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Dynamic Analysis for Congress: A Progress Report

When Congress seeks information on the expected effects of policy changes, it routinely asks the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) to produce cost estimates of legislative proposals. By default, Congress requests "conventional" cost estimates: ten-year projections of how legislative proposals would affect the federal budget, with the size of the economy held constant, thus excluding any potential macroeconomic feedback. However, in some cases Congress instead requests what are known as "dynamic" cost estimates: ten-year projections of how legislative changes will affect the federal budget, including all foreseeable effects on the U.S. economy and the resulting macroeconomic feedback on the federal budget.

CBO has produced a number of written products describing how the agency would produce dynamic cost estimates if requested or required to do so by the Congress, including reports on repealing the Affordable Care Act, funding more federal infrastructure, and raising the minimum wage (see CBO 2015, 2021, 2023). However, the rules set by the Congress–namely, the major legislation rule–dictating when CBO should apply such modeling frameworks to produce dynamic analyses of legislative proposals result in these frameworks rarely being applied in practice.

An exception is CBO's recent analysis of H.R. 1, the One Big Beautiful Bill Act, as passed by the House of Representatives on May 22, 2025. Because the conventional budgetary impact of H.R. 1 was sufficiently large in magnitude, the major legislation rule applied and CBO and JCT were required to analyze the macroeconomic effects of the legislation and the resulting feedback on the federal budget.[1]

Because H.R. 1 included a variety of tax and spending provisions–ranging from provisions affecting spectrum auctions to tax changes to changes to Medicaid and changes to immigration enforcement–CBO and JCT's work for Congress on its dynamic analysis required building out and developing a number of new modeling frameworks. This paper will describe what types of research was leveraged to inform that modeling, including highlighting some areas where more research would be particularly useful in informing Congress in the future.

[1] For CBO's dynamic estimate, see Congressional Budget Office, H.R. 1, One Big Beautiful Bill Act (Dynamic Estimate) (June 17, 2025), www.cbo.gov/publication/61486. For JCT's estimates of the macroeconomic effects of the tax provisions as ordered reported by the Committee on Ways And Means on May 14, 2025, see Joint Committee on Taxation, Macroeconomic Analysis of the Tax Provisions of the Budget Reconciliation Legislative Recommendations Related to Tax as Ordered Reported by the Committee on Ways and Means on May 14, 2025, JCX-25-25 (May 22, 2025), www.jct.gov/publications/2025/jcx-25-25.

Developing a Dynamic Cost Estimate: Key Inputs and Mechanisms

This section will walk through the mechanics of how a dynamic cost estimate is constructed, focused on an example such as changes to the Supplemental Nutrition Assistance Program (SNAP) as presented in these slides: www.cbo.gov/publication/61505. In particular, this section would:

1. **Describe how the conventional estimate is constructed.** In this case, modifications to SNAP benefits, eligibility, and cost-sharing were estimated to generate a $279 billion reduction in federal SNAP spending over the next 10 years. This section of the paper will focus on one of the largest estimated components of this decline–namely, a change in work requirements for SNAP benefits–and will describe in detail what types of data and evidence from the research literature informed CBO's projections of the effects of those changes in work requirements.
2. **Describe additional behavioral responses that were modeled in the dynamic cost estimate.** This section of the paper will focus on one behavioral response excluded from conventional cost estimates but included in dynamic cost estimates–namely, labor supply changes from changes in work requirements, and estimation of the associated changes in income and payroll tax revenues–and will describe in detail what types of data and evidence from the research literature informed CBO's projections of the effects of those changes.
3. **Describe CBO's framework for estimating macroeconomic effects.** When analyzing the economic effects of changes in fiscal policy such as changes to SNAP, CBO uses a suite of models to capture the various channels through which policy affects output, employment, inflation, and interest rates. This section of the paper will briefly describe how the conventional cost estimate and modeling of the additional behavioral responses included in the dynamic estimate feed into CBO's short-term multipliers model, longer-term Solow-type model, and budgetary feedback model.

Dynamic Analysis in Practice: Modeling the Effects of H.R. 1 as Passed by the House

The effects of any given legislative proposal on economic activity occur through four main channels: changes in aggregate demand, changes in the size and composition of labor supply, changes in private investment, and changes in total factor productivity (TFP). In this section of the paper, we will summarize the key provisions in H.R. 1 (as passed by the House on May 22, 2025) relevant to those four channels, and will describe in detail what types of data and evidence from the research literature informed CBO's estimates of the effects of those changes. A major focus of this discussion will be on what types of additional research would be helpful in informing CBO's future work.

Effects on the size and composition of labor supply. We would focus on one of the examples below in detail, most likely changes in interior immigration enforcement.

1. Changes in marginal tax rates on labor income,
2. Changes in Medicaid,
3. Changes in SNAP,

4. Changes in student loan programs, and
5. Changes in interior immigration enforcement, including both deportations and detentions.

Effects on the capital stock. We would focus on one of the examples below in detail, most likely provisions related to oil and gas production.

1. Tax provisions,
2. Provisions related to oil and gas production,
3. Effects of various provisions on capital investment in response to changes in the labor supply, and
4. Effects of various provision on interest rates and the resulting change in private investment ("crowding out").

Effects on TFP. We would focus on one of the examples below in detail, most likely changes in permitting requirements.

1. Domestic oil and gas production,
2. Physical infrastructure investment,
3. Investment in research and development,
4. Changes in permitting requirements,
5. Changes to spectrum auctions, and
6. Changes in the number of STEM workers resulting from changes in higher education and immigration policies.

Future Directions of Research to Enhance CBO's Dynamic Analyses

The paper would close by highlighting some areas of recent progress in CBO's modeling, which are all areas where additional research could improve CBO's projections.

1. Distributional analyses,
2. Crowding out and the impact on interest rates, and
3. State responses to federal policy changes.

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