United States Senate

WASHINGTON, DC 20510

October 26, 2022

Dr. Phillip L. Swagel
Director
Congressional Budget Office
441 2nd Street SW
Washington, DC 20515

Dear Director Swagel:

We write to obtain CBO's assessment of the effects of rapid acceleration of interest rates on net interest costs of servicing the $31-trillion-plus, and growing, federal debt, and effects of the runaway 40-year high consumer price inflation that has been hammering American families and eroding workers' paychecks.

Since the start of his term, President Biden has signed into law policies that will add $4.8 trillion in additional deficit spending to our economy before 2031.[1] The gross national debt has now surpassed $31 trillion, which amounts to $236,000 per household, or $93,000 per person in America.[2]

The market yield on U.S. Treasury Securities at a 10-Year Constant Maturity, a common indicator of our nation's long-term borrowing costs, has climbed as high as 4.24 percent in recent weeks.[3] This rate is the highest since the 2008 Global Financial Crisis and raises concerns for American families facing both inflation and, increasingly, higher costs of credit and mortgages. Higher interest rates also contribute to concerns about the U.S.'s economic competitiveness, economic growth, and long-term fiscal stability. We must take action to reduce excess and unsustainable spending and limit inflationary pressures.

High inflation since March of last year, following passage of the partisan, inflation-fueling American Rescue Plan Act, has eroded the purchasing power of workers' wages. Inflation in the consumer price index (CPI-U) has been at 40-year highs, registering above 8 percent for seven consecutive months through September. The historically high and persistent inflation has eroded the real value of the public debt by trillions, amounting to an insidious and effective default on a significant portion of U.S. debt.[4]

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[1] "The Biden Administration Has Approved $4.8 Trillion of New Borrowing." Committee for a Responsible Federal Budget, https://www.crfb.org/blogs/biden-administration-has-approved-48-trillion-new-borrowing.

[2] "The National Debt is Now More than $31 Trillion, What Does that Mean?" Peter J. Peterson Foundation, October 4, 2022, available at. https://www.pgpf.org/infographic/the-national-debt-is-now-more-than-31-trillion-what-does-that-mean?utm_campaign=PGPF%20Newsletters&utm_medium=email&utm_content=228380998&utm_source=hs_email.

[3] "Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis." FRED, October 20, 2022, https://fred.stlouisfed.org/series/DGS10.

[4] "Understanding Recent U.S. Inflation," Robert J. Barro, August 30, 2022, American Enterprise Institute.

As CBO identified in its May 25 budget and economic outlook for 2022 to 2032: "higher projected inflation and interest rates have pushed up outlays for interest payments on federal debt…"[5] In that recent outlook CBO also noted that, at the time, CBO had raised their 10-year deficit projection by $2.4 trillion; $1.5 trillion of the increased deficit projection stems from increased projected net interest costs from higher interest rates and higher inflation. Of great concern, CBO also identified that: "After 2023, debt is projected to increase as a percentage of GDP, rising to 110 percent at the end of 2032. At that point, federal debt would be higher as a percentage of GDP than at any point in the nation's history—and heading still higher in the following two decades."

CBO's May outlook also noted that "rising interest rates and accumulating debt cause net interest rates to double as a percentage of GDP," from 1.6 percent in 2021 to 3.3 percent by 2032. Meanwhile, over that same period, CBO projects that discretionary spending as a percentage of GDP will decline from 7.3 percent in 2021 to 6.2 percent by 2032. Such results display a crowding out of "fiscal space," with increased amounts necessary to service the national debt displacing amounts available for discretionary spending programs. This occurs as a structural imbalance remains in which mandatory outlay growth is unsustainable, even with increases in tax revenue as a share of GDP.

Rapidly rising yields on U.S. Treasuries have further heightened concerns about the costs associated with servicing the federal debt. As a result of recent rapid growth in net interest costs on the federal debt, federal spending will increasingly be comprised of net interest rather than legislative priorities, reducing lawmakers' ability to fund critical projects for taxpayers. While federal net interest costs are now projected to grow more rapidly than CBO projected in the middle of last year, reflecting forecast revisions in light of the outsized inflation and subsequent interest rate increases observed since March of 2021, CBO projects that:[6]

- Net interest payments of the federal government as a share of the gross domestic product (GDP) will double by 2032 to reach the highest recorded since 1940;
- Deficits will total $12.1 trillion more from 2022 to 2031 relative to CBO's July 2021 projection;
- By 2031, debt held by the public will reach an all-time high, surpassing the high of 107 percent reached during the period surrounding World War II;
- Growth in federal spending will increasingly outpace growth in revenues, including as shares of GDP, with the increasing imbalance between spending and revenue driven by outlays for Social Security and major healthcare programs;
- Trust funds for both Social Security and Medicare will become depleted within the next ten years.

With the evident unsustainability of the nation's fiscal course, and with the rapid acceleration of both inflation, which persists at 40-year highs, and interest rates, which continue to rise, please provide responses to the questions below:

[5] "The Budget and Economic Outlook: 2022-2032," CBO, May 25, 2022.
[6] Ibid.

1) What effects would there be on a middle-class American worker from: the persistence of consumer price inflation at rates above 8 percent; persistence in nominal wage growth falling short of consumer price inflation; and persistently high-interest rates, such as the 10- year Treasury rates being at or above 4 percent over the next two years?
2) Does CBO believe that interest rates over the next two years will be realized at rates that CBO projected in its May 2022 budget and economic outlook?
3) Does CBO believe that inflation over the next two years will be realized at rates that CBO projected in its May 2022 budget and economic outlook, or has the persistence of high inflation and rapidly accelerating interest caused CBO to internally revise its projections?
4) How do CBO's projections for inflation and interest rates made in its May 2022 outlook conform with or differ from the most recent, September 21, economic projections of Federal Reserve Board members and Reserve Bank presidents for 2022 and 2023?
5) What is the Congressional Budget Office's most current projections for GDP growth?
6) If GDP growth stalls or turns negative over the ensuing year, what will be the effects on the federal budget?
7) According to the Committee for a Responsible Federal Budget (CRFB), "after including the revenue effects and higher interest costs that would stem from higher interest rates, budget deficits would be $1.4 trillion larger ($17.2 trillion total deficits) than under current law if interest rates are 0.5 percentage points higher." Can the CBO offer its projections of the amount by which the federal deficit will rise if 10-year Treasury yield rates hit 4.0 percent and persist at such a rate over the next two years?

Given the upcoming two-day meeting of the Federal Open Market Committee on November 1st and 2nd, at which it is widely expected that the Federal Reserve will raise interest rates by at least 75 basis points, please reply as soon as possible after November 2nd so that lawmakers and the public can be equipped with the most accurate data possible when making policy decisions.

Sincerely,

Steve Daines
United States Senator

Cynthia M. Lummis
United States Senator

Bill Hagerty
United States Senator

John Cornyn
United States Senator

Mike Crapo
United States Senator

Pat Toomey
United States Senator

Chuck Grassley

Charles E. Grassley
United States Senator

John Barrasso

John Barrasso, M.D.
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Bill Cassidy, M.D.

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John Thune

John Thune
United States Senator

M. Michael Rounds
United States Senator

Kevin Cramer

Kevin Cramer
United States Senator

Todd Young
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James Lankford
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Tim Scott
United States Senator