**Peter G. Peterson Foundation**
Economic Forum: The Long-Term Budget Outlook
July 28, 2022

**Featuring:** Phillip Swagel, Director, Congressional Budget Office
**Moderated by:** Michael Peterson, CEO, Peter G. Peterson Foundation

Michael Peterson:

Good afternoon everyone, and thank you for joining us today. The Peterson Foundation Economic Forum brings together thought leaders for in-depth conversations on America's most pressing economic issues. Today's discussion comes at the right time, this morning the Bureau of Economic Analysis released Q2 growth numbers showing that real GDP fell at an annualized rate of 0.9% in Q2. This follows a decline of 1.6% in Q1. Yesterday the Federal Reserve met and continued to tighten monetary policy, raising the federal funds rate by another 75 basis points. And the biggest news of all of course is yesterday's release of the congressional budget office's 2022 long-term budget outlook. This report provides projections of federal spending, revenues, deficits, and debt for the next 30 years.

This report has some interesting findings, including debt to GDP is projected to nearly double over 30 years, from nearly 100% this year to 185% in 2052. The annual deficit is projected to remain at or above $1 trillion every year for the projection period as the structural mismatch between spending and revenues grows. Interest payments will quadruple from 1.6% of GDP this year to 7.2% of GDP in 2052, interest will become the fastest growing component of the budget. And lastly, CBO simulated a scenario where interest rates grow faster than their baseline, and under such a scenario debt to GDP would reach 235% in 2052.

So to help us sort through all of these developments we're very pleased to have CBO director Phill Swagel with us this afternoon, so we all very much look forward to the discussion today. As a reminder, we will be taking questions from the audience later in the program. At any time please submit questions using the icons at the bottom of your screen, and we will get to those later in the discussion. So Phill, you need no introduction to this group, you're the 10th director of the CBO serving since 2019 and thank you so much for being with us on such a busy week.

Phillip Swagel:

Michael, thanks so much. It's really a pleasure to be here with the foundation.

Michael Peterson:

Good, well we're glad to have you. I think this summer, for most people the event of the summer was seeing Top Gun: Maverick, but for the Peterson Foundation it's the release of CBO's long term budget outlook, we're very much looking forward to talking about this with you today. Can you just start us off today by giving us what you view as some of the most important takeaways and highlights from the report, please?

Phillip Swagel:

Yes, absolutely. And thanks so much. The way I see it, it's important to understand clearly what we're facing as a nation, and that's that the fiscal trajectory remains daunting and becomes challenging over time. We have federal deficits projected to reach 11.1% of GDP at the end of our 30 year horizon, so in 2052. But over those next 30 years, to average above 7.3% of GDP, that's more than double the average of the past half century. Rising deficits are driven in our projections, especially by higher interest costs. Higher interest outlays are projected to rise from 1.6% of GDP this year in 2022, to more than double in the next 10 years, and then double again out to 7.2% of GDP in 2052. So if anyone was worried about the debt even though the debt's high, the carrying cost of the debt is still low. Well the message is that's not the case as we look forward, that the carrying cost of the debt is rising and could rise by even more.

And at the same time, primary deficits grow as well from 2.3% to GDP this year out to 3.9% in 2052. And that reflects entitlement spending that's outpacing increased revenues. So the debt ratio, debt to GDP reaches 98% at the end of this year, it's held down for a few years by the narrowing deficits and also by higher inflation, that high inflation means that the denominator of the debt ratio, nominal GDP, is larger. And so the debt appears to be smaller but obviously that's not a happy thing. And then the debt ratio begins to rise again in 2024, hits a new high in 2031 above 107%, so that's above the place we were after World War II, and then reaches 185% of GDP in 2052.

So we're on an unsustainable path, the fiscal trajectory requires action. Now it requires action over time to avoid the risks of slower growth, more interest payments that go to foreigners, the risk of a fiscal crisis vulnerability increased interest rates, and more. Now this doesn't require action at this moment, policy makers have the ability to undertake further action, but the challenge is there, and the trajectory is clear, and requires action over time. And the sooner the action is taken the less painful, the less difficult will be the consequences of that action.

Michael Peterson:

Great, thank you so much. Let start off with a topic that's on everyone's minds, which is inflation. As you know, the most recent data showed a 40 year high in inflation at 9.1% year over year. So can you explain how this period of high inflation has affected your projections, not only for interest costs but other parts of the long term outlook?

Phillip Swagel:

Yeah, so inflation affects the federal budget in many ways, and in some sense it affects every part of the federal budget. On the revenue side where we tax nominal tax bases, so we tax nominal income whether it's wage income or business income, that's nominal. The tax system has some indexing, the brackets are indexed inflation, but that happens with a lag. And of course as people have higher incomes, they go into higher tax brackets with real income gains. So revenues are up, high inflation means that revenues are up and revenues last year and so far this year are very strong. And that's a positive, so inflation's good for revenue, not good for the country but good for revenue.

Phillip Swagel:

It also means higher outlays, so the federal government purchases things, and so the price of things the federal government is purchasing, those are going up. And we purchase things directly or indirectly, so someone in a nursing home for example may well be subsidized by a federal government program such as Medicaid. And so the salaries of people working in a nursing home, who do such important work, the federal government ultimately is on the hook for some of that as well. What's interesting is those two things roughly balance out, the additional spending and the additional revenue from high inflation, but what's additional on top of that are the interest costs. So with high inflation interest rates tend to be higher, and so that's the fiscal danger. So we have a pretty moderate interest rate path, and yet interest costs are rising very steadily and importantly over the tenure and 30 horizon. And so that is the fiscal danger, the carrying cost of the debt.

Michael Peterson:

So the fact that it's gradual in the rate means it's driven by the growth of the debt and not the underlying balance?

Phillip Swagel:

It is. Yeah, it's interesting, over time it's half and half. Because when the debt goes up of course that means a bigger base on which we're paying interest. But then when the interest rate goes up of course it's more debt over which the higher interest rate applies. And so we've done a number of simulations holding one of the two constants, the debt share or the interest rate constant, and it works out to about 50/50 what's leading to our higher debt, the higher interest payments rather. The higher debt and the higher interest rate is like 50/50.

Michael Peterson:

Okay, good. Can you tell us a little bit about how you look at interest over the long run? What are the factors that might drive rates higher and lower, and how do you all approach that issue in terms of the long term outlook?

Phillip Swagel:

Yeah, so we look at interest rates in both the short term and the long term. And of course, in the short term we look heavily at what market participants are thinking and market determined interest rate measures. Over the long term we have an economic model, a model of fundamentals. So it's driven by population, it's driven by growth, it's driven by our projections of productivity of the capital stock. It's also driven by demographic factors, aging in the population and what that means for spending and saving. And then importantly, by foreigners desire for dollar assets. And of course the US is a privileged position in the global economy, we see that continuing but that also is of course a risk for US interest rates if that position changes.

Michael Peterson:

So is it feasible that the growing debt to GDP level would have a downward effect on demand from foreigners? Is that a feedback loop that you guys incorporate?

Phillip Swagel:

At some point, we don't have that even within our 30 horizon? Well I should say what we do have is higher debt translates into higher interest rates, and so that we have. And implicit in there is some change in foreigners preferences, I mean it's overall market participants requiring compensation for the added risk of the US. We don't have a kind of Argentina style fiscal crisis, certainly not in 30 year or any horizon affecting the US, but of course that's always out there the possibility of it, we don't see that in the cards right now.

Michael Peterson:

Understood, okay. One of the thing that concerns us is the intergenerational aspect of this. And if we're looking at interest costs, at the end of the period of your report interest accounts for about 40% of revenues, so 40 cents of every dollar of taxes goes towards interest costs, which is rough on the generation having to do that. How do you think of that issue in terms of budget sustainability and what that would be like for whoever's the unlucky CBO director at that point?

Phillip Swagel:

Yeah, no, it's an important issue, it's an economic issue and a social issue. It's an issue of fairness, and that's what I was thinking of with the social is that the generational issue, that the longer we wait to undertake the adjustment, the fiscal adjustment, that means that some current generations are not bearing their share of the burden of adjustment. It has to be borne eventually whether changes in revenues or changes in spending, and waiting means some people don't shoulder their share of the burden. And of course, that says nothing about who within a generation. So one can say as a society we might want a progressive change in the fiscal trajectory, so people with higher incomes or higher lifetime incomes are the ones who face either higher taxes or lower benefits, lower entitlement benefits. If that's the case then waiting means that high income households, some of them today are not facing their share of the burden. So that's the social one.

Phillip Swagel:

I say the economic and fiscal implication is as you said, as interest spending takes up an increasing part of the budget it just crowds out the policy choices that policy makers have. I mean we're going to pay the interest, we're going to service our debt, and that's from Alexander Hamilton and founding the Republic, but that means the resources for everything else get crowded out by those interest payments.

Michael Peterson:

Okay, let's talk about what to do about inflation. Obviously, a lot of that falls on monetary policy but can you talk to us a little bit about the interaction of fiscal and monetary policy, and how fiscal policy can be used in conjunction with monetary policy to have the best overall impact on inflation?

Phillip Swagel:

Yes, of course. And of course I have to preface it by saying that CBO provides Congress with analysis and not policy recommendations, so I'll talk about a wide range of policies and-

Michael Peterson:

Yeah, generally speaking would be helpful.

Phillip Swagel:

Yeah, of course. So there is an impact of fiscal policy on inflation, and we've seen that over the past year. Of course, it's both demand and supply, so fiscal policy spurred demand and spurred spending, and we see that continuing today even as real disposable income has been declining consumer spending has been sustained by the accumulated savings that households built up over the pandemic, including from transfers. So fiscal policy had an effect on inflation, it was together with supply conditions. And I think we all understand there's lots of supply challenges still, both food and energy prices since the invasion of Ukraine have gotten worse. They were there before, inflation was high before the invasion of Ukraine, it's gotten higher since then and the myriad other supply challenges. So there is an interaction, fiscal policy certainly has an effect on inflation and it accounts for some of the high inflation.

What to do about it, it could be either on the demand side or the supply side. The Fed of course is acting on the demand side by raising interest rates, and we see that already affecting some interest sensitive sectors of the economy, the housing sector in particular. Autos in the past has been interest sensitive, but there's such a built up demand for autos of people who couldn't buy them over the past year and still the shortages. So it's going to come through housing and then eventually business investment. Fiscal policy could take an additional role if something of a blunt tool lags to it, but that is a tool that's available to policy makers if they choose to have fiscal policy make an additional contribution to lower inflation.

Michael Peterson:

Okay, thanks. Let's talk about other current recent events on this issue, so as you know Senate Democrats announced a new reconciliation framework that includes provisions addressing climate change, healthcare, and tax policy. Adding it all up the proposal drafters estimate the package would contribute $300 billion to deficit reduction. Most importantly, they changed the name of this bill to the Inflation Reduction Act of 2022, so how would CBO score that name to begin with?

Phillip Swagel:

Okay, well of course we evaluate the legislation as it comes, whatever's drafted we will evaluate that. And the name is the name, and obviously the Senate parliamentarian has to determine if something has a budgetary effect.

Michael Peterson:

All right, so let's talk about some of the components that I know you have studied. So $288 billion of the savings is attributed to allowing Medicare to negotiate prescription drug pricing. So can you just give us a sense of how that savings is achieved and how you guys have analyzed that issue generally?

Phillip Swagel:

Okay, very good. And I should just preface this by saying of course we are analyzing the legislation and eventually CBO will put out a cost estimate, as we did with the Build Back Better last fall and the American Rescue Plan Act. So the numbers that the Senate leader put out last night of course are his and we'll evaluate the legislation and put out our cost estimate. So those savings from prescription drug prices come about because the legislative proposals that we've evaluated in the past, including with Build Back Better, allow negotiation and provide two critical aspects to the negotiation. One is it provides clear instructions to the Secretary, this is the Secretary of HHS, Health and Human Services about the objectives in the negotiation, and then provides the Secretary with leverage in the negotiation.

And so negotiation by itself does not do it, negotiation by itself does not lower prices, those other two components are needed. And the legislation has drafted in the past and we're evaluating what we've seen now, has those two key components. An important aspect is that most of the budgetary savings come from drugs that either exist already or are pretty far along in the pipeline. Now of course we look at things in a 10 year window, so that's most drugs, it takes a long time for a drug to be developed and proven to be safe and so on. So not surprising that most of the savings are there, but that's an important thing to keep in mind. Lower drug prices means lower insurance premiums, such as for Medicare Part D, the federal government is on the hook for much of that, and so that's the budgetary savings.

Michael Peterson:

Okay. Another piece of it is IRS enforcement provisions, the drafters estimate $124 billion, again their numbers on that. Can you just discuss, I mean this seems to me to be a difficult number to estimate, some in the media and elsewhere are talking about it being much higher than that. I understand you can't be specific right now but how do you assess that type of provision in terms of potential savings?

Phillip Swagel:

Okay. Yeah, no, you're right. It is a difficult one because it depends on the actions the IRS would take with the additional resources. And the first step is just the division of those resources between customer service and the kind of audit and going after people. And that division is of course important, and one can imagine both of those activities, you can imagine the IRS wanting to do more of. The customer service is important, it doesn't have as big a revenue impact as all the other things. So just for us we need to understand that division.

And then what we do is we look at what the IRS is doing now and say okay, if there are additional resources what additional revenue would result from different aspects of the IRS's work, and that could be just more audits. It could be more of the lawsuits that are sort of later in the process. And so we look at each of those activities and we have a factor of how much additional revenue is there on the margin. And then we look at the amount of additional resources that are being given, and inevitably there's diminishing returns to scale, the more you put into something you get more revenue out of it, but at a diminishing rate.

And then the last piece of it is, well what's the pace at which the IRS could expand these activities? Of course the service would need to hire people who are able to interact with sophisticated counter parties, where businesses or families, and of course the private sector is competing for those same people. So the IRS will hire them over time, can train people, the IRS is a skilled workforce, it just takes some time. And so those are the different pieces that lead us to see less revenue than... I think someone who has a more optimistic view, the IRS can get people right away, even though the labor market is tight and even though private companies are going to want these same people. Someone who says oh, not notwithstanding, the IRS is going to be able to hire these people quickly. In today's labor market, well they might have a more optimistic view of that revenue.

Michael Peterson:

Okay. And then lastly on this before we move to the economy, $369 billion of new spending, or 85% of the total package, is on energy security and climate change. So I know CBO is doing a lot of work and kind of new work in the climate area, so tell us a little bit about what you're doing in climate that might touch on some of the issues addressed in this new package.

Phillip Swagel:

Okay. No, very good. And of course, we're still analyzing the package, the legislation was released last night. But we have a lot of work in climate that I'll tip through some of it and you see the trajectory. We're doing modeling work across the board on climate policy, so we have modeling work going on on electric vehicles, and that's part of the legislation. So what's the impact of incentives for EV adoption, and chargers, and things like that. And then of course ultimately we want to say what's the emissions impact. We're looking at the power sector, so of course electricity generation is a big piece of a climate agenda and the President's climate agenda focuses on that, and so we're modeling changes in that sector. And then we have a modeling effort at the big picture of domestic and global emissions, it's ultimately a global problem. And so we want to be able to evaluate policies like a carbon tax, or a cap on trade, or something like that it could be spending, it could be regulation, something that has a global impact. And so we'll be ready to evaluate all of those.

Actually one note on climate and the fiscal impact is that many of the climate measures will have an impact that takes time. So there's investments in some new technology or subsidies that might pay off, we have to look at what it is to see will it pay off or maybe we won't know. But the gains, the improvements in terms of emissions tend to take time. And so for the budgetary perspective it might be that any improvements fall outside the 10 year budget window. We will provide policy makers with information about them as best we can, but for budgetary purposes they might not show up within the four corners of a cost estimate.

Michael Peterson:

Okay, interesting. Let's talk about the economy, as I said earlier this morning's report show that real GDP fell at an annualized rate of 0.9%. How would you describe the state of the economy? There's lots of interesting things going on in all directions, give us some of your general views on how you see the current state of affairs economically.

Phillip Swagel:

Well I mean today's data, of course we're not positive they had GDP growth negative and inflation is measured in the GDP data as high, and especially food and energy prices driving broad inflation to be quite high, the core inflation is lower. On the other hand there are some special factors, what's going on with inventories is driving the negative growth. It looks like household spending is still hanging in there and again, supported by the accumulated wealth.

And the labor market is still pretty tight, it's softening somewhat but still remains pretty tight, and there's researchers who say the unemployment rate and vacancies rate, and you get a sense from both sides, the worker side of the market and the firm side of the market, and get a sense of the tightness of the labor market. So it is a mix, it's an economy that is slowing, and of course as the Fed Chair Powell said yesterday is looking to slow the economy, but not so much that we fall into a recession. And that's the challenge right now, both for policy makers but for us as analysts evaluating the economy it is just a mix, slowing but still with some positive aspects to it.

Michael Peterson:

And tell us a little bit more about the interaction between the economy and its health and our fiscal outlook, and how those inter relate over 10 or 30 years?

Phillip Swagel:

Yeah, it's a complicated interaction because policy action is needed, and that's the message of the LTBO that we started with. It doesn't have to be this year, it doesn't be next year, but over the next several decades action is needed, whether on the revenue side or the spending size. It's a lot easier for policy makers to act when the economy is strong, whether it's through higher taxes, or lower spending, changes to entitlement spending. And so a strong economy just makes it more possible to have that kind of action. And of course a weak economy then might actually require policy makers to undertake more expansionary actions to support the economy, to support families, to support businesses. There is the capacity to do that, so if the economy does weaken considerably in the period ahead fiscal policy could respond, but of course that has an impact on the long term trajectory as well.

Michael Peterson:

Okay. Let's go back to the report and some of the long term drivers. At the foundation we talk a lot about the structural imbalances that exist and the big drivers of rising healthcare costs, demographics, and growing interests, combined with an inadequate level of revenue to fund the promises we've made. Describe how the CBO looks at each of those or which ones you think are most relevant, and how you assess the long term nature of some of these structural problem.

Phillip Swagel:

Yeah, over the long term we have basically three issues. One is interest payments, and that I talked about before in that it's just a risk. It's a risk if interest rates go up for a variety of reasons, that makes the problem more challenging. After that on the spending side it's entitlements, it's healthcare and it's retirement, Social Security mainly. And again, that is not saying anything negative about those programs, those are incredibly important programs for millions Americans, is the foundation for many Americans of their retirement security. And so the challenge for policy makers is to strengthen them and make sure they're sustainable into the future, because right now neither program is financially sustainable into the future. And so that is the challenge.

And that's what we look at and that's what the report provides policy makers with analysis on is, well what is driving the fiscal imbalance? It's a mix, it's the aging of the population, and that affects both Medicare and Social Security. I mean that's 100% of

Social Security's challenge is of course the aging of the population and the decline in the number of active workers per retiree. Medicare is more like 50/50, so 50% that healthcare spending is growing faster than the economy and costs in the healthcare sector continue to rise on trend more than the prices in the rest of the economy. Not in every year but on trend. And then the aging of the population of course means healthcare spending rises as well, just because the older population will naturally have more healthcare needs.

Michael Peterson:

As we're here still in this pandemic, can you describe how the pandemic has affected our fiscal outlook vis a vie these structural factors or otherwise?

Phillip Swagel:

Yeah, it's a real challenge. And of course the pandemic, first of all it's a personal tragedy for so many and a health tragedy and social I think in so many things first, but the fiscal one is there. So first of course the policy response to the pandemic, I can say it was needed. Obviously I'm not going to judge each program that was enacted, but of course as a nation we responded, we needed to respond, and we did. That had a cost and it was as a cost worth bearing I think policy makers would say most of the, well the programs that were enacted in 2020 were all enacted on a bipartisan basis. Our deficits were wide as a result and our debt to GDP rose as a result, so that increased the challenge. Again, it was necessary, but it meant a greater challenge later on.

And then at the same time yesterday as we released the long term budget outlook, we also put out a demographic outlook, and that also has the effects of the pandemic. So mortality increased of course again, tragically of course mortality increased. And that means an economy has fewer workers, fewer people, and so that has an economic impact. There's still about 2 million people who are missing from the economy as compared to the pre-pandemic trajectory. So mortality increased, we had fertility declined, and of course that also feeds into the economy of the future. And immigration was down as well, both for policy reasons and also just because embassies overseas were closed and so just the processing of immigration was down and that continues today. So all of those have an economic and fiscal impact, so we're going to be living with the impacts of the pandemic into the future.

Michael Peterson:

Okay, let's come back to Social Security, which you just mentioned. Both you and the trustees note that the OASI trust fund will be depleted over the next 12 years, can you just talk about Social Security's place in the budget and how that affects your outlook and how you deal with the insolvency questions that come up during the period?

Phillip Swagel:

Yeah. So Social Security we have, the OASI trust fund is the retirement part of Social Security, not disability as going through 2033, actually the combined is also through 2033 because the disability trust fund is pretty small in comparison. So not an immediate challenge, but it's at the end of the ten year budget window, is one that moves slowly just because it's driven so heavily by demographic factors. So Social Security spending will rise over time by something like roughly a percentage point of GDP. Again, compared to what's happening with interest payments and compared to what's happening with Medicare over time, it's smaller, it's a smaller challenge, but of course it's a difficult one from a policy perspective because it's either people paying more in revenues, higher taxes, or some people not getting all the benefits they were promised. So if Social Security adjustment is done on the benefit side people will still get higher benefits into the future, they just won't get as high as we're promised. And so is that a cut or not? I mean that's that's for [inaudible 00:31:04] or something, but it's still a difficult challenge.

Michael Peterson:

Okay. Let's go into discretionary spending a bit, this is one area of the budget that is not indexed to inflation but it certainly appears lawmakers are content to continue to make upward adjustments on their own. So tell us how you look at discretionary spending in the years ahead, it's a little harder to model out because the formulas aren't quite there, so how do you think about that in the report?

Phillip Swagel:

Yeah. So if you look at the report you'll see that discretionary spending is a share of GDP is declining, so it declines over the next 10 years and then in our projections hold steady. And that is just by formula, it's actually for the first 10 years it's a statutory formula that we have discretionary spending keeping pace with inflation, with a particular measure of inflation, but of course that means discretionary spending is growing by less than the overall economy. So over time, over the next 10 years we will have positive real GDP growth. [inaudible 00:32:05] negative, but at some point in the future we'll have positive real GDP growth again.

So by formula by law, our projections have discretionary spending declining as a share of the economy. And then we just flatline it, we have discretionary spending keep pace with the economy but that's it. That's under current law, and we don't know what a future Congress will do. And if a future Congress sees additional challenges, and of course on the national security side one can look around the world and see important challenges from Russia, from China, from other places, it could be that future policy makers decide that we need more security spending, and that would be an upside risk on the fiscal side. Now again, there's no judgment from CBO is that the right thing, is it the wrong thing, is it needed, it's purely a what does it cost.

Michael Peterson:

And in terms of defense spending in particular, obviously lots of things going on geopolitically right now, do you factor in some of those types of risks and trends in your analysis?

Phillip Swagel:

We don't. We do a lot of work on the national security side, and so we look at the budgetary implications of national security issues. For example the Navy operates repair yard depots, and we compare the costs involved with those to private sector costs as an example. Or the availability of Air Force planes has been declining over time, and so we've gone through and looked carefully at each different airframe, each different model and why is that? It's just some of them are older, just both new airplanes and older airplanes are more difficult, there's a sweet spot when it's neither brand new or super old. So we do lots of work on that, we do not try to say what will the future Congress decide the nation needs in national security spending. It's sort of past the edge of what we do.

Michael Peterson:

Okay. We have a few questions from the audience, so one of which is asking about CBOs projections and it's accuracy. So it says if you look back 10, 20, or 30 years how accurate have CBOs projections been, and do your models consider the comparisons between the early projections and actual results? So how do you assess that?

Phillip Swagel:

Okay. Yeah, no it's a great question. And we do that, we go back and look at our spending projections, our revenue projections, and our economic projections. We're not perfect, that's for sure, and especially near cyclical turning points it's especially difficult to say where the economy is when things are changing for better or for worse. On the spending side a challenge we have is just the nature of our projection is that it's based on current law. So if we just say look, here's what current law will do, and then over the subsequent period there will be additional spending. So what we do is we back out of the outcomes, we try to back out well how much did the additional legislation cost? And then say okay, how does that adjusted measure of spending, what was spend minus the cost of the new spending since our last projection, and we try to make those comparisons. And we do pretty well, we do basically as well as or better than in some cases other forecasters, that's on the fiscal side we compare ourselves to the private sector, to the administration, and our website has a whole section on transparency that goes into detail on that.

Actually, let me just mention one more thing, which is the really hard part is the economy right now. And we kind of touched on that before talking about recession and things like that, it's just a mix. Now inflation is high, and our inflation projections that we made at the beginning of March we're too low. And especially in food and energy prices, we saw the first week or so the invasion of Ukraine, but we by far did not get all the impact of that. And so that's something we're going to have to look at in the future is what's happening with inflation. The next time we update our budget we will update our economic projections, and we'll be looking at that carefully.

Michael Peterson:

Okay. Well while you're on that another question is about inflation around the world. This is a global phenomenon right now, other countries are taking their own measures to address inflation, how do you look at US inflation in that context or policy choices in that context, and do the actions of others around the world impact how CBO views inflation going forward?

Phillip Swagel:

Yeah, absolutely. And so I'll answer in two ways, one is that inflation as you said is a global phenomenon. Inflation was high in the US before the invasion of Ukraine, so that affected global food prices, global energy prices, and especially in Europe we see some of the decisions European governments have made over the past few years seem to be setting them up for especially difficult impacts in terms of their industrial production and inflation. Fortunately we don't have that, our energy sector seems to in much better shape. So we are affected by it but we're going to have a different impact.

So we definitely did track that, we also track what's the impact on foreign countries because what's happening in the rest of the world affects the US economy, and therefore affects the US fiscal situation. So stronger wheat growth overseas affects our exports, affects our economy, affects income, affects revenues, but then strong or weak growth or high inflation or low inflation and interest rates overseas affects demand for dollar assets. And this is when the rest of the world was having a problem, that probably increases demand for dollar assets, it makes the US look pretty good. And that will tend to keep the dollar strong and hold down US inflation.

Michael Peterson:

Okay. We have one more question about debt accumulated for consumption versus investment. So how do you quantify that, how do you look at those two dynamics of essentially what the use of proceeds is from additional borrowing?

Phillip Swagel:

It is a great question. I was just thinking on the previous question about the international, there's probably some really long German word for everything I said but I couldn't come up of it.

Yeah, my high school and college German just did not kick in. So in investment and consumption it is something that we look. At sort of the quick answer is that all dollars are green and so we track the deficit, we don't track why is a deficit, is it for spending, is it for tax cuts, or investment, current spending, whatever. On the other hand, we know that different activities have different economic payoffs, and therefore fiscal implications. And so for example, last summer we did a paper requested by Senator Portman from Ohio about the economic fiscal impacts of infrastructure investment. And of course that was in the context of the legislation he was working on, on the Infrastructure Investment and Jobs Act, and infrastructure investment spending on roads and bridges has positive effects on productivity, on growth, and therefore on the fiscal situation.

Spending doesn't pay for itself in the same way that tax cuts don't pay for themselves, but there is a positive impact. And we quantify that, that's on our website. And so investment activity is different, and investment I mean investment by the economic definition. For some people investment is a synonym for spending that they like, which again is totally, like I'm not the word police and people can use that. But when we say investment we mean investment in the economic sense. And that doesn't mean just bridges, it could be lots of things. But anyway, sorry, I got a smile [inaudible 00:40:28].

Michael Peterson:

What else could that include? So roads, bridges, capital projects. Is it things that do generate a long term benefit, is that part of the definition too?

Phillip Swagel:

That's right, that's right. And we're thinking broadly, so we're thinking about investments in children. So when the government provides, say there's lots of different things, education or healthcare that benefits children. And there's really interesting evidence about providing healthcare to the expectant mother, [inaudible 00:41:00] children in utero has long lasting impacts that improves the trajectory of those children in lots of different ways. And it falls outside the 10 year budget window, but we are looking about how to provide policy makers with information on that, on the economic impacts and on the fiscal impacts within the budget window and outside the budget window. And so it's something we're looking at. It's important to policy makers, and therefore we at CBO want to be working on it.

Michael Peterson:

Okay. I think we have time for one last question, which is about the debt ceiling that's looming again next year. What considerations do you have about that process and the risks, and what can you share about what's looming in the debt ceiling land?

Phillip Swagel:

Yeah, we are up to our eyeballs with reconciliation. So the debt ceiling, I have to admit I haven't thought, boy, we're so focused on reconciliation now. The debt ceilings an important challenge, and the US has to pay its debt and we will pay our debt. The debt ceiling's an important institutional part of our system, and that is CBO provides policy makers with analysis, and sometimes policy makers will ask us, well under current law given your forecast of revenues and spending how long can the US go before the debt ceiling becomes a problem and the Treasury can take the so-called extraordinary measures? And we do provide that analysis as something we track, and we have really expert staff that looks at that. So when the time comes we'll certainly provide that support on how to reach the point of dealing with the debt ceiling and putting in place fiscal policies. CBO by just the nature of our work we stay out of those decisions.

Michael Peterson:

Good, okay. Well listen, it's 3:44, I'm guessing every minute counts of your day today. So we're very grateful for the 44 minutes that you have given us, and I'd like to give you one minute back as a very small expression of our appreciation for your time on what must be an extraordinary busy day. So Phill, on behalf of our audience thank you for all you're doing day to day, for the discussion today, and I'm sure all the significant activity in the coming weeks. So thank you for being with us and sharing your thoughts.

Phillip Swagel:

No, Michael, thanks so much. And thanks for having me with you and for the important work at the foundation.

Michael Peterson:

Thank you. We'll see you next time on the Economic Forum, thanks everyone for joining us today.