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Answers to Questions for the Record Following a Hearing on *The 2014 Long-Term Budget Outlook* Conducted by the House Committee on the Budget

On July 16, 2014, the House Committee on the Budget convened a hearing at which Douglas W. Elmendorf, Director of the Congressional Budget Office, testified about CBO's report The 2014 Long-Term Budget Outlook *(www.cbo.gov/publication/45471). Following that hearing, some Members of the Committee submitted questions for the record. This document provides CBO's answers.*

Chairman Ryan

Question: If the Wildfire Disaster Funding Act (S. 1875, H.R. 3992) were enacted now and any amount of "additional new budget authority" (as defined by the Act) was appropriated, would the maximum amount Congress is able to appropriate in fiscal year 2015 exceed the maximum amount Congress is allowed to appropriate in fiscal year 2015 under current law?

Answer: Yes. Those bills define "additional new budget authority" as the amount of funding provided in an appropriation act for wildfire suppression operations that exceeds 70 percent of the average costs for wildfire suppression operations over the previous 10 years. If the Congress appropriated such additional new budget authority for fire suppression in 2015, the maximum amount that the Congress would be allowed to appropriate in that year would increase, relative to current law, by an amount equal to that new budget authority (up to a specified limit).

The Budget Control Act of 2011 established caps on the amount of new budget authority the Congress can provide in annual appropriation bills through 2021. Under that act, the caps can be increased to accommodate additional funding for overseas contingency operations, disaster relief, program integrity initiatives, or anything designated as an emergency requirement.

Over the 2015–2021 period, S. 1875 and H.R. 3992 would allow for an additional cap increase in any given year equal to the difference between the amount appropriated for wildfire suppression in that year and 70 percent of the average annual amount obligated for wildfire suppression over the previous decade. (For 2015, the applicable 10-year average is $1.4 billion.) However, that cap increase (the additional new budget authority) for wildfire suppression could not exceed $2.689 billion in any year.

Question: Assuming the Wildfire Disaster Funding Act (S. 1875, H.R. 3992) were enacted now, and, assuming Congress appropriates the maximum amount of "additional new budget authority" allowed by the Act each year from fiscal year 2015 through fiscal year 2021, will the disaster cap reductions required by the Act fully offset the increased appropriations allowed by the Act?

Answer: Under either bill, if the cap on discretionary appropriations was adjusted upward to provide additional funding for wildfire suppression in any year, the cap on funding for disaster relief would be lowered in the following year to offset that adjustment. However, because of the lag in that adjustment and because the bills would also change the way that the caps on funding for disaster relief are calculated—by taking into account the amount of funds appropriated for wildfire suppression—the reductions in the cap adjustments for disaster relief required by the proposed legislation would not fully offset the increased appropriations allowed under those bills.

First, the reduction in the cap adjustment for disaster relief required under the bills would not take effect until the year following the additional appropriation for fire suppression. If, for example, the Congress appropriated the maximum amount of additional budget authority for fire suppression in 2015, the required offsetting reduction would not affect the cap adjustment for disaster relief until 2016. The bills would allow additional appropriations for wildfire suppression through 2021, but additional spending for fire suppression in 2021 would not result in any reduction to allowable cap adjustments in 2022 because there currently are no discretionary funding caps (or allowances for cap adjustments) after 2021. Thus, spending increases could occur in all seven years covered by the proposed legislation, but in only six of those years would an increase in spending require a subsequent reduction to the allowable cap adjustments for disaster relief.

The second reason that the cap reduction would amount to less than the authorized additional spending for fire suppression over the 2015–2021 period is that the bills would change how the cap adjustments for disaster relief are calculated; as a result, in years following an additional appropriation for fire suppression, the net reduction in the cap adjustment for disaster relief required by the bills would generally be smaller than the previous year's cap increase related to funding for fire suppression. Under current law, the allowable cap adjustment for disaster relief is equal to the average amount of funding provided for disaster relief over the previous 10 years (excluding the highest and lowest annual amounts) plus any amount by which the prior year's appropriation was below the maximum allowable cap adjustment for that year. If the proposed legislation simply provided that any increase in wildfire suppression appropriations up to $2.689 billion would cut the cap adjustment for disaster relief by the same amount, then the additional spending for fire suppression authorized in one year would be offset by a decrease in authorized spending of the same amount in the next year (except for the shift from 2021 to 2022, as described above). But that is not how the reduction would work under the proposed legislation.

Instead, any additional budget authority provided for wildfire suppression under the bills would be included in the calculation of the 10-year average of funding for disaster relief that is used to determine subsequent cap adjustments. By adding spending on wildfire suppression to the calculation of the cap adjustment for disaster relief, the proposed legislation would make the potential cap adjustments for disaster relief over the 2016–2021 period larger than would be allowed under current law. Those increases in the allowable cap adjustments for disaster relief would not be eliminated by the cap reductions for additional fire suppression appropriations required under the bills.

Question: If "additional new budget authority" as authorized by the Wildfire Disaster Funding Act (S. 1875, H.R. 3992) were appropriated in any given year, would that be reflected in the score for the appropriations bill?

Answer: Yes, if the Congress appropriated additional budget authority as provided under the bills, those amounts would be scored like all other amounts provided in appropriation acts, and the discretionary caps would be adjusted, as specified, to reflect that appropriation.

Whether under current law or either of the proposed bills, the Congress could also appropriate funds for wildfire suppression using an emergency designation. Such designations also call for adjustments to the discretionary caps under the Budget Control Act.

Congressman Black

Question: Can CBO provide a cost estimate of the 23 delays made to the Affordable Care Act through Administrative action? If so, please provide those estimates. If not, please provide an explanation on why this cannot be done. Has CBO updated the baseline to adjust for the changes [to] implementation of existing law as a result of the 23 delays made to the Affordable Care Act through Administrative action? If so, please provide an explanation of the changes made. If not, please provide an explanation on why this cannot be done.

Answer: In preparing its baseline projections, the Congressional Budget Office makes its best judgment about how federal programs, such as those created by the insurance coverage provisions of the Affordable Care Act (ACA), will be implemented. If subsequent administrative actions differ from what was anticipated in CBO's baseline projections, the agency incorporates the effects of those administrative actions into its next regular baseline update. The Administration has issued regulations and guidance and has taken other administrative actions related to the insurance coverage provisions of the ACA relatively frequently; therefore, CBO has typically incorporated the effects of several such changes together in its baseline updates. In addition, those updates have often reflected other changes, including revisions to the economic outlook and the availability of new data about enrollment, premiums, or other relevant factors. Accordingly, separate estimates of the effects of each administrative action, or of other particular factors, generally do not exist.

This limitation was discussed in an April 2014 CBO report that described in detail the agency's most recent estimates of the effects of the insurance coverage provisions of the ACA and the various factors that led the agency to modify its previous estimates. The report describes the administrative actions that caused changes in the most recent estimates and provides qualitative assessments of the effects of those actions. In the section describing factors that led to changes in CBO's estimates, that report notes, "Because of the way that various factors interact, it is not possible to isolate the effects of changes in individual factors on specific components of the budgetary effects."[1]

CBO has, however, separately estimated the effects of some ACA-related administrative actions of particular significance. For example, CBO and the staff of the Joint Committee on Taxation (JCT) issued a report in July 2013 that analyzed the effects of key administrative

1. Congressional Budget Office, *Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act, April 2014* (April 2014), p. 15, www.cbo.gov/publication/45231.

actions taken during that month.[2] On July 2, 2013, the Administration announced a one-year delay in the imposition of penalties for some large employers and a corresponding delay in certain reporting requirements for insurers and employers under the ACA. In addition, the Administration issued final regulations in July 2013 that specified the procedures to be used to verify income and offers of employment-based coverage for purposes of determining eligibility for subsidies for insurance purchased through exchanges. All told, CBO and JCT estimated that those administrative actions will increase federal deficits, on net, by $12 billion over the 2014–2023 period. That cost largely reflected a $10 billion reduction in estimated revenues arising from penalties that were to be paid by employers. Effects of the other administrative actions added another $2 billion, on net, to estimated costs.

All told, revisions to CBO's estimates as a result of administrative actions and many other changes have reduced the projected net cost of the insurance coverage provisions of the ACA relative to the estimates that were prepared when the legislation was enacted. In March 2010, CBO and JCT projected that the provisions of the ACA related to health insurance coverage would cost the federal government $759 billion during fiscal years 2014 through 2019 (the last year of the 10-year budget window used in that estimate). The projections issued in April 2014 indicate that those provisions will cost $659 billion over that same period, a reduction of 13 percent. The net downward revision since March 2010 is attributable to many factors. Changes in law, revisions to CBO's economic projections, judicial decisions, administrative actions, new data, and numerous improvements in CBO and JCT's modeling have all affected the projections. A notable influence is the substantial downward revision to projected health care costs both for the federal government and for the private sector.

Question: In general can CBO provide cost analysis for Presidential Executive Orders? Does CBO adjust the baseline following the issuance of an Executive Order that would directly impact federal spending?

Answer: Under the Congressional Budget Act, CBO is responsible for providing the Congress with analyses of legislation, but not analyses of specific executive branch actions. Therefore, as a general matter, CBO does not attempt to estimate the incremental effects of individual executive orders. However, in each of its baseline updates, CBO incorporates, to the extent possible, the effects of any new federal administrative actions—including Presidential executive orders—in order to project what will happen under current law. And if a cost estimate for legislation is needed after some administrative action has been taken but before that action has been incorporated into a regular baseline update, CBO includes the effects of the action in its assessment of the projected outcome under current law against which the legislation is measured.

Congressman Huffman

Question: If the United States saw a decline in costs per beneficiary in [Medicare and Medicaid], as part of an overall trend toward similar per capita costs of health care found in other developed nations, what effect would it have on the long-term fiscal forecast, including on federal spending on health care as a percent of GDP and on federal debt as a percentage of GDP?

2. Congressional Budget Office, letter to the Honorable Paul Ryan providing an analysis of the Administration's announced delay of certain requirements under the Affordable Care Act (July 30, 2013), www.cbo.gov/publication/44465.

Answer: Under the assumptions of its extended baseline, without accounting for the influence of economic feedback on the federal budget, CBO estimates that, in the year 2039, Medicare spending net of premiums would total 4.6 percent of gross domestic product (GDP), and spending on Medicaid, the Children's Health Insurance Program (CHIP), and exchange subsidies would total 3.4 percent of GDP.[3] (In fiscal year 2014, such spending represented 3.0 percent and 1.9 percent of GDP, respectively, CBO estimates.)

CBO also provides estimates showing budgetary outcomes if health care costs (and other factors) evolve differently over time from what the agency currently expects. For health care costs, CBO provides estimates based on different rates of so-called "excess cost growth"—the difference between the growth rate of health care spending per capita and the growth rate of potential (maximum sustainable) output per capita. If excess cost growth equaled zero after 2024, CBO projects that Medicare spending net of premiums would total 4.0 percent of GDP in 2039, and spending on Medicaid, CHIP, and exchange subsidies would total 2.8 percent of GDP; all together, spending for those programs would be about 15 percent less in 2039 than the amounts projected in CBO's extended baseline.

That reduction in spending on health care programs relative to CBO's extended baseline would lead to less federal debt than is projected under that baseline but still substantially more debt relative to the size of the economy than is the case today. Specifically, if the factors that led to the elimination of excess cost growth had no other effects on the economy or the federal budget, the lower spending would result in federal debt held by the public equal to about 97 percent of GDP in 2039, without accounting for the negative economic effects of the rising debt. (The debt currently equals about 74 percent of GDP; under CBO's extended baseline, without accounting for the influence of economic feedback, it is projected to reach 106 percent of GDP in 2039.)

Negative excess cost growth (which occurs when health care spending per capita grows at a slower pace than potential output per capita) would lead to even lower amounts of spending on health care programs and, in turn, even less debt.

Question: Given the overwhelming consensus of climate scientists regarding climate change, why does CBO not project the long-term costs associated with rising sea levels, crippling droughts, and the rising costs of combating wildfires? With a clear trend in increasing costs of disaster spending and the severity of these events, would the CBO consider projecting three different alternate scenarios, for low-, high-, and average-cost projects associated with climate change?

Answer: CBO's long-term projections generally reflect current law, following CBO's baseline projections for the first 10 years and then extending the baseline concept into later years. Some of the programs most affected by weather-related disasters—such as federal crop insurance and flood insurance—fall in the "other mandatory spending" category in those projections; in CBO's long-term projections, spending in that category (apart from outlays for refundable tax credits) is projected to continue to decline as a share of gross domestic product (GDP) after the first 10 years at the same rate as it is projected to decline during the last five

3. For the annual excess cost growth projections underlying those estimates, see Congressional Budget Office, "Long-Term Budget Projections" (supplemental material for *The 2014 Long-Term Budget Outlook*, July 2014), tab 4, www.cbo.gov/publication/45308. For year-by-year projections of federal spending for health care programs, see tab 7.

years of the coming decade. Other programs affected by weather-related disasters—such as the Federal Emergency Management Agency's disaster relief program—are discretionary; spending for that category is projected to remain constant as a share of GDP after the first 10 years.

Thus, under those broad approaches for projecting federal spending, additional costs stemming from climate change are reflected in CBO's long-term projections only to the extent that they are projected to affect spending in the coming decade. The Congress has typically responded to large-scale disasters, such as Hurricanes Katrina and Sandy, by passing legislation that increased spending for existing programs—providing emergency supplemental appropriations for disaster relief, for example. (Total appropriations for disaster relief amounted to $135 billion over the 2005–2014 period, much of which was provided in 2005 and 2006 in response to Hurricanes Katrina, Rita, and Wilma.)[4] In CBO's 10-year baseline projection, as specified in law, the amount appropriated for the current year is assumed to be provided in each subsequent year, with an adjustment for inflation. (The caps on discretionary spending that are in effect through 2021 are assumed to be adjusted to accommodate such funding for disaster relief, as provided under current law, but that adjustment cannot exceed, in any year, the 10-year historical average of funding for disaster relief, excluding the highest and lowest years.)

In the future, lawmakers could increase funding relative to CBO's projections if the effect of climate change on the frequency and magnitude of weather-related disasters became significantly larger. For example, increased damage from storm surges might lead the Congress to pass additional emergency supplemental appropriations for disaster relief or to approve legislation that would provide funding to protect infrastructure that is vulnerable to rising sea levels. The Congress could also amend existing laws so as to reduce federal spending on weather-related disasters. For example, the Congress might decide to alter flood insurance or crop insurance programs in a way that provides insured parties with greater incentive to avoid potential damage. But CBO's baseline projections, which are built on current law, cannot capture such possible changes.

Climate change may also affect the nation's economic output and, consequently, federal tax revenues. However, estimates by researchers suggest that those effects will probably be small over the next 25 years (the period that is the focus of CBO's long-term projections) and larger, but still modest, in later years, as CBO noted in May 2009.[5] For example, one recent study found that the effect of climate change on the number of outdoor workers over the 2022–2039 period would probably lie between an increase of 0.09 percent and a decline of 0.38 percent. The same study found that, by the end of the century, the effect of climate change on the number of outdoor workers would be unambiguously negative and potentially much greater—an estimated decline of between 0.83 percent and 2.37 percent.[6] Another widely cited study projected a loss in real (inflation-adjusted) GDP stemming from climate change of about 3 percent by the end of the century, based on the assumption that average temperatures

4. For a discussion of the government's response to the 2005 hurricanes, see Congressional Budget Office, "The Budgetary Impact of the Federal Government's Response to Disasters," *CBO Blog* (September 23, 2013), www.cbo.gov/publication/44601.

5. Congressional Budget Office, *Potential Impacts of Climate Change in the United States* (May 2009), www.cbo.gov/publication/41180.

6. Rhodium Group, *American Climate Prospectus: Economic Risks in the United States* (Rhodium Group, June 2014, updated August 2014), figure 7.3, http://rhg.com/reports/climate-prospectus.

will rise by about 7 degrees Fahrenheit by that time.[7] For comparison, CBO projects that real GDP will rise by roughly 75 percent during the next 25 years and much more in later years.

The projected long-term effects of climate change on GDP in the United States tend to be modest relative to underlying economic growth, even under scenarios that assume significant warming, for two primary reasons. (Most of the direct economic effects of climate change may be larger outside the United States.) First, only a small share of the U.S. economy is directly affected by changes in climate; the largest effects will probably occur in the agricultural sector, which currently represents about 1 percent of total U.S. output. Second, some activities within that sector—crop production in the north, for example—could experience gains because of climate change. Moreover, some of the effects of climate change, such as the loss of biodiversity, neither relate directly to measured economic output nor affect tax revenues.

Long-term projections of the U.S. economy and the federal budget are inherently uncertain. In its most recent *Long-Term Budget Outlook*, CBO presented a quantitative analysis of what would happen to the budget if various underlying factors—including mortality rates, productivity growth rates, interest rates, and health care costs—differed from the values that CBO expects.[8] The effects of climate change on the economy and the budget are also a significant source of uncertainty, but those effects are difficult to quantify. For example, scientists have a hard time quantifying the likelihood of potential abrupt changes in the climate, which, should they occur, might result in considerably larger economic losses than those discussed above. CBO continues to monitor research on the effects of climate change on the U.S economy, to consider how those effects might alter the federal budget outlook, and to evaluate federal policies that may lead to lower emissions or mitigate damage from changes in the climate.

Congresswoman Lee

Question: Could you describe for us the impact extending unemployment benefits would have on economic growth and on the long-term budget outlook? Alternatively, what would be the effect of House Republicans' continued failure to extend this crucial lifeline?

Answer: CBO's baseline economic and budgetary projections, most recently updated in August 2014, reflect the assumption that current laws governing federal taxes and spending generally remain in place.[9] As a result, those projections incorporate the late-2013 expiration of the emergency unemployment compensation (EUC) program and other related provisions.

In December 2013, at the request of Congressman Chris Van Hollen, CBO analyzed how extending the EUC program and related provisions expiring at that time would affect economic output and employment in 2014.[10] The precise effects of similar legislation would vary

7. Dale W. Jorgenson and others, *U.S. Market Consequences of Global Climate Change* (Pew Center on Global Climate Change, April 2004), http://tinyurl.com/lkq6d2z.

8. Congressional Budget Office, *The 2014 Long-Term Budget Outlook* (July 2014), www.cbo.gov/publication/45471.

9. Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2014 to 2024* (August 2014), www.cbo.gov/publication/45653.

10. Congressional Budget Office, letter to the Honorable Chris Van Hollen providing an estimate of how extending certain unemployment benefits would affect output and employment in 2014 (December 3, 2013), www.cbo.gov/publication/44929.

based on the timing and details of the proposed policy changes, but the December estimates provide a rough gauge of their possible magnitude.

In that analysis, CBO estimated that, if emergency unemployment benefits were extended for one year, through calendar year 2014, GDP and employment would be higher in that year than they would be under current law. Recipients of the additional benefits would increase their spending on consumer goods and services. That increase in aggregate demand would encourage businesses to boost production and hire more workers than they otherwise would, especially given the expected slack in the economy. Those positive effects on output and employment in 2014 would be partially offset by the effects of an increase in the duration of unemployment for some people: In response to the extension of benefits, some unemployed workers who would be eligible for those benefits might reduce the intensity of their job search and remain unemployed longer, which would have negative effects on output and employment.[11] However, because most of the jobs that were not taken by people receiving the additional benefits would be taken by some of the many people who were ineligible for those benefits and searching for work, CBO estimated that those negative effects would be modest in 2014.

Combining the positive effects on the economy of higher aggregate demand with the negative effects of some less-intense job searches, CBO estimated that, if the EUC program and related expiring provisions had been extended in early 2014 for the full year, inflation-adjusted GDP would be higher by 0.2 percent and full-time-equivalent employment would be higher by 0.2 million in the fourth quarter of that year. Those numbers were CBO's central estimates, which are calculated using the midpoints of CBO's ranges for key parameters of economic behavior—in particular, the extent to which higher federal spending boosts aggregate demand in the short term. The full ranges that CBO uses for those parameters suggested that, in the fourth quarter of calendar year 2014, GDP would increase only slightly or by as much as 0.3 percent, and employment would increase only slightly or by as much as 0.3 million.

Although output would be greater and employment higher in 2014 if the EUC program and related expiring provisions had been extended, or if similar legislation was enacted, those policies would lead to greater federal debt. Without additional policy changes to offset that increase, the higher debt would eventually reduce the nation's output and income slightly below what would occur under current law.[12]

Question: Can you speak to the impact on the long-term budget of an increase in the minimum wage, particularly as it relates to economic growth?

Answer: Increasing the federal minimum wage would affect the federal budget both directly and indirectly—directly, by increasing the wages that the federal government paid to a small number of hourly employees, and indirectly, by boosting the prices of some goods and services purchased by the government. Most of those costs would need to be covered by discretionary appropriations, which are capped through 2021 under current law. If the caps were not

11. For a discussion of the incentive effects of unemployment insurance, see Congressional Budget Office, *Unemployment Insurance in the Wake of the Recent Recession* (November 2012), www.cbo.gov/publication/43734.

12. For an analysis of the short- and long-term effects of different amounts of deficits and debt, see Congressional Budget Office, *Macroeconomic Effects of Alternative Budgetary Paths* (February 2013), www.cbo.gov/publication/43769.

adjusted, federal budget deficits would not be affected by the higher costs, but the benefits and government services that could be provided under the existing caps would be reduced.

Federal spending and taxes would also be indirectly affected by increases in real income for some people and reductions in real income for others. As a group, workers with increased earnings would pay more in taxes and receive less in federal benefits of certain types than they would have otherwise. However, people who became jobless because of the minimum-wage increase, business owners, and consumers facing higher prices would see a reduction in real income. They would collectively pay less in taxes and receive more in federal benefits than they would under current law.

CBO concludes that the net effect on the federal budget of raising the minimum wage would probably be a small decrease in budget deficits for several years but a small increase in budget deficits thereafter. It is unclear whether the overall effect for the coming decade would be a small increase or a small decrease in budget deficits. CBO has not assessed how increasing the minimum wage would affect the federal budget beyond the next decade, but any effects would probably be small.[13]

Question: What is the net result of passing unpaid-for tax bills on the long-term budget forecast? To reduce the deficit, what type of cuts would be needed?

Answer: If current laws generally remain in place, CBO projects that federal debt as a share of the economy would rise substantially over the long term—from 74 percent of output now to more than 100 percent 25 years from now. According to CBO's central estimates for that extended baseline, gross national product in 2039 would be roughly 3 percent lower than it would be if marginal tax rates (rates on an additional dollar of income) and the ratio of federal debt to GDP remained constant after 2024.

Reductions in taxes or increases in spending would further raise deficits and lead to even more growth of federal debt relative to GDP. That greater debt would lead to lower output and incomes in the long run. However, certain policy changes would have other effects on the economy that would offset some of the negative effects of increased debt. For example, reducing marginal tax rates would increase incentives to work and save and would therefore increase the amount of labor supplied to the economy. Similarly, federal investment in areas such as infrastructure or research would probably produce positive returns in the long term. The net impact on the economy of reductions in taxes or increases in spending would depend on the details of those policies.

In addition to the estimated negative effect on output, a larger increase in federal debt would further restrict policymakers' ability to use tax and spending policies to respond to unexpected challenges, such as economic downturns or financial crises. As a result, those challenges would tend to have larger negative effects on the economy and on people's well-being than they would otherwise. A larger debt increase could also compromise national security by constraining defense spending in times of international crises.

When deciding how best to reduce the long-term deficit, lawmakers face difficult choices. They can increase revenues by more than they are projected to rise under current law, decrease

13. See Congressional Budget Office, *The Effects of a Minimum-Wage Increase on Employment and Family Income* (February 2014), www.cbo.gov/publication/44995.

spending for Social Security or major health care programs from what would occur under current law, cut federal spending in other areas relative to projected amounts that are already low by historical standards, or adopt some combination of those approaches. In December 2013, CBO presented various options for bringing spending and taxes into closer alignment as well as criteria that lawmakers and the public might use to evaluate different approaches to deficit reduction.[14]

Question: Can you speak to the long-term impact of governing by brinksmanship—moving from manufactured crisis to manufactured crisis on issues like the debt ceiling and annual appropriations?

Answer: In general, uncertainty about fiscal and regulatory policies tends to dampen economic output. However, quantifying the magnitude—or identifying the sources—of policy uncertainty among households and businesses is difficult. In the current economic environment, possible sources of such uncertainty include disagreement among policymakers about whether to extend certain key fiscal policy provisions, the ongoing debate about how to put debt on a sustainable path, the lack of resolution on rules for implementing major legislation in the health care and financial sectors, possible changes in government rules related to energy and the environment, and the unpredictability of the appropriations process. Uncertainty from those and other sources is probably dampening growth, but CBO does not know by how much.

Question: Previous CBO reports have found that immigration reform could reduce the deficit by some $900 billion over 20 years. Can you speak to any update on the role that comprehensive immigration reform would have on the long-term deficit, and the economy in general?

Answer: On March 25, 2014, CBO transmitted a letter to the Honorable Nancy Pelosi presenting a review of H.R. 15, the Border Security, Economic Opportunity, and Immigration Modernization Act.[15] The bill would revise immigration laws by significantly increasing the number of noncitizens who could lawfully enter the United States on both a permanent and temporary basis. Furthermore, the bill would establish a process that would enable many individuals who currently reside in the United States on an unauthorized basis to gain legal status.

CBO's most recent analysis of comprehensive immigration reform is presented in that March 25, 2014, letter. CBO and the staff of the Joint Committee on Taxation (JCT) did not complete a full cost estimate for H.R. 15, but they estimated that enacting H.R. 15 would have effects on the population and the federal budget comparable to those estimated for a similar bill, the version of S. 744 that was reported by the Senate Committee on the Judiciary in 2014.[16] Specifically, CBO and JCT expected that enacting H.R. 15 would yield a cumulative

14. Congressional Budget Office, *Choices for Deficit Reduction: An Update* (December 2013), www.cbo.gov/publication/44967.

15. Congressional Budget Office, letter to the Honorable Nancy Pelosi providing an estimate for H.R. 15, the Border Security, Economic Opportunity, and Immigration Modernization Act (March 25, 2014), www.cbo.gov/publication/45206.

16. Congressional Budget Office, cost estimate for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (June 18, 2013), www.cbo.gov/publication/44225; and Congressional Budget Office, letter to the Honorable Patrick J. Leahy providing an estimate for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (July 3, 2013), www.cbo.gov/publication/44397.

reduction in federal budget deficits of about $200 billion over the 2015–2024 period and significantly greater deficit reduction in the following decade. CBO has no further update to that analysis at this time.

In addition to the cost estimate for S. 744, CBO prepared an analysis of the overall economic impact of that legislation and of the incremental federal budgetary effects of those economic changes that were outside the scope of the initial cost estimate.[17] Because H.R. 15 was similar to the committee-reported version of S. 744, CBO expected that the effects on output and income of the two bills would also be similar. Among other effects, the legislation would probably boost economic output, decrease average wages for the entire labor force for about a decade and increase them thereafter, raise the amount of capital investment, and increase the productivity of labor and capital. On balance, CBO expects that any possible economic effect of H.R. 15 not already included in the cost estimate for S. 744 would have only a negligible effect on the federal budget during the coming decade but would reduce deficits by a significant amount during the following decade. Again, CBO has no further update at this time.

17. Congressional Budget Office, *The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act* (June 2013), www.cbo.gov/publication/44346.