Congressional Budget Office

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Answers to Questions for the Record Following a Hearing Conducted by the House Committee on the Budget on *The Budget and Economic Outlook: 2019 to 2029*

On January 29, 2019, the House Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about CBO's report The Budget and Economic Outlook: 2019 to 2029.[1] *After the hearing, Congressman Roy and Congresswoman Schakowsky submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/55033.*

Congressman Roy

Question. In your letter to Rep. Meadows of September 27, 2018, you claimed that, in changing the budgetary treatment of cost-sharing reductions (CSRs), CBO "analyzed how premiums for 2018 had been affected by the lack of CSR payments in all states and the implications for the agency's baseline projections before those projections were finalized in March 2018." However, in response to state public records requests, not only did the insurance commissioners' offices in North Dakota, Vermont, and the District of Columbia—states that did NOT adjust premium rates to reflect the lack of CSR payments in 2018—indicate that they had no documents related to any dealings with CBO on this issue, they each noted that no one from CBO had ever contacted their offices. Which officials did CBO consult with in these specific states about the impact of CSR payments on 2018 premiums—and when did it do so? If CBO cannot provide any evidence that it undertook due diligence about the impact of CSRs in states that did NOT adjust premiums to reflect the lack of payments in 2018 prior to releasing its 2018 baseline projections, then it cannot claim to have upheld its statutory remit under 2 U.S.C. 907(b)(1), which requires CBO to assume that "funding for entitlement authority is . . . adequate to make ALL payments required." Moreover, a lack of due diligence surrounding these specific states would raise additional questions about whether CBO provided full, complete, and accurate responses to questions from Rep. Meadows and other Members of Congress about this issue over the course of the past year.

Answer. In preparing its baseline budget projections early in 2018, CBO analyzed how premiums for 2018 had been affected by the lack of payments for CSRs in all states. For many states, including North Dakota and Vermont, as well as the District of Columbia, CBO relied on information provided by the National Association of Insurance Commissioners and the Commonwealth Fund and on information in insurers' public rate filings for the

1. See testimony of Keith Hall, Director, Congressional Budget Office, before the House Committee on the Budget, *The Budget and Economic Outlook: 2019 to 2029* (January 29, 2019), www.cbo.gov/publication/54944.

2018 plan year.[2] In a very small number of states, insurance regulators did not allow insurers to explicitly increase premiums for silver plans in the marketplaces to account for CSRs. However, CBO estimated that premiums in those areas were sufficient to cover the cost of CSRs. The approach CBO used allowed the baseline projections to reflect what was actually happening in insurance markets, rather than the alternative of assuming the continuation of direct payments that were not being made.

Congresswoman Schakowsky

Question. Your report released on January 28, 2019 reflected a shrinkage in the potential labor force due to this Administration's immigration policy. How would comprehensive immigration reform affect the labor force and in turn GDP? Does the CBO have updated evaluations of the economic implications of comprehensive immigration reform, and if not, does it intend to conduct an updated analysis?

Answer. CBO's reduced projection of the potential labor force in its January report reflects a reassessment of long-term immigration trends under current law rather than specific Administration policy.

Estimating the effect of comprehensive changes to immigration policy on the labor force and on gross domestic product (GDP) is complicated and highly uncertain. The estimated effects would depend to a large extent on the details of the legislation, particularly on whether it increased or decreased the total amount of immigration and whether it increased or decreased the emphasis on economic skill levels in determining eligibility. Effects would tend to vary across industries as well, because foreign-born workers tend to be concentrated in certain industries.

Broadly speaking, policies that changed the total number of foreign-born people would tend to affect total output, investment, and labor productivity—as well as interest rates—all in the same direction. That is, an increase in net migration would raise them all, whereas a decrease would lower them.

Because the effects of comprehensive changes to immigration policy depend so much on the details of the proposal, CBO cannot conduct an updated analysis until specific legislation becomes available.

Question. In 2013 you analyzed the Senate passed comprehensive immigration reform bill, the Border Security, Economic Opportunity, and Immigration Modernization Act, and found that it would decrease federal budget deficits by $158 billion over a 10-year period and would lead to a net savings of about $135 billion over the same period. If passed today, would a similar immigration reform bill have the same impact on the budget?

Answer. CBO and the staff of the Joint Committee on Taxation (JCT) have not completed any similar detailed analysis since the cost estimate for S. 744, the Border Security, Economic

2. See National Association for Insurance Commissioners, "System for Electronic Rates & Forms Filing" (accessed most recently on February 25, 2019), www.serff.com; Sabrina Corlette, Kevin Lucia, and Maanasa Kona, "States Step Up to Protect Consumers in Wake of Cuts to ACA Cost-Sharing Reduction Payments," *To the Point* (blog entry, October 27, 2017), http://tinyurl.com/y728ro2y; and Centers for Medicare & Medicaid Services, "Rate Review" (accessed most recently on February 25, 2019), https://ratereview.healthcare.gov.

Opportunity, and Immigration Modernization Act of 2013, was completed.[3] The estimated budgetary effects of a similar bill today would not necessarily be the same as the estimate for S. 744. Legislative and administrative changes in immigration, benefit, and tax policies in the past few years have affected CBO's baseline projections and would affect CBO's estimates for future immigration proposals. Additionally, the behavior of U.S. employers and foreign-born employees and students changes over time, and those changes could affect how CBO estimates changes in the effects of immigration proposals on the U.S. population. Finally, CBO and JCT continually incorporate new research and information into their baseline projections and estimates.

Nevertheless, the major factors that underpinned CBO's estimate of S. 744's population effects remain fundamentally unchanged:

- American employers petition each year for hundreds of thousands of workers to receive temporary or permanent immigration status.
- American citizens and lawful permanent residents (LPRs) petition each year for hundreds of thousands of their relatives to become LPRs.
- Millions of noncitizens who are the beneficiaries of approved LPR petitions await the availability of a green card—often for decades.
- An estimated 11 million to 12 million noncitizens are present in the United States without legal immigration status.

Question. In 2013 your report also found that the Senate immigration reform bill would lead to the increased solvency of Medicare and Social Security. The Social Security Trustee has additionally reported that as net immigration increases, the cost rate of Social Security decreases because increased legal immigration leads to an increase in the number of covered workers paying into the system. If passed today, would similar legislation have the same impact on Medicare and Social Security?

Answer. The 2013 estimate for S. 744 did not directly address the effect of the legislation on the long-term solvency of Social Security and Medicare. CBO estimates that, in general, a permanent increase in the level of net immigration would increase the ratio of workers to Social Security and Medicare beneficiaries and improve the long-term financial outlook for those programs. The magnitude of the financial effects would depend on the size, pattern, and types of changes in net immigration flows. Not all changes to immigration law would result in improved solvency.

In 2013, CBO and JCT estimated that S. 744 would result in more people being admitted into the United States and in providing legal status, work authorization, or both, to many noncitizens who were unlawfully present in the country. CBO estimated that those changes would give rise to more future Social Security and Medicare beneficiaries. However, the additional workers were expected to be younger and healthier than the rest of the U.S. workforce, and most would not work in authorized employment for long enough—generally

3. CBO used its 2013 estimate as the basis for projecting the effects of a proposal similar to S. 744 in the President's 2017 budget. After adjusting the cost estimate for that legislation to reflect changes in the baseline budget projections that had been made since 2013, and after taking into account other changes to the tax code proposed by the President, CBO and JCT projected that the proposal's effects on revenues and direct spending would reduce deficits by $101 billion over the 2017–2026 period (compared with $158 billion over the 2014–2023 period projected in the original cost estimate). See Congressional Budget Office, *An Analysis of the President's 2017 Budget* (March 2016), page 6, www.cbo.gov/publication/51383.

10 years—to qualify for Social Security and Medicare within the 10-year budget window. Therefore, CBO projected that the bill would result in relatively few additional people receiving Social Security and Medicare benefits in the first decade of the projection period, though more people would qualify in later years. Outlays for Social Security and Medicare would have increased by an estimated $3 billion over the 2014–2023 period. Over that 10-year period, the bill would have resulted in more than $250 billion in additional Social Security and Medicare payroll tax revenues, due both to increases in the number of workers and to changes in legal status for some current workers, CBO and JCT estimated.

CBO has not completed any detailed new analyses of proposals to make major changes to immigration law since 2013, and the estimated budgetary effects of a bill similar to S. 744 might differ from those made six years ago. But in the initial decade after enactment of a similar bill, additional revenues to the Social Security and Medicare programs would significantly exceed additional outlays, CBO expects.

Question. Previous CBO reports have shown a correlation between taxing fossil fuels and the reduction of greenhouse gas emissions. Also, CBO's options for reducing the deficit published in December 2018 show imposing a tax of $25 per metric ton on most emissions of greenhouse gases would raise $1.1 trillion of revenues over ten years. What would be the ideal carbon tax rate that raises the most net revenue accounting for the offsetting reductions in taxable business and individual income? What would be the reduction of total U.S. greenhouse gas emissions as a result?

Answer. CBO has not estimated the tax rate on greenhouse gas emissions that would maximize the revenue from a carbon tax; however, the agency expects that the rate would be high (substantially higher than the rate used in CBO's December 2018 budget option). In addition, the tax rate at which revenue would peak would depend on the cost of low-carbon technologies. Because a carbon tax would spur innovations in such technologies, predictions about the cost of future technologies under a tax, particularly one with a high rate, are very uncertain.

Question. Additionally, what would be the cost estimate for rebating a portion of these tax revenues to households (specifically low-income households) to offset the additional costs they incur because of the carbon tax?

Answer. The fraction of tax revenue that would be required to offset the average cost that a tax would impose on lower-income households would depend on the share of the tax burden that would fall on those households. Estimates of that share, in turn, vary based on how the tax would affect households. Analysts have considered two possibilities: The tax might raise the prices of the goods and services that households purchase, or it might lower the wages that workers earn and the returns on capital that businesses receive, thus lowering households' income from those sources.

CBO is in the process of reassessing how much such a tax might raise prices and how much it might reduce wages and returns. CBO expects that the cost of compensating the 20 percent of households in the lowest income quintile would be largest if the tax only raised prices. In a previous analysis of such a case, the agency concluded that the inflation-adjusted income of the lowest quintile would be unaffected if they received a transfer equal to roughly 10 percent of the revenue raised by the policy.[4] The share of revenue that would be required to compensate the lowest quintile would depend on the details of the policies involved.

4. See Congressional Budget Office, *The Economic Effects of Legislation to Reduce Greenhouse-Gas Emissions* (September 2009), p.26, www.cbo.gov/publication/41254.