



CONGRESSIONAL BUDGET OFFICE  
U.S. Congress  
Washington, DC 20515

*Phillip L. Swagel, Director*

June 26, 2023

Honorable Jodey Arrington  
Chairman  
Committee on the Budget  
U.S. House of Representatives  
Washington, DC 20515

*Re: CBO's Macroeconomic Analysis of Legislation, Health Care Modeling,  
and Support for the Legislative Process*

Dear Mr. Chairman:

You asked about the Congressional Budget Office's efforts in macroeconomic analysis of legislation, health care modeling, and support for the legislative process. I am writing to provide you with information about the agency's ongoing work in those areas.<sup>1</sup> CBO will continue to make progress in addressing those and other areas that are of critical interest to you and your colleagues.

### **Macroeconomic Analysis of Legislation**

CBO is ready to respond to requests for information about how legislation affects macroeconomic variables. For example, last summer CBO provided economic analysis of the reconciliation legislation while it was being considered by the Congress and reported the following about its effects on inflation:

In calendar year 2022, enacting the bill would have a negligible effect on inflation, in CBO's assessment. In calendar year 2023, inflation would probably be between 0.1 percentage point lower and 0.1 percentage point higher under the bill than it would be under current law, CBO estimates. That range of likely outcomes reflects uncertainty about how various provisions of the bill would affect overall demand and output, the supply of labor, the persistence of

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<sup>1</sup> For quarterly updates about CBO's work, see Congressional Budget Office, "CBO's Work In Progress," [www.cbo.gov/taxonomy/term/3/recurring-reports#27](http://www.cbo.gov/taxonomy/term/3/recurring-reports#27).

disruptions in the supply of goods and services, and how the Federal Reserve would respond to offset any increase in inflationary pressure.<sup>2</sup>

Since then, the agency has further enhanced its analytic capacity by examining how supply disruptions affect inflation and interest rates.<sup>3</sup>

Dynamic analyses take into account the ways that legislation affects the total output of the economy and how macroeconomic changes affect federal revenues and spending. CBO incorporates dynamic analysis in cost estimates when the gross budgetary effects of a bill are sufficiently large, as specified in the rules of the House of Representatives for the 118th Congress. In addition, the House or Senate Budget Committee may request that CBO undertake dynamic analysis when it prepares cost estimates for certain other legislation.

By contrast, and according to long-standing practice, CBO's conventional cost estimates reflect the assumption that the total output of the economy, measured in current-year dollars—that is, nominal gross domestic product—would not change; as a result, total income would be roughly unchanged. Like dynamic analyses, conventional estimates generally reflect how people's behavioral responses to legislative proposals—such as changes in program participation and business practices—would affect the cost.<sup>4</sup> Both conventional and dynamic analyses of tax provisions, including provisions that affect tax credits, are provided by the staff of the Joint Committee on Taxation (JCT).<sup>5</sup>

### **Health Care Modeling**

CBO is working to provide the Congress with analysis of the short-term and long-term budgetary effects of federal spending on health care. That work includes analysis of policies aimed at promoting both improved health

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<sup>2</sup> See Congressional Budget Office, letter to the Honorable Lindsey Graham regarding economic analysis of budget reconciliation legislation (August 4, 2022), [www.cbo.gov/publication/58357](http://www.cbo.gov/publication/58357).

<sup>3</sup> For example, see U. Devrim Demirel and Matthew Wilson, *Effects of Fiscal Policy on Inflation: Implications of Supply Disruptions and Economic Slack*, Working Paper 2023-05 (Congressional Budget Office, April 2023), [www.cbo.gov/publication/59056](http://www.cbo.gov/publication/59056).

<sup>4</sup> See Congressional Budget Office, *CBO Describes Its Cost-Estimating Process* (April 2023), [www.cbo.gov/publication/59003](http://www.cbo.gov/publication/59003).

<sup>5</sup> Section 201(f) of the Congressional Budget Act of 1974 stipulates that JCT's revenue estimates are the official estimates for legislative changes to income, estate and gift, excise, and payroll taxes considered by the Congress. Therefore, CBO incorporates JCT's estimates into its estimates of the effects of legislation. For additional information, see Joint Committee on Taxation, "Revenue Estimating" (accessed June 20, 2023), [www.jct.gov/operations/revenue-estimating](http://www.jct.gov/operations/revenue-estimating).

and efficient use of budgetary resources. To that end, CBO has enhanced its capacity to make extended baseline projections of health care spending under current law as well as its capacity to analyze issues surrounding preventive health care, the health status of the population, the development and adoption of innovative technologies, and the effects of market forces on health care costs.

CBO has expanded its reporting of federal spending on health care under current law beyond the conventional 10-year period. For example, *The 2023 Long-Term Budget Outlook*, scheduled for release on June 28, 2023, will include estimates of the 25-year actuarial balance of the Hospital Insurance Trust Fund and the projected date of exhaustion.<sup>6</sup>

The agency is also working to provide the Congress with analyses of policies that would prevent disease and expand access to preventive services. Its publications and ongoing efforts include the following:

- Analyses of policies with effects on people's health that would have budgetary effects that extend beyond the conventional 10-year period for such analysis, accounting for effects up to 75 years later—including how increasing the excise tax on cigarettes would affect longevity and health care spending and how changes in Medicaid coverage for children would affect their productivity and earnings (and the resulting taxes and transfers);<sup>7</sup>
- An overview of how CBO generally approaches prevention policies and an explanation of how the budgetary effects of specific policies, such as those related to diabetes, depend on the target population and on the particular intervention;<sup>8</sup>
- An analysis of federal policy options to address the opioid crisis; and

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<sup>6</sup> The actuarial balance is the sum of the present value of projected income and the current trust fund balance minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. (The present value expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid today.) CBO regularly reports the 10-year outlook for the major federal trust funds.

<sup>7</sup> See Congressional Budget Office, *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), [www.cbo.gov/publication/43319](http://www.cbo.gov/publication/43319).

<sup>8</sup> See Congressional Budget Office, *How CBO Analyzes Approaches to Improve Health Through Disease Prevention* (June 2020), [www.cbo.gov/publication/56345](http://www.cbo.gov/publication/56345).

- An examination of innovations in treatments for obesity that includes an explanation of how CBO analyzes the impact of policies that expand access to those treatments on health care spending and the federal budget.

CBO is expanding its analyses of how federal policy affects spending on innovative medical technologies and how policy influences the development and adoption of those technologies. The agency's publications and ongoing work include the following:

- A description of CBO's model of how legislation affects the number of new prescription drugs introduced in the U.S. market,<sup>9</sup>
- An assessment of the implications of expanded access to telehealth, and
- A report on Medicare's current policy regarding coverage of and payment for new technologies that will lay the groundwork for better-informed assessments of the short- and long-run effects of policies.

CBO is continuously gathering information about how market forces affect the costs of health care. You asked specifically about Medicare Part D, which was designed, in part, to foster competition between plan sponsors to constrain drug spending. In assessing the effects of competition, CBO found that a larger number of plan sponsors in a region was associated with lower bids, on average, for the group of plans analyzed—where bids indicate the total amount a plan would be willing to accept to offer Part D coverage for a Medicare beneficiary of average health for the following year.<sup>10</sup>

CBO recently examined policies that would reduce the prices that commercial insurers pay providers by promoting competition among providers in four ways:

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<sup>9</sup> See Christopher P. Adams, *CBO's Simulation Model of New Drug Development*, Working Paper 2021-09 (August 2021), [www.cbo.gov/publication/57010](http://www.cbo.gov/publication/57010), and "CBO's Model of New Drug Development" (January 2022), [www.cbo.gov/publication/57450](http://www.cbo.gov/publication/57450).

<sup>10</sup> See Congressional Budget Office, *Competition and the Cost of Medicare's Prescription Drug Program* (July 2014), [www.cbo.gov/publication/45552](http://www.cbo.gov/publication/45552). In that report, CBO analyzed bids for "basic stand-alone" Part D plans between 2006 and 2010.

- Increasing antitrust enforcement,
- Reducing providers' incentives to consolidate,
- Making it easier for providers to change jobs, and
- Prohibiting anticompetitive contracts between insurers and providers.

In CBO's assessment, adopting such policies would reduce the prices that commercial insurers pay providers relative to what CBO estimates those prices would be under current law.<sup>11</sup>

The agency may eventually be able to prepare a report that discusses options to slow the growth of health care costs, similar to the reports that the agency regularly publishes that analyze the effects of various options to reduce budget deficits. CBO's staff will consult with the Budget Committees as they learn more and develop potential avenues for publishing the agency's analysis.

### **Support for the Legislative Process**

CBO seeks to be responsive to committees and Members and to provide information when it is most useful. That information can take a variety of forms, including technical assistance, cost estimates, and background information.

CBO frequently supports House and Senate committees early in the legislative process—well before potential floor consideration of legislation—so that Congressional staff have time to craft bills that meet the committees' legislative goals. CBO's analysts routinely provide technical assistance, often on compressed timetables, to committees as they develop their policy proposals. Preliminary estimates prepared as part of technical assistance help committees' staff weigh different options for achieving legislative goals. Also, as part of that technical assistance, CBO seeks input from the committees about sources of relevant information, performs a thorough review of relevant research literature, and consults federal agencies and other stakeholders.

One of CBO's most important goals is to provide a cost estimate for each piece of legislation ahead of its floor consideration. Historically, the agency

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<sup>11</sup> See Congressional Budget Office, *Policy Approaches to Reduce What Commercial Insurers Pay for Hospitals' and Physicians' Services* (September 2022), [www.cbo.gov/publication/58222](http://www.cbo.gov/publication/58222).

Honorable Jodey Arrington

Page 6

has met that goal more than 90 percent of the time. CBO continues to provide information later in the legislative process by estimating the budgetary effects of proposed amendments to legislation; those amendments sometimes number in the thousands.

When CBO reports its findings, it also explains how that analysis was prepared, describing key levers and other aspects of its analytical methods. The agency works to ensure that the basis for its analysis is transparent, and it plans to continue building on its efforts regarding enhanced transparency.<sup>12</sup> Those efforts (including releasing data) are intended to promote a thorough understanding of its work, help people gauge how estimates might change if policies or circumstances differed from those underlying CBO's projections, and enhance the credibility of the agency's analyses and processes (such as by analyzing the accuracy of its estimates).<sup>13</sup> CBO is committed to providing equal and open access to the information and analysis it produces and to ensuring that its work is widely available to the Congress and the public.

CBO will continue to work with you and the Committee to ensure that the agency fulfills its mission to support the Congress with budgetary and economic analysis. Please contact me if you would like to discuss these topics further.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip L. Swagel", with a long, sweeping flourish extending to the right.

Phillip L. Swagel  
Director

cc: Honorable Brendan F. Boyle  
Ranking Member

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<sup>12</sup> See Congressional Budget Office, *The Congressional Budget Office's Request for Appropriations for Fiscal Year 2024* (February 2023), [www.cbo.gov/publication/58881](http://www.cbo.gov/publication/58881).

<sup>13</sup> For a review of CBO's transparency activities in 2022 and a forecast of future work, see Congressional Budget Office, *Transparency at CBO: Future Plans and a Review of 2022* (March 2023), [www.cbo.gov/publication/58930](http://www.cbo.gov/publication/58930). A continually updated list of the agency's most recent activities is available at [www.cbo.gov/about/transparency](http://www.cbo.gov/about/transparency).