



**THE COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET**

Understanding Dynamic Scoring

May 31, 2012

CRFB.org / [@BudgetHawks](https://twitter.com/BudgetHawks)



THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

CHAIRMEN

The Honorable Bill Frenzel

Former Ranking Member, House Budget Committee

The Honorable Jim Nussle

*Former Director, Office of Management and Budget
Former Chairman, House Budget Committee*

The Honorable Tim Penny

Former Member of Congress

The Honorable Charlie Stenholm

Former Member of Congress

PRESIDENT

Maya MacGuineas

President, Committee for a Responsible Federal Budget

DIRECTORS

Barry Anderson

Former Acting Director, Congressional Budget Office

Erskine Bowles

*Former Chief of Staff to the President of the United States
Former Co-Chair, National Commission on Fiscal
Responsibility and Reform*

The Honorable Charles Bowsher

Former Comptroller General of the United States

Steve Coll

President, New America Foundation

Dan Crippen

Former Director, Congressional Budget Office

The Honorable Vic Fazio

Former Member of Congress

The Honorable Willis Gradison

Former Ranking Member, House Budget Committee

The Honorable William H. Gray, III

Former Chairman, House Budget Committee

G. William Hoagland

Former Staff Director, Senate Budget Committee

The Honorable James Jones

Former Chairman, House Budget Committee

Lou Kerr

President and Chair, The Kerr Foundation, Inc.

The Honorable Jim Kolbe

Former Member of Congress

The Honorable James McIntyre, Jr.

Former Director, Office of Management and Budget

The Honorable David Minge

Former Member of Congress

June O'Neill

Former Director, Congressional Budget Office

The Honorable Paul O'Neill

Former Secretary of the U.S. Department of the Treasury

Marne Obernauer, Jr.

Chairman, Beverage Distributors Company

Rudolph G. Penner

Former Director, Congressional Budget Office

The Honorable Peter G. Peterson

Founder and Chairman, Peter G. Peterson Foundation

Robert Reischauer

Former Director, Congressional Budget Office

The Honorable Alice Rivlin

*Former Director, Congressional Budget Office
Former Director, Office of Management and Budget*

The Honorable Charles Robb

Former Member of Congress

The Honorable Martin Sabo

Former Chairman, House Budget Committee

The Honorable Alan K. Simpson

*Former Member of Congress
Former Co-Chair, National Commission on Fiscal
Responsibility and Reform*

The Honorable John Spratt

Former Chairman, House Budget Committee

C. Eugene Steuerle

Fellow and Richard B. Fisher Chair, The Urban Institute

The Honorable David Stockman

Former Director, Office of Management and Budget

The Honorable John Tanner

Former Member of Congress

The Honorable Laura D. Tyson

*Former Chairwoman, Council of Economic Advisors
Former Director, National Economic Council*

The Honorable George Voinovich

Former Member of Congress

The Honorable Paul Volcker

Former Chairman, Federal Reserve System

Carol Cox Wait

*Former President, Committee for a Responsible Federal
Budget*

The Honorable David M. Walker

Former Comptroller General of the United States

The Honorable Joseph Wright, Jr.

Former Director, Office of Management and Budget

SENIOR ADVISOR

The Honorable Robert Strauss

*Former Chairman, Democratic National Committee
Former U.S. Ambassador to the Soviet Union*

ABOUT

The Committee for a Responsible Federal Budget

The Committee for a Responsible Federal Budget is a bipartisan, non-profit organization committed to educating the public about issues that have significant fiscal policy impact. The Committee is made up of some of the nation's leading budget experts including many of the past Chairmen and Directors of the Budget Committees, the Congressional Budget Office, the Office of Management and Budget, the Government Accountability Office, and the Federal Reserve Board.

New America Foundation

Since 2003, the Committee for a Responsible Federal Budget has been housed at the New America Foundation. New America is an independent, non-partisan, non-profit public policy institute that brings exceptionally promising new voices and new ideas to the fore of our nation's public discourse. Relying on a venture capital approach, the Foundation invests in outstanding individuals and policy ideas that transcend the conventional political spectrum. New America sponsors a wide range of research, published writing, conferences and events on the most important issues of our time.

Understanding Dynamic Scoring

Executive Summary

Conventional methods for estimating the budgetary impact of legislative proposals take into account certain behavioral changes but not the impact of policy changes on the overall economy, nor the secondary “feedback effects” which occur as a result. The process of incorporating these effects into a budget score is referred to as dynamic scoring.

Dynamic scoring began to receive more attention in the mid-1990s as lawmakers sought to improve the transparency of budget estimating, and increasingly so after 1997, when the chairman of the House Ways and Means Committee could request dynamic estimates for informational purposes. Dynamic scoring has continued to be a topic of debate as a potential addition into the official scoring process. There are important arguments made both in support of dynamic scoring and against it.

Arguments for dynamic scoring include:

1. *Dynamic scoring provides valuable information 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*
2. *Dynamic scoring requires making assumptions about future policy changes*
3. *Dynamic scoring could impose impractical additional workload with only marginal changes in outcomes*
4. *Dynamic scoring could undermine estimators’ credibility*

Ideally, economists and budget estimating agencies would fully understand exactly how every change in policy would pan out and how it would affect the economy and the federal budget. Unfortunately, expert consensus has yet to develop around a common set of assumptions required to perform such dynamic analyses.

However, the state of technology and experts’ level of understanding of the economy has progressed significantly since official estimating methods were adopted decades ago. As a general rule, it is better for policymakers to have more information as opposed to less when weighing the merits of a proposal. At various times in the past, both the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have produced dynamic analyses, with ranges of estimates, on illustrative proposals and major legislation.

There are significant challenges to making dynamic scoring an official part of the budget estimating process. Whether or not dynamic scoring is adopted, lawmakers should always be mindful of the economic effects of proposals, and should seek out pro-growth reforms whenever possible. With conventional scoring in place, lawmakers can consider dynamic gains a “bonus” to help further reduce the deficit and put the debt on a sustainable path.

Understanding Dynamic Scoring

In today's political and economic environment, policymakers often discuss how certain proposals would foster or stunt economic growth and job creation. Such dynamic effects, though frequently cited, are not incorporated into official budgetary scoring from agencies such as the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT). Over the years, many experts and politicians have discussed the possibility of incorporating these effects into official scores – a process referred to as dynamic scoring.

Dynamic scoring, or more precisely macro-dynamic scoring, seeks to estimate the effects of proposed policy changes on macroeconomic variables such as gross domestic product (GDP), inflation, interest rates, and employment, and then to estimate how such effects would change federal revenues and spending levels.

Issues related to dynamic scoring have been the subject of many academic studies and high-level government debates. Understanding how it works, what its advantages and disadvantages are, and what it can and cannot do is important as policymakers consider its adoption.

Theoretically, dynamic scoring would offer policymakers better and more accurate budgetary information. In practice, however, there are a number of drawbacks about the validity, the sheer number of assumptions required, and the institutional challenges that merit proceeding slowly with any changes to scoring conventions. Regardless, it is generally better to have more information rather than less, and incorporating some dynamic analysis when appropriate could supplement conventional cost estimates.

This primer explains dynamic scoring and its relevance to the country's current and future fiscal challenges.

How Do Estimators Currently Score Bills?

Some proponents of dynamic scoring have mistakenly contended that revenue estimators use a “static scoring” methodology that fails to take into account any behavioral responses to a policy change. In fact, conventional scoring methods incorporate a wide variety of behavioral responses and thus would more accurately be described as “micro-dynamic scoring.”

Understanding the difference between static, micro-dynamic, and macro-dynamic scoring requires an explanation of how estimates are currently made.

Calculating the score of a tax change, for example, requires two basic pieces of information: the proposed change in the tax rate and the resulting change in the quantity of what is being taxed, or the tax base. A purely static estimate looks only at the change in the rate.

Imagine a proposal to increase the federal gas tax from 18.4 cents per gallon to 25.0 cents per gallon. A static estimate would simply multiply the new tax rate by the number of gallons of gasoline projected to be sold under the old tax rate. A conventional micro-dynamic score, on the other hand, would also take into account the offsetting loss as individuals carpooled more, drove less, and/or bought more fuel-efficient cars

in response to the higher gas price, and therefore purchased fewer gallons of gasoline than under the old tax rate.

The types of behavior estimated under conventional scoring include effects related to the timing of economic activity, shifting of income between taxable and nontaxable categories, effects on supply and demand, and interactions with other taxes. For example, an estimate for a future increase in the capital gains tax will account for the fact that taxpayers will accelerate their realization of gains into the year prior to the tax increase to avoid the higher tax rate, and will also assume that future taxpayers will sell their assets less often and hold more assets until death. Estimates of lower income tax rates, as another example, would show an increased tax base as people are enticed to shift more compensation from nontaxable benefits, such as employer provided health care and retirement plans, to taxable wages.

Estimates of spending programs also take microeconomic effects into account, such as expected changes in participation, utilization, or reported income. For example, when CBO estimates the effect of changes to Medicare cost-sharing rules (such as higher copayments), they take into account changes in health care utilization (such as fewer visits to the doctor). Similarly, CBO's estimates for agriculture legislation include anticipated effects on crop prices and production.

While estimates already take into account these micro-dynamic behavioral changes, they do not take into account potential changes to the economy as a whole.

For example, lower individual tax rates might not only encourage less tax evasion but also might increase the labor supply and therefore the size of the economy. Similarly on the spending side, investments in infrastructure projects or education might generate greater economic activity down the road by bringing people and markets closer together or by increasing economic productivity. Even though a larger economy would lead to more revenue, these effects are not accounted for under conventional scoring.

FIG 1. DEFINITION OF TERMS

Dynamic – Characterized by constant change, activity, or progress; relating to forces producing motion. Often contrasted with static. Dynamic scoring or dynamic analysis involves the use of macroeconomic models to predict economic responses, such as the level of employment and interest rates, to changes in tax or spending policy and then counting the costs or savings associated with those “feedback effects” as part of the official estimate of the cost or savings associated with the policy change.

Static – Having no motion, action, or change; concerned with bodies at rest or forces in equilibrium. Often contrasted with dynamic. Current practices at the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) produce cost estimates that many people mistakenly think are static but that actually include behavioral responses to policy changes, as discussed in previous sections.

Dynamic analysis – A practice where economists evaluate and report on the probable economic effects of policy changes. Government entities (such as the Treasury Department and the JCT), nonprofit organizations, and academics produce dynamic analyses. Dynamic analyses almost always present a range of possible economic effects of a policy change.

Dynamic scoring – A practice where government scorers evaluate the probable economic effects of policy changes and attribute the resulting budgetary impact of those economic changes to the official budget estimate of the policy.

History of Dynamic Scoring in Congress

In 1995, at the start of the 104th Congress, many lawmakers thought that the revenue and spending estimating processes were too secretive and not open to public review or evaluation. As one of the first actions of the new Republican majority, on January 10, 1995 the House and Senate Budget Committees held a joint hearing titled “Review of Congressional Budget Cost Estimating.”

Expert witnesses presented testimony and answered questions about dynamic and static scoring, as well as the current state of the art regarding modeling macroeconomic feedback effects. In January 1997, at the beginning of the 105th Congress (again under a Republican majority), the House first adopted a rule that stated the Ways and Means Committee chairman could request dynamic scoring estimates, which would be used for informational purposes only.¹

The House kept the rule in place until the beginning of the 108th Congress in early 2003. At that time, the Republican majority replaced the rule that authorized the Ways and Means chairman to request a dynamic estimate with a rule that required the JCT to prepare a macroeconomic impact analysis where possible for legislation reported by the Ways and Means Committee.² The 2003 rule defined “macroeconomic impact analysis” as an estimate of expected changes in economic output, employment, capital stock, and tax revenues that would result from enactment of the proposal. Although this rule is often associated with Republican House majorities, Democrats adopted rules packages retaining this requirement when they took power in the 110th and 111th Congresses (2007-2010).

At various times, both political parties have argued that macroeconomic estimates could provide useful information obscured by conventional estimates. For Republicans, dynamic scoring represented a way to demonstrate the adverse impacts of higher taxes and the benefits of lower taxes. For Democrats, such estimates became particularly important when making the case for jobs measures and stimulus packages to help boost the economy during the economic downturn.

Though there is relatively broad agreement on the usefulness of macroeconomic analyses, there is substantial disagreement over whether estimators should go further and provide macro-dynamic scores of budgetary policies.

Arguments in Favor of Dynamic Scoring

Issues surrounding dynamic scoring have been the subject of a growing debate. Arguments in favor of dynamic scoring include:

1. Dynamic Scoring Provides Valuable Information Omitted from Conventional Scores

As legislators make policy decisions, they should have the best available information at their fingertips. By failing to take macroeconomic effects into consideration, one could argue, conventional scoring falls short of this goal and as a result leads policymakers to make suboptimal decisions and enact (or not enact) policies without a fully informed debate.

2. Conventional Estimates Create a Bias Against Pro-Growth Policies by Disregarding Economic Effects

Ignoring macroeconomic effects on the budget biases the legislative process against certain tax and spending changes by overstating the budgetary effect of some and understating that of others with more beneficial, or less harmful, effects on the economy. For example, limiting the value of itemized deductions on income above \$250,000, on the one hand, and allowing the top two tax rates to increase from 33 and 35 percent to 36 and 39.6 percent, on the other, are estimated to raise similar amounts of revenue under conventional scoring. However, economic theory suggests that the increase in tax rates will more negatively affect growth and therefore raise less revenue in reality. Dynamic scoring would reflect that reality and would provide more complete information to those deciding between the two policies.

3. Policymakers Should Take Advantage of Better Technology and Information

Scoring procedures have changed little since the Congressional Budget Act and CBO were established in 1974, while over the same period computing technology and economic analysis and modeling have greatly advanced. The Treasury Department, CBO, and JCT as well as numerous academic sources have devoted significant time and research to studying macroeconomic responses to government policy changes. Sophisticated economic models have been developed to measure those responses, and many argue that scoring procedures that were appropriate in the 1970s need to be updated to take advantage of the advances that have been made.

Arguments Against Dynamic Scoring

Although scoring practitioners and experts generally acknowledge the importance of understanding macroeconomic effects, many argue that conceptual, political, and logistical hurdles make dynamic scoring difficult and unwise in practice. Among their arguments are:

1. Dynamic Scoring Is Very Sensitive to Assumptions

Economic analysis, and specifically macroeconomic analysis, is based on models that produce a range of results. While budget estimators are able to make reasonable assumptions about microeconomic behavioral responses using past evidence, the same cannot be said about overall economic effects. Macroeconomic variables such as GDP and inflation are the result of numerous and often competing changes in fiscal policy, monetary policy, and unrelated domestic and international factors. Trying to isolate and measure a single factor or policy is quite difficult.

Instead of estimating based on empirical evidence, therefore, scoring agencies typically rely on theory-based models – with different models incorporating very different assumptions. For example, in 2005, a CBO issue brief found that a ten percent reduction in tax rates could shrink the size of the economy by 0.1 percentage points, grow it by 1.1 percentage points, or reach any number of other outcomes in between. That same study found that dynamic effects could increase the cost of the tax cut by three percent (\$33 billion) over ten years, reduce it by 28 percent (\$345 billion), or have an effect in between.³

2. Dynamic Scoring Requires Making Assumptions About Future Policy Changes

Under normal scoring conventions, estimators do not attempt to guess at future Congressional action. In other words, estimators attempt to measure the effects of current law – including how individuals, businesses, states, and agencies will behave based on policies in law – but do not attempt to project how future Congresses may or may not change current law. This scoring practice is important because policymakers want to know how much their particular proposal will cost or save on its own, not what effect it will have when combined with some unknown and arbitrarily decided future set of policies. However, dynamic scoring must often break from this practice for deficit-increasing measures since most macroeconomic models assume debt must eventually be financed in order for the economy to continue to operate. To that effect, many macroeconomic models will assume that future tax increases or spending cuts are enacted in order to stabilize public debt levels.

If scoring agencies were to implement dynamic scoring, they would not only need to break with the convention of not predicting future policy, but they might have to make a single assumption about how a policy change is financed, be it through a future tax increase, a spending cut, a combination of the two, additional borrowing, monetization of the debt, or other means. There has always been widespread reluctance on the part of budget estimators to predict what future policymakers will do.

3. Dynamic Scoring Could Impose Impractical Additional Workload with Only Marginal Changes in Outcomes

Under current scoring practices, all JCT and CBO analysts work from the same baseline economic assumptions. Generally, these baseline economic assumptions are updated twice per year. If dynamic scoring is adopted, the baseline economic assumptions would have to be updated for each piece of legislation passed, requiring a substantial increase in time and resources for producing cost estimates and requiring much closer alignment of JCT and CBO. Specifically, analysts may be working on different proposals simultaneously, all changing macroeconomic variables at will and using inconsistent assumptions without the full knowledge of anyone in authority. The resulting coordination concerns could damage the findings and credibility of dynamic analyses for each proposal, the reverse of what dynamic scoring proponents intend.

Such additional workload might be considered a necessary evil if the resulting dynamic estimates were orders of magnitude or directionally different from conventional scores, but according to many experts dynamic scoring tends to yield results which are not all that different from current scoring practices.⁴ Dynamic estimates from the George W. Bush Administration's own Mid-Session Review for permanently extending the tax cuts, for example, found that they would cost only about ten percent less than the conventional cost estimates.⁵ In the next section, this analysis will review several recent dynamic analyses.

4. Dynamic Scoring Could Undermine Estimators' Credibility

CBO and JCT strive for unbiased, nonpartisan analysis and have as a result earned widespread credibility over the years. Both organizations are willing to explain and defend their estimating processes. If they undertake dynamic scoring, they will be forced to make choices about future policies and about which macroeconomic model's output to use. Since there is no broad consensus about the ideal macroeconomic model, both organizations would be subject to criticism about favoring one outcome over another. According to John Buckley, former Joint Committee on Taxation Chief of Staff, *"if there is even a perception of political interference in the budget scoring process, market analysts will question the accuracy of the estimate. The CBO and JCT may lose their hard-won credibility as scorekeepers."*⁶

Results of Recent Dynamic Analyses

Advocates of dynamic scoring often contend that the policies they support include substantial economic feedback, leading to budgetary outcomes drastically different from conventional scores. Some have gone so far as to suggest that certain deficit-increasing tax cuts or spending increases will fully pay for themselves through subsequent effects on economic growth.

In reality, when CBO and JCT have responded to Congress's request for macroeconomic analyses, they have generally found mostly modest (though certainly not insignificant) macro-dynamic effects. The example of the ten percent reduction in rates, for example, shows that a tax cut that is conventionally scored as increasing the deficit by nearly \$1.56 trillion over ten years would increase the deficit by somewhere between \$1.21 trillion and \$1.59 trillion using dynamic scoring.⁷ CBO and JCT have undertaken other macroeconomic analyses over the years with the following results:

Corporate Tax Cuts. In 2005, JCT evaluated the effect of a \$500 billion (over ten years) corporate tax rate cut. They found the tax cut would increase the return on corporate investment – providing more incentives for investment and thus goods and services produced, boosting output, wages, and the capital stock – thereby increasing real GDP by between 0.1 and 0.4 percentage points (\$120 billion and \$285 billion) in the second five years. Those economic gains would generate between \$42 billion and \$105 billion of revenue from dynamic feedback over ten years compared to the conventional estimates.⁸

FIG 2. UNDERSTANDING A DYNAMIC BUDGET ESTIMATE

Although typically CBO and JCT will at most produce a dynamic analysis showing average economic impact over five and ten years with various models, one report in 2011 shows what a full dynamic score might look like. Specifically, in that report, CBO shows the effects of a generic \$2 trillion deficit reduction plan.

Under conventional scoring methods, such a plan would save about \$101 billion in 2012 and \$2.42 trillion through 2021 – including \$419 billion of interest savings as a result of lower debt levels. CBO finds the plan could reduce gross national product (GNP) by between 0.3 and 0.6 percent in the first year, increase it by between 0.6 and 1.4 percent in the tenth year, and reduce interest rates by anywhere from 0.05 points and 0.55 points depending on the year, model, and length of bond maturity.

Assuming the plan had a medium-sized effect on GNP, revenues would fall (and to a lesser extent, spending would rise) in the early years and rise in the later years – adding about \$20 billion of additional deficit reduction over the ten year period and far more over the long-term. Assuming a medium effect on interest rates, lower interest payments would result in \$165 billion of further deficit reduction.

BRIDGE FROM A CONVENTIONAL ESTIMATE TO A DYNAMIC ESTIMATE (BILLIONS OF DOLLARS)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Ten-Year
Primary Savings	\$100	\$122	\$144	\$167	\$189	\$211	\$233	\$256	\$278	\$300	\$2,000
Interest Savings	\$1	\$5	\$10	\$18	\$28	\$40	\$54	\$70	\$87	\$106	\$419
Conventional Savings	\$101	\$127	\$154	\$185	\$217	\$252	\$288	\$325	\$365	\$406	\$2,419
GNP Effects	-\$10	-\$15	-\$12	-\$7	\$0	\$6	\$9	\$12	\$16	\$21	\$20
Interest Rate Effects	\$7	\$19	\$20	\$20	\$18	\$15	\$16	\$16	\$17	\$19	\$165
Dynamic Savings	\$97	\$130	\$162	\$197	\$235	\$272	\$312	\$354	\$398	\$446	\$2,604

All told, in this particular example, CBO shows a dynamic estimate would reduce deficits by about 8.5 percent (over \$200 billion) more than a convention estimate over ten years and 10 percent (\$40 billion) more in the tenth year.

Source: CBO, "Macroeconomic Impact on an Illustrative \$2.4 Trillion Debt Reduction Plan." July 14, 2011. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/123xx/doc12310/07-14-deficitreduction_forweb.pdf.

Lower Rates and a Broader Base. In 2006, JCT analyzed the effect of eliminating most tax expenditures – the various credits, deductions, and exclusions in the tax code – in order to finance a revenue neutral 23.5 percent reduction in income tax rates. JCT found that such a reform would provide additional incentives for work and investment (other than real estate investment), and as a result would increase the size of the real economy by 0.2 to 2.6 percent over the long-term.⁹

Stimulus. In 2009, CBO estimated the economic effects of the American Recovery and Reinvestment Act (ARRA). The stimulus provided by this bill, they estimated, would increase aggregate demand and therefore GDP by between 1.1 to 3.4 percent over the first two years and reduce unemployment by 0.6 to 1.9 percentage points. In later years, the debt resulting from the legislation would “crowd out” private investment and thus slightly reduce the size of the economy in the latter half of the decade.¹⁰

Deficit Reduction. In 2011, CBO studied the impact of an illustrative \$2 trillion deficit-reduction plan over ten years, excluding interest savings. CBO found the plan would reduce the size of the economy by 0.3 to 0.6 percent in the first year by reducing aggregate demand. By the end of the decade, however, the deficit reduction would increase cumulative output by 0.6 to 1.4 percent and reduce interest rates by 0.08 to 0.22 percent. CBO finds that feedback effects could lead to between \$100 and \$280 billion of additional deficit reduction over ten years – largely due to lower interest costs.¹¹

FIG 3. RECENT DYNAMIC ANALYSES FROM CBO AND JCT

Dynamic Analyses	Small Effect	Mean Effect	Large Effect
Percent Change in GDP/GNP Over First Five Years			
10% Individual Tax Rate Cut	0.2%	0.6%	0.8%
Lower Rates, Broaden Base	0.1%	0.8%	1.2%
\$500 Billion Corporate Tax Cut	0.1%	0.1%	0.3%
2009 Stimulus	0.5%	1.0%	1.5%
\$2 Trillion of Deficit Reduction	-0.1%	-0.1%	-0.2%
Percent Change in GDP/GNP Over Second Five Years			
10% Individual Tax Rate Cut	-0.1%	0.4%	1.1%
Lower Rates, Broaden Base	1.1%	1.5%	1.9%
\$500 Billion Corporate Tax Cut	0.1%	0.3%	0.4%
2009 Stimulus	-0.2%	-0.1%	0.0%
\$2 Trillion of Deficit Reduction	0.4%	0.8%	1.1%
Deficit Effect of GDP Changes Over Ten Years (Billions)			
10% Individual Tax Rate Cut	-\$33	\$207	\$345
Lower Rates, Broaden Base	N/A	N/A	N/A
\$500 Billion Corporate Tax Cut [^]	\$42	\$73	\$107
2009 Stimulus	N/A	N/A	N/A
\$2 Trillion of Deficit Reduction	\$100	\$185	\$280

Note: Estimates for the 2009 stimulus act and the illustrative debt reduction plan from CBO, while the other estimates were from JCT. Estimates are cumulative over the stated period.

[^]Estimate does not include interest savings.

Conclusion

There are reasonable arguments both for and against dynamic scoring, and these pros and cons should be weighed very carefully before any changes to scoring rules are adopted. There is no question that policymakers should have access to as much information as possible. At the same time, however, congressional budget analysts should not be required to produce results which they believe would compromise the technical integrity of the work they do.

Moreover, if Congress does want to adopt dynamic scoring, it should be willing to live with the economic model or models that CBO and JCT use – even if they disagree with the findings and believe economic gains to be larger (or losses to be smaller). In other words, Congress should accept the results of staff economists at CBO and JCT and should not game the system by prescribing methodologies that would compromise the value of the results.

Importantly, policymakers should be pursuing pro-growth policies regardless of how they are accounted for. In addition to having benefits in its own right, faster economic growth will lead to higher revenue, lower spending on safety net programs, a greater capacity for individuals and businesses to bear tax and spending changes, and a greater capacity of the economy as a whole to carry debt (i.e. higher GDP will lower the debt-to-GDP ratio) – all of which can help the country address its fiscal challenges. Even if scorers do not account for these effects directly, pro-growth policy changes can yield a bonus in the form of lower than projected deficits and debt. Currently, we are faced with making painful choices that, unfortunately, can no longer be avoided. Higher growth will not make painful choices go away, but it will make them relatively less painful.

Endnotes

- ¹ Government Printing Office. Rules of the House of Representatives. Updated June 16, 2009. <http://www.gpo.gov/fdsys/pkg/HMAN-105/pdf/HMAN-105-pg543.pdf>.
- ² Government Printing Office. Rules of the House of Representatives. Updated June 16, 2009. <http://www.gpo.gov/fdsys/pkg/HMAN-108/pdf/HMAN-108-pg602.pdf>.
- ³ Congressional Budget Office. "Analyzing the Economic and Budgetary Effects of a 10 Percent Cut in Income Tax Rates." Dec. 1, 2005. <http://cbo.gov/sites/default/files/cbofiles/ftpdocs/69xx/doc6908/12-01-10percenttaxcut.pdf>.
- ⁴ Former CBO Director Rudolph Penner has stated that "the CBO's dynamic analysis suggests that static scoring is usually pretty accurate" (from Op-Ed in the Ripon Forum, "Dynamic Scoring: Not So Fast!" April 21, 2006). In addition, Jason Furman, currently the Principal Deputy Director of the President's National Economic Council, has also argued that dynamic cost estimates "are reasonably close to conventional cost estimates (from Center on Budget and Policy Priorities, "A Short Guide to Dynamic Scoring," August 24, 2006).
- ⁵ Jane Gravelle, Congressional Research Service, "Comments on the Treasury Dynamic Analysis of Extending the Tax Cuts." July 27, 2006.
- ⁶ Buckley, John. "Dynamic Scoring: Will S&P Have Company?" Tax Analysts, February 28, 2012. <http://www.taxanalysts.com/www/features.nsf/Articles/43736B49FCB019E3852579B5006E1933?OpenDocument>.
- ⁷ Congressional Budget Office. "Macroeconomic Analysis of a 10 Percent Cut in Income Tax Rates." May 2004. <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/54xx/doc5485/2004-07.pdf>.
- ⁸ Joint Committee on Taxation. "Macroeconomic Analysis of Various Proposals to Provide \$500 Billion in Tax Relief." March 1, 2005. <http://www.jct.gov/x-4-05.pdf>.
- ⁹ Joint Committee on Taxation. "Macroeconomic Analysis of a Proposal to Broaden the Individual Income Tax Base and Lower Individual Income Tax Rates." December 14, 2006. <http://www.jct.gov/x-53-06.pdf>.
- ¹⁰ Congressional Budget Office, "Macro Effects of American Recovery and Reinvestment Act." March 2, 2009. http://cbo.gov/sites/default/files/cbofiles/ftpdocs/100xx/doc10008/03-02-macro_effects_of_arra.pdf.
- ¹¹ The plan reflected \$2 trillion in direct savings and over \$400 billion in interest savings for a total of \$2.4 trillion. The analysis, however, did not make any assumptions about the composition of the savings and only looked at the macroeconomic impact of lower deficits and debt. (Congressional Budget Office. "The Macroeconomic and Budgetary Effects of an Illustrative Policy for Reducing the Federal Budget Deficit" June 14, 2011. http://cbo.gov/sites/default/files/cbofiles/ftpdocs/123xx/doc12310/07-14-deficitreduction_forweb.pdf.)