by Representative Kevin Hern (R-OK-01) in the 117th Congress, would implement these requirements.

The CBO and JCT should also be as transparent as possible regarding their dynamic scoring models. For example, the CBO and JCT should discuss their assumptions regarding the long-run equilibrium and the speed of convergence for when the debt-to-GDP ratio stabilizes.¹²

¹⁰ Curtis Dubay, "CBO Should Update Its Methodology Before Dynamically Scoring Spending Bills," Heritage Foundation Issue Brief No. 4361, March 5, 2015, <https://www.heritage.org/budget-and-spending/report/cbo-should-update-its-methodology-dynamically-scoring-spending-bills>.

¹¹ Jaeger Nelson and Kerk Phillips, "The Economic Effects of Financing a Large and Permanent Increase in Government Spending: Working Paper 2021-03," Congressional Budget Office Working Paper, March 22, 2021, <https://www.cbo.gov/publication/57021>.

¹² As the Penn Wharton Budget Model describes, models "effectively crash when trying to project future macroeconomic variables under current fiscal policy" so modelers add a "closure rule" that assumes changes in taxes or spending that would put the budget on a more sustainable path; see

Incorporate Debt Servicing Costs for Legislative Proposals

Net interest costs are one of the largest and fastest growing components of the federal budget. Congress should understand how proposed legislation would add to or decrease interest costs.

The Budget Committees should require cost estimates to include the projected debt servicing costs that would be attributable to the legislation. H.R. 311, Cost Estimates Improvement Act, introduced by Rep. Michael Cloud (R-TX-27) would implement this reform.

CBO Director Phillip Swagel has previously testified that “[i]n most cases, inclusion [of debt service costs] would be feasible and require few additional resources.”¹³

Use Fair Value Methodology for Credit Programs

The Federal Credit Reform Act of 1990 (FCRA) controls how credit assistance programs are counted for purposes of budget scorekeeping. The FCRA method discounts the cost of loans using the interest rates of Treasury securities. However, this understates the actual costs to taxpayers because it fails to take into account market risks.

In contrast, fair-value accounting would take into account the market risk of the cost of credit assistance. A CBO working paper states, “Fair-value budgeting represents a more comprehensive measure of cost for government activities than the measure required under current law.”¹⁴

The Budget Committee should direct CBO to use fair value budgeting as the agency’s default methodology.

Provide Updated Assumptions Regarding Major Enacted Legislation

Understanding the past is essential for preparing for the future. When CBO’s understanding of the costs of previously enacted legislation are updated based on new information, it should alert Congress to these facts.

For example, the CBO and JCT estimated that green energy tax subsidies in the so-called Inflation Reduction Act would cost less than \$300 billion over ten years. But now, the estimated costs exceed \$650 billion, more than double the original projection.¹⁵ Similarly, the Inflation Reduction Act’s \$80 billion slush

Penn Wharton Budget Model, “When Does Federal Debt Reach Unsustainable Levels?” October 6, 2023, <https://budgetmodel.wharton.upenn.edu/issues/2023/10/6/when-does-federal-debt-reach-unsustainable-levels>.

¹³ Phillip L. Swagel, “Answer to a Question for the Record Following a Hearing on CBO’s Appropriation Request for Fiscal Year 2023,” May 12, 2022, <https://www.cbo.gov/publication/58129>.

¹⁴ Michael Falkenheim, “Fair-Value Budgeting: Practical Issues: Working Paper 2021-08,”

Congressional Budget Office Working Paper, July 29, 2021, <https://www.cbo.gov/publication/57264>.

¹⁵ William McBride and Daniel Bunn, “Repealing Inflation Reduction Act’s Energy Credits Would Raise \$663 Billion, JCT Projects,” Tax Foundation, June 7, 2023, <https://taxfoundation.org/blog/inflation-reduction-act-green-energy-tax-credits-analysis>.

fund for the Internal Revenue Service has only brought in a fraction of the new revenue originally projected by the CBO.¹⁶

Another instance that should trigger disclosure is if a provision in a previously enacted law that was meant to offset the costs of other spending is later repealed or proves to save less than originally estimated. An example of this is the CLASS Act budget gimmick included in Obamacare that was scrapped before ever being implemented.¹⁷

The information reported in updates from the CBO could feed into an “offset accountability tracker” cataloging if Congress is keeping its promises to pay for various legislative proposals.

Maximizing Resource Allocation

The CBO exists to assist Congress. The Budget Committee must constantly be asking if the CBO prioritizes its staffing allocations and other resources to meet the needs of Congressional priorities.

As a part of this process, Congress must consider the upcoming fiscal challenges and inflection points. In 2025, a massive fiscal cliff is looming, with the reinstatement of the debt limit, the expiration of major provisions of the Tax Cuts and Jobs Act, enforcement of Statutory PAYGO, the expiration of Fiscal Responsibility Act discretionary spending caps, and other policies.

As daunting as that may seem, even larger challenges are forthcoming: the depletion of the Medicare Hospital Insurance Trust Fund, the depletion of the Social Security Trust Fund, rising interest costs, and the potential for the erosion of fiscal space for financing unsustainable spending and deficits.¹⁸

Congressional Action: Oversight Opportunity

The Budget Committees serve a unique oversight role in addition to their responsibilities to produce an annual budget resolution and serve as official scorekeepers. They are the only committees with direct oversight jurisdiction over the CBO.

Rather than allowing the agency to float along as it has since its creation in 1974 or to improve only on an ad-hoc basis, the Budget Committees should consider reauthorizing the CBO.¹⁹ This would enable the Budget Committees to regularly review the CBO’s transparency, scoring methods, and resource allocation.

¹⁶ Matthew Dickerson, “IRS Enhanced Enforcement Falling Short of Projections,” Economic Policy Innovation Center, January 17, 2024, <https://epicforamerica.org/blog/irs-enhanced-enforcement-falling-short-of-projections>.

¹⁷ Robert P. Saldin, “Gaming the Congressional Budget Office,” National Affairs, Fall 2014, <https://www.nationalaffairs.com/publications/detail/gaming-the-congressional-budget-office>.

¹⁸ Matthew Dickerson, “Upcoming Fiscal Challenges Show Need for Lawmakers to Think Longer Term and Bigger Picture,” November 8, 2023, <https://epicforamerica.org/blog/upcoming-fiscal-challenges-show-need-for-lawmakers-to-think-longer-term-and-bigger-picture/>.

¹⁹ Brittany Madni, “CBO Reauthorization: Regularizing Oversight,” January 30, 2024, <http://epicforamerica.org/blog/cbo-reauthorization/>.

Finally, the Budget Committees should regularly hold oversight hearings of the CBO, seek input from individual Members, and revise the CBO's mandate as Congress sees fit. This must be an ongoing exercise for the CBO to maintain its maximum usefulness to the Legislative Branch.

The Chairmen of the Budget Committees should assess the priorities of the Congress and clearly communicate expectations to the CBO Director to plan accordingly.



ECONOMIC POLICY INNOVATION CENTER

Strengthening the Congressional Budget Office

Increasing Transparency

Expand Availability of Data and Modeling

- Require the CBO and JCT to publish detailed descriptions of how they produce cost estimates, including assumptions, data inputs, and methodologies.

Provide Cost Estimates for Appropriations Acts

- Close the loophole in the Congressional Budget Act and require account-level, agency-level, and summary totals for appropriations bills.

Expose the Myth of the "Current Law" Baseline

- Require CBO to show a true current law baseline and describe how legislation would be scored when the official baseline deviates from actual current law.

Modernize the Public Access to Budget Data Requirements

- The laws governing the public's access to budget data are stuck in the 1970's and should be updated for the modern era.

Improving Scoring Methods

Improve Macroeconomic Estimates

- Replace the simplistic Keynesian "multipliers" with updated models that incorporate the budgetary effects of changes in the economy and the sources of financing.

Incorporate Debt Servicing Costs for Legislative Proposals

- Congress should understand how proposed legislation would affect interest costs.

Use Fair Value Methodology for Credit Programs

- Fair value accounting is more comprehensive and takes into market risks for taxpayers.

Provide Updated Assumptions Regarding Major Enacted Legislation

- CBO should report to Congress when the costs of major enacted legislation are updated.

Maximizing Resource Allocation

Allocate Resources and Staffing to Meet the Needs of Congress

- Chairmen of the Budget Committees should assess the priorities of the Congress and clearly communicate expectations to the CBO Director to plan accordingly.

Read the full paper at: EPICforAmerica.org/Publications

How to Keep the CBO Honest When It Scores Spending Bills

The budget office should be held to the standard of replicability.

Dec. 5, 2021 12:43 pm ET



The U.S. Capitol, Dec. 29, 2020. PHOTO: PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS

Your editorial "[An Honest Score for the Spending Bill](#)" (Nov. 26) is on target supporting Sen. John Cornyn's call for more transparency in scoring the recent spending bill. The issue is illustrative of a much larger problem with the Congressional Budget Office: It often produces only its results, without the underlying analysis. This makes it impossible for taxpayers funding the analysis to determine the quality of the reported results. This lack of transparency is not unique to the CBO but common across agencies. It serves as a shield protecting bureaucrats against criticism of faulty or politically biased analysis.

Government agencies should be held to the standard of replicability; that is, it should be feasible for a reader to replicate the analysis that led to the reported results. This standard in economic analysis occurs in peer-reviewed journals, as peers need to understand the analysis to assess its quality. A replicability standard would allow the private sector relying on CBO reports to improve the CBO's analysis by replacing parts of any analysis that are faulty.

It's a badly kept secret in Washington that the CBO tends to err in the direction of big government, regardless of party, as it has done for the recent spending bill. The director of the CBO is typically nominated by the Senate budget chair and approved by other key budget members from both houses, with ties settled by the House speaker. In 2019 I was nominated by the late budget chair, Sen. Mike Enzi, partly because he agreed with my proposal of a replicability standard. Democrats did not agree, and Speaker Pelosi had the pivotal say. The disagreement was telling, as keeping taxpayers in the dark is more valuable to those who benefit from it. Sunshine regulations are imposed on the private sector, but less light falls on the CBO and other government agencies conducting economic analysis.

Prof. Tomas J. Philipson

University of Chicago

Mr. Philipson was a member of the president's Council of Economic Advisers (2017-20) and its acting chairman (2019-20).

Mr. BURGESS. Director Swagel, I want to thank you for spending so much time with us today and appreciate your candid and forthright answers to the questions.

Please be advised that Members may submit written questions to be answered later in writing. Those questions and your answers will, in fact, be made part of the formal hearing record. Any Members who wish to submit questions or extraneous material for the record may do so within seven days.

And with that, the Committee stands adjourned.

[Whereupon, at 12:36 p.m., the Committee was adjourned.]

Committee on the Budget Hearing
“Creating a Culture of Fiscal Responsibility: Assessing the Role of the CBO”
January 31, 2024

Questions for the Record Submitted by Chairman Jodey Arrington (TX-19)

When scoring legislation or the baseline, has CBO ever taken direction from the Office of Management and Budget (OMB) instead of the Budget Committees?

- If so, what is the protocol for notifying the Budget Committees of such action? Can you provide thorough examples of when this has occurred?¹
- Under the Congressional Budget and Impoundment Control Act of 1974, CBO reports to Congress, the Legislative Branch, not the Executive Branch. Why would CBO take directives from OMB instead of Congress?

¹ There was once an instance where CBO took direction from OMB on a supplemental Dairy Margin Coverage (DMC) policy beginning in the July 2021 baseline; **Budget Committee staff was not made aware of this direction until September 2023.**

The Consolidated Appropriations Act of 2021 (CAA) included a bipartisan provision that authorized DMC supplemental payments based on updated producer’s production histories through January 31, 2023, consistent with other farm programs.

Initially after the CAA passed, CBO carried the DMC provision in its baseline, but then after solely consulting with OMB and not Congress, removed it.

Committee on the Budget Hearing
“Creating a Culture of Fiscal Responsibility: Assessing the Role of the CBO”
January 31, 2024

Questions for the Record Submitted by Representative Carter (GA-01)

Director Swagel: In November, the Budget Committee sent CBO a [letter](#) asking the budget office to explain its approach to analyzing policies that impact patient access to new drugs. As follow-up on that letter, we would specifically, like to understand how CBO is considering GLP-1 prescriptions, in particular, new indications, for example, in cardiovascular diseases expected this year. As a result, patients with obesity and cardiovascular diseases will be able to access a GLP-1 under Medicare. How are you factoring new indications into developing CBO’s baseline? How are you factoring in new indications for GLP-1s that are considered medically accepted indications and not excluded under the current weight-loss prohibition?

Committee on the Budget Hearing
“Creating a Culture of Fiscal Responsibility”
Assessing the Role of the CBO
January 31, 2024

Questions for the Record Submitted by Representative Ben Cline (VA-06)

Director Swagel,

- The baseline that CBO is required to produce is often described as reflecting “current law.” Please list the deviations from current law that are built into the baseline as a result of Section 257 of the *Balanced Budget and Emergency Deficit Control Act of 1985*?
- Compared to a theoretical baseline that is calculated without these assumptions, does the official baseline assume outlays that are higher or lower? What about revenues?
- How then would this dynamic affect the scoring of legislation that applies to the aforementioned assumptions, as opposed to scoring legislation against a true “current law” baseline without them?

Committee on the Budget Hearing

Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office

January 31, 2024

Question for the Record Submitted by Representative Drew Ferguson (GA-03)

Over the past 25 years, what is the Congressional Budget Office's 10-year score accuracy? Specifically, what is the rate in which the Congressional Budget Office can accurately score the projected cost of a piece of legislation relative to the actual cost once implemented?

Committee on the Budget Hearing**Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office****January 31, 2024****Questions for the Record Submitted by Representative Rudy Yakym (IN-02)**

Patients on Treatment Entering Medicare. Many of those living with obesity currently have coverage for anti-obesity medications (AOMs) through commercial insurance, the VA, Tri-Care, and FEHBP, to name a few; Medicare remains an outlier in providing access. As you work through the modeling of AOMs, how many individuals currently being treated with such medication do you estimate are expected to enter Medicare and lose coverage as a result? Has CBO considered the impact to the baseline, as a result, of patients stopping treatment for obesity if they regain the weight and develop a comorbidity like diabetes, when it could have been prevented by retaining access to their obesity treatment?

PBM legislative proposals—If CBO were to score the proposed PBM delinking legislation such as *Delinking Revenue from Unfair Gouging Act*, what do you estimate the budgetary impact to be? Is there any administrative burden associated with moving all existing PBM contracts to a ‘delinked’ model, and would there be a premium impact in the commercial or Part D space?

How does delinking interplay with the upcoming Part D redesign, which was signed into law as a part of the IRA?

Several private sector healthcare economists such as Alex Brill and Casey Mulligan have begun evaluating the impact of PBMs on the economy. Have you analyzed their studies, and have you factored these economic analyses into your modeling?

Additionally, there are discussions regarding banning spread pricing for PBMs in the commercial market, what do you estimate the budgetary impact for such legislation to be?

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



**ANSWERS TO QUESTIONS
FOR THE RECORD**

Following a Hearing on

The Oversight of CBO

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

March 8 | 2024

On January 31, 2024, the House Budget Committee convened a hearing at which Phillip L. Swagel, the Congressional Budget Office's Director, testified about the work of CBO.¹ After the hearing, Chairman Jodey Arrington and Representatives Buddy Carter, Ben Cline, Drew Ferguson, and Rudy Yakym submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/60031.

Chairman Arrington

Question. When scoring legislation or the baseline, has CBO ever taken direction from the Office of Management and Budget (OMB) instead of the Budget Committees? If so, what is the protocol for notifying the Budget Committees of such action? Can you provide thorough examples of when this has occurred? Under the Congressional Budget and Impoundment Control Act of 1974, CBO reports to Congress, the Legislative Branch, not the Executive Branch. Why would CBO take directives from OMB instead of Congress? There was once an instance where CBO took direction from OMB on a supplemental Dairy Margin Coverage (DMC) policy beginning in the July 2021 baseline; Budget Committee staff was not made aware of this direction until September 2023. The Consolidated Appropriations Act of 2021 (CAA) included a bipartisan provision that authorized DMC supplemental payments based on updated producer's production histories through January 31, 2023, consistent with other farm programs. Initially after the CAA passed, CBO carried the DMC provision in its baseline, but then after solely consulting with OMB and not Congress, removed it.

Answer. CBO consults with OMB staff on some technical and conceptual matters, but CBO does not take direction from OMB, and it makes its own assessments when preparing its baseline budget projections and estimating the costs of legislation. When providing budgetary information to the Congress, CBO adheres to laws and rules concerning the federal budget and to a set of principles that include 16 scorekeeping guidelines that have been agreed upon by OMB, CBO, and the budget committees.

CBO also regularly consults with its OMB counterparts on the implications of actions taken by the Administration. In most cases, CBO adopts the Administration's budgetary treatment for federal programs—though generally not OMB's numerical estimates—in its baseline and cost estimates because the Administration determines how the programs are operated and accounted for in the budget.

In some cases, CBO's budgetary treatment differs from OMB's, particularly when the agencies' conceptualizations of an activity or program differ. For example, CBO considers the activities of the government-sponsored enterprises Fannie Mae and Freddie Mac to be governmental and projects their budgetary effects on an accrual basis beyond the current year, whereas OMB treats them as nongovernmental and projects their payments to the Treasury on a cash basis.²

You note an issue that arose with regard to the estimated cost of a supplemental DMC program established by the Consolidated Appropriations Act, 2021. One of many questions that CBO had to address in preparing its estimate was whether that program was part of an existing broader program that, under the rules governing baseline construction, was assumed to be extended in the baseline or was a separate, smaller program that, under those rules, would not be extended in the baseline. In the short time available to complete the estimate, CBO initially concluded that the supplemental coverage was an addition to the existing DMC program.

On that basis, and consistent with the Deficit Control Act (2 U.S.C. § 907(b)(2)(A)(i)), CBO estimated the cost of the supplemental DMC provision for the entire baseline projection period instead of reflecting the expiration at the end of 2023 that was specified in the legislation. Because the cost estimate was completed in close conjunction with the February 2021 baseline, the baseline also showed costs for the supplemental DMC program throughout the projection period.

In a subsequent baseline published in July 2021, CBO revisited its budgetary treatment of the supplemental DMC. At that time, CBO determined that the supplemental DMC was *not* part of the existing DMC program and, therefore, should not be extended in the baseline. In

1. Testimony of Phillip L. Swagel, Director, Congressional Budget Office, before the House Budget Committee, *The Accuracy of CBO's Recent Baseline Projections* (January 31, 2024), www.cbo.gov/publication/59905.

2. See Congressional Budget Office, *Accounting for Fannie Mae and Freddie Mac in the Federal Budget* (September 2018), www.cbo.gov/publication/54475.

making that decision, CBO consulted with OMB, as the agency typically does when considering how a program will be implemented, but CBO did not take any direction from OMB; CBO's determination was based on its own understanding of the two programs and the Deficit Control Act's guidelines for constructing the baseline.

Representative Carter

Question. In November, the Budget Committee sent CBO a letter asking the budget office to explain its approach to analyzing policies that impact patient access to new drugs. As followup on that letter, we would specifically like to understand how CBO is considering GLP-1 prescriptions, in particular, new indications, for example, in cardiovascular diseases expected this year. As a result, patients with obesity and cardiovascular diseases will be able to access a GLP-1 under Medicare. How are you factoring new indications into developing CBO's baseline? How are you factoring in new indications for GLP-1s that are considered medically accepted indications and not excluded under the current weight-loss prohibition?

Answer. CBO is incorporating information about treatments for cardiovascular conditions in its estimation of the effects of policies that would authorize coverage of medications for the treatment of obesity in Medicare. CBO expects that if the Food and Drug Administration (FDA) approves glucagon-like peptide-1 (GLP-1) agonists for cardiovascular indications, then Medicare will cover those drugs for the treatment of cardiovascular conditions among people with obesity. In that case, CBO would add the costs of covering GLP-1 agonists for Medicare patients with the newly approved indications to its baseline, and the cost of legislation to broaden coverage of those drugs for treating obesity would fall. The amount of spending that would be attributed to the baseline and would no longer be attributed to legislation would depend on the details of the indications approved by the FDA and on the language in any legislation. CBO is refining its baseline projection of what new indications are likely to be covered by Medicare under current law and will share more information when it is available.

Representative Cline

Question. The baseline that CBO is required to produce is often described as reflecting "current law." Please list the deviations from current law that are built into

the baseline as a result of Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985? Compared to a theoretical baseline that is calculated without these assumptions, does the official baseline assume outlays that are higher or lower? What about revenues? How then would this dynamic affect the scoring of legislation that applies to the aforementioned assumptions, as opposed to scoring legislation against a true "current law" baseline without them?

Answer. The Deficit Control Act's instructions for preparing the baseline, including the required deviations from current law, are described in detail in a recent CBO publication.³ Regarding mandatory spending and revenues, entitlement authority (for Social Security benefits, for example) is assumed to be fully funded, certain expiring programs (such as the Supplemental Nutrition Assistance Program) are assumed to continue, and expiring taxes dedicated to trust funds (such as certain transportation-related excise taxes) are assumed to continue.⁴ Regarding discretionary funding, budget authority is assumed to equal amounts provided in the current full-year appropriation, with adjustments for inflation (as well as for any caps that have been imposed by law); if full-year appropriations have not been enacted, budget authority is assumed to reflect the annualized amount provided to date for the current year, with those adjustments.

Without those assumptions, total outlays and revenues in CBO's baseline projections would be lower during the projection period. Estimates of the effects of proposed legislation by CBO and the staff of the Joint Committee on Taxation (for proposals affecting income, estate and gift, excise, and payroll taxes) would reflect that fact. The net effect of proposed legislation relative to that different baseline would depend on the programs affected and the details of the legislation.

3. Congressional Budget Office, *CBO Explains the Statutory Foundations of Its Budget Baseline* (May 2023), www.cbo.gov/publication/58955.

4. For details about the costs for mandatory programs that continue beyond their current expiration date in CBO's baseline, see Congressional Budget Office, "10-Year Budget Projections," Supplemental Table 1, www.cbo.gov/system/files/2024-02/51118-2024-02-Budget-Projections.xlsx.

Representative Ferguson

Question. Over the past 25 years, what is the Congressional Budget Office's 10-year score accuracy? Specifically, what is the rate in which the Congressional Budget Office can accurately score the projected cost of a piece of legislation relative to the actual cost once implemented?

Answer. CBO has published analyses of the accuracy of some prior cost estimates and of what it has learned from its errors. The analyses were published several years after enactment of the legislation, once sufficient data were available to study the effects of the enacted policies. They include:

- *Federal Budgetary Effects of the Activities of the Center for Medicare & Medicaid Innovation* (September 2023), www.cbo.gov/publication/59274;
- *A Review of CBO's Estimate of Spending From the Department of Defense's Medicare-Eligible Retiree Health Care Fund* (October 2020), www.cbo.gov/publication/56653;
- *A Review of CBO's Estimate of the Effects of the Recovery Act on SNAP* (December 2018), www.cbo.gov/publication/54864;
- *CBO's Record of Projecting Subsidies for Health Insurance Under the Affordable Care Act: 2014 to 2016* (December 2017), www.cbo.gov/publication/53094;
- *Competition and the Cost of Medicare's Prescription Drug Program* (July 2014), www.cbo.gov/publication/45552; and
- "Actual ARRA Spending Over the 2009–2011 Period Quite Close to CBO's Original Estimate," *CBO Blog* (January 5, 2012), www.cbo.gov/publication/42682.

As a result of those analyses, CBO has updated its approaches to estimating the effects of similar legislation. For example, after analyzing its underestimate of the cost of increased SNAP benefits that were provided by the American Recovery and Reinvestment Act of 2009, the agency revised its modeling: CBO determined that in a cost estimate for similar legislation, it would estimate a larger increase in SNAP participation, and thus higher costs, in the event that the country was facing economic conditions comparable to those that prevailed from 2009 to 2013.

For most cost estimates, CBO cannot make such comparisons because the legislation is never enacted into law, the proposal becomes part of a larger piece of legislation and cannot be assessed separately, the legislation makes changes to an existing program that cannot be identified separately from other spending on that program, the legislation is an authorization whose funding depends on future appropriations, or the enacted legislation differs from the version CBO analyzed (usually when ordered reported by a full committee). In addition, it can take years for the effects of a policy change to be evident.

CBO also regularly assesses the accuracy of its baseline projections and economic forecasts by comparing them with actual outcomes.⁵ For example, on the basis of actual outcomes from 2006 through 2021, CBO determined that the projections of total outlays for those years that it had prepared 11 years earlier were often too high; the average absolute error was about 11 percent. CBO's projections were generally more accurate over shorter forecast horizons: The average absolute error for projections made 2 years earlier was 2 percent; for those made 6 years earlier, it was 6 percent. Analyzing errors in baseline projections helps improve the agency's understanding of how programs operate and thereby improves the accuracy of cost estimates.

Representative Yakym

Question. Many of those living with obesity currently have coverage for anti-obesity medications (AOMs) through commercial insurance, the VA, Tri-Care, and FEHBP, to name a few; Medicare remains an outlier in providing access. As you work through the modeling of AOMs, how many individuals currently being treated with such medication do you estimate are expected to enter Medicare and lose coverage as a result? Has CBO considered the impact to the baseline, as a result, of patients stopping treatment for obesity if they regain the weight and develop a comorbidity like diabetes, when it could have been prevented by retaining access to their obesity treatment?

5. For reports about the accuracy of CBO's projections of outlays, revenues, deficits, and debt, see Congressional Budget Office, "Accuracy of Projections," www.cbo.gov/topics/budget/accuracy-projections. Up-to-date data on the history of those projections and actual outcomes are available on GitHub (<https://github.com/US-CBO/eval-projections>). For a series of reports about the accuracy of CBO's economic forecasts, see Congressional Budget Office, "Major Recurring Reports, Economic Forecasting Record," www.cbo.gov/about/products/major-recurring-reports#7.

Answer. CBO is currently gathering information about the number of people being treated with such medication and the effects of their use of the treatment. Continuous use of the medication over time is needed for people to maintain its health benefits. People who discontinue the medication, whether because of side effects or because of lost insurance coverage, tend to regain weight and may develop associated health conditions. CBO's analysis of proposals to expand Medicare's coverage of GLP-1 agonists accounts for that aspect of the medication. The agency will update you and your colleagues when more information is available.

Question. If CBO were to score the proposed PBM delinking legislation such as Delinking Revenue from Unfair Gouging Act, what do you estimate the budgetary impact to be? Is there any administrative burden associated with moving all existing PBM contracts to a 'delinked' model, and would there be a premium impact in the commercial or Part D space? How does delinking interplay with the upcoming Part D redesign, which was signed into law as a part of the IRA? Several private sector healthcare economists such as Alex Brill and Casey Mulligan have begun evaluating the impact of PBMs on the economy. Have you analyzed their studies, and have you factored these economic analyses into your modeling? Additionally, there are discussions regarding banning spread pricing for PBMs in the commercial market, what do you estimate the budgetary impact for such legislation to be?

Answer. CBO has not yet estimated the budgetary impact of the Delinking Revenue from Unfair Gouging

Act. That act's restrictions on pharmacy benefit managers (PBMs) include a provision that would prohibit PBMs from linking their compensation to the list price of a drug and a ban on spread pricing—that is, charging an insurer more for a drug than the PBM pays the pharmacy.

In CBO's assessment, policies that regulate the practices of PBMs (for instance, by restricting the revenues that PBMs retain or requiring greater transparency with the plan sponsors they contract with) tend to lead to lower premiums for both Medicare Part D and commercial insurance plans and to federal budgetary savings. Those outcomes are the result of two partially offsetting effects: Greater transparency improves the ability of some plan sponsors to negotiate lower-priced pharmacy benefit contracts, but PBMs tend to offset those losses by increasing revenue in other parts of the pharmacy supply chain and by raising other fees charged to plan sponsors—thereby increasing administrative costs for plan sponsors.

CBO expects that provisions of the 2022 reconciliation act (sometimes called the Inflation Reduction Act, or IRA), including those related to the redesign of Part D, will lead to a decline in manufacturer rebates and discounts over time, which will dampen the effects of legislation related to PBMs' transparency and delinking on federal spending.

CBO incorporates information from many sources, including Alex Brill and Casey Mulligan in addition to other researchers and stakeholders, to conduct its analyses. The agency will continue to update its analyses as new information comes out.