Committee for a Responsible Federal Budget

Summary of Understanding Dynamic Scoring
December 8, 2014

The Congressional Budget Office, the official arbiter of Congressional fiscal policy, provides budget estimates for legislation before both chambers of Congress, a process also known as scoring. CBO incorporates micro-dynamic analysis — looking at the effects of changes in behavior, supply and demand, and the timing of certain decisions – in official estimates, but does not include behavioral changes resulting from macro-economic effects such as change in labor supply or private investment that could affect total economic output. The Joint Committee on Taxation (JCT) uses similar methods to CBO in preparing estimates of revenue legislation. This is the practice that has been followed since the Congressional budget process was established in 1974.

There is increased interest in adopting dynamic scoring as a potential addition to the official scoring process. Dynamic scoring would incorporate the macro-economic impact of policy changes on the overall economy and the secondary "feedback effects" that occur as a result of these changes to the overall economy. This would require estimators to choose and refine an economic model to estimate macro-economic effects, an area where there is not a consensus among experts about the assumptions that should be used.

There are important arguments made both for and against dynamic scoring

Arguments for dynamic scoring include:
1. Dynamic scoring provides valuable information about the economic effects of legislation omitted from conventional scores.
2. Conventional estimates create a bias against pro-growth policies by disregarding economic effects.
3. Policymakers should take advantage of better technology and information.

Arguments against dynamic scoring include:
1. Dynamic scoring is very sensitive to assumptions, including assumptions about future policy changes, and there is no consensus among economists about the best assumptions to use.
2. Producing dynamic scores could impose an impractical workload on CBO.
3. Dynamic scoring could undermine estimators' credibility.

Whether or not dynamic scoring is adopted, lawmakers should always be mindful of the economic effects of proposals and should seek out pro-growth

1899 L Street NW • Suite 225 • Washington, DC 20036 • Phone: 202-596-3597 • Fax: 202-478-0681 • www.crfb.org

reforms whenever possible. With conventional scoring in place, lawmakers can consider dynamic gains a "bonus" to help further reduce the deficit.

Below are examples of three recent instances of dynamic estimates.[1]

In June of 2013, the CBO provided an enhanced score for the estimates of S. 744, the Senate's immigration reform bill. Because of the fundamental changes in the working population as a result of this bill, CBO indicated that they needed to use a limited amount of macroeconomic factors in the scoring, reflecting the direct effect the legislation would have on population, employment, and taxable compensation. CBO also provided an estimate of the indirect effect the legislation would have on total output and macroeconomic growth, but that dynamic analysis was provided as additional information and not included in the official score.

CBO provided an estimate of the economic and fiscal effects of the deficit reduction in the House-passed FY 2015 budget requested by Chairman Paul Ryan, the so-called "fiscal dividend." The budget resolution assumed about $175 billion in ten-year budgetary savings from the fiscal dividend, or "macroeconomic fiscal impacts." CBO estimated these effects based on revenue and spending paths specified by Chairman Ryan. When these fiscal effects were included in the final budget, the Ryan budget balanced in FY 2024. CBO included a caveat in its estimate that it only looked at the economic effects of changes in deficits and debt, so it assumed that other factors such as marginal tax rates or spending on public investments would have remained the same, even though Ryan's budget envisioned changing both significantly.

JCT conducted a dynamic analysis of Chairman Camp's 2014 tax reform discussion draft and provided a range of estimates of both the macroeconomic impact of the proposal as well as the corresponding revenue effects. JCT analyzed the macro-economic effects of the legislation using eight different models, which produced estimates ranging from an increase in real GDP of 0.1% to 1.6% over the next decade, resulting in an increase in revenues of $50 to $700 billion over the period. By providing a range, JCT allowed for a discussion of the dynamic effects without incorporating them into an official score. This exercise provided helpful information about the economic impacts of comprehensive tax reform without pushing one specific estimate proponents could focus on as an alternative score.

In addition, CBO has produced a dynamic analysis of the President's budget request to supplement its re-estimate of the President's budget since 2003. Because the President's budget is a comprehensive and detailed plan for all tax and spending policies, it has a significant potential macro-economic effect. CBO has also produced reports about the macro-economic effects of various fiscal policy paths, including the impact of sequestration and illustrative deficit reduction paths.

For More on Dynamic Scoring Please See: Understanding Dynamic Scoring

[1] CRFB slightly modified this document to make it clear the three examples of dynamic estimates are not an exhaustive list. For several additional examples, see JCT's Publications on Macroeconomic Analysis