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Dynamic Scoring and Congress

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One of the 114th Congress' first moves was to open discussion on dynamic scoring. On January 6, 2015, the House of Representatives adopted a rule change that would require all legislation to be dynamically scored.[1]

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The House rule applies to the Congressional Budget Office and the Joint Committee on Taxation. Similar legislation was proposed in the Senate; however, the dynamic scoring would be for advisory purposes only. Official analyses from the Joint Committee on Taxation would remain unchanged.[2] This legislation was co-opted by language in a budget resolution passed by the Senate on May 5, 2015, requiring dynamic scoring.[3]

What Is Dynamic Scoring? As Vox.com explains, "When policy proposals are put forward in Congress, their impact on the budget is often estimated — or 'scored'— by the Congressional Budget Office and the Joint Committee on Taxation. Dynamic scoring — in its simplest and least-controversial framing — is the idea that when estimating the budgetary impact of changes in tax policy, you ought to take into account changes to the economy induced by the policy change."[4]

Static scoring assumes that major legislation does not change the American economy. Dynamic scoring assumes major economic policy changes lead to macroeconomic changes in the rate of employment, national savings, consumer spending, capital investment and/or gross domestic product growth, and includes those changes in cost estimates.[5]

At its most basic, static scoring assumes the size of the economy remains unchanged; however, dynamic scoring allows for the idea the economy might *expand or contract* as a result of policy changes.[6] If a tax rate is cut from 50 percent to 25 percent, static scoring assumes that tax revenue will be cut in half. That is, the 50 percent decrease in the tax rate will lead to a 50 percent decrease in tax revenue. Dynamic scoring, however, assumes reduced taxation encourages more work and investment, and, therefore, the cost of the policy will not be so steep, because economic activity will positively change rather than remaining static.[7]

What Is the Status Quo of Budget Scoring? Since its inception in the 1970s, the Congressional Budget Office has always scored legislation statically, without regard to economic changes within a particular industry or sector.[8] The CBO defends static scoring, stating that dynamic scoring is unnecessary as 1) most legislation has a negligible effect on the entire economy, 2) macroeconomic changes are difficult to predict, and 3) the research and work burden would be unfeasible.[9] Large legislative changes, like the budget resolution, do include an analysis of macroeconomic

impacts, but those projections are not included in the cost estimate itself.[10]

The Joint Committee on Taxation has also traditionally used static scoring; however, the JCT emphasizes they include the likely macroeconomic effects of each bill.[11] The difficulty lies in determining the exact extent of the effect: The likely effects can be enumerated, but quantifying them for cost analysis is more difficult. Both the CBO and the JCT will use dynamic scoring after the January 2015 House and May 2015 Senate rule changes.[12]

Arguments for Dynamic Scoring. The primary claim supporting dynamic scoring is that it explicitly accounts for the effects of tax policy and reforms. Economist Scott Hodge of the Tax Foundation argues that static analysis, which assumes the economy stays the same size, is fundamentally flawed in evaluating taxes; changes in taxes will lead to changes in the labor market, which will in turn affect the size of the economy. Thus, static scoring fails to account for the economic effects of new laws. Dynamic analysis could show that policies which might seem revenue neutral are actually stifling to growth.[13]

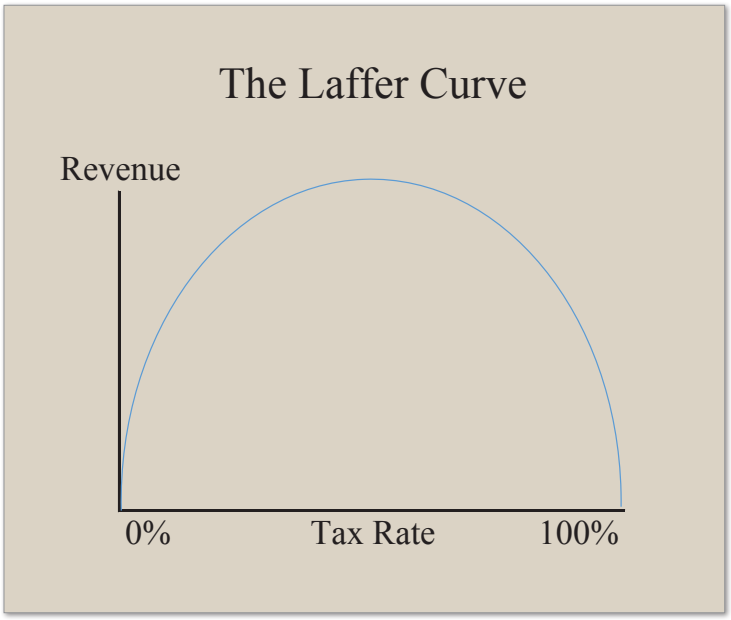
Argument against Dynamic Scoring. The primary claim against dynamic scoring is what economist Paul Krugman refers to as "voodoo economics." His claim is that any attempt to pass tax cuts, which dynamic scoring could help accomplish, is an endorsement of supply-side economics.[14] But, based on the assumptions the particular analyst uses, the result can vary drastically. For example, the Joint Committee on Taxation's dynamic analysis of House Ways and Means Committee Chair David Camp's tax plan produced eight different estimates, with the highest and lowest varying dramatically.[15]

- The lowest estimate, which used a Macroeconomic Equilibrium Growth (MEG) model, assumed an aggressive Federal Reserve Board and high labor elasticity, predicting a 0.2 percent change in GDP between fiscal years 2014 and 2023.
- The highest estimate, which used an Overlapping Generations (OLG) model with reduced intellectual property elasticity, predicted a 1.6 percent increase in GDP between fiscal years 2014 to 2023.[16]

In response, Tim Worstall, a fellow at the Adam Smith Institute in London, argues that while there might be issues with the specific implementation of dynamic scoring, it is not a wildly speculative and unscientific enterprise, as the appellation "voodoo" implies. In fact, the United Kingdom has used dynamic scoring and dynamic scoring was more accurate than static scoring in reflecting the results of cigarette tax increases in New York City.

The Laffer Curve. The Laffer Curve represents the relationship between tax rates and revenue. [See the figure.] At a 100 percent tax rate, there will be no tax revenue because no one will work. At a 0 percent tax rate, there will be no revenue because no taxes will be assessed. The Laffer Curve shows the tax rate at which tax revenue can be maximized, a point where the tax rate has not discouraged taxable activity, whether it is work, saving or consumption. Thus, tax cuts evaluated with dynamic scoring need to account for this relationship between rate and revenue.[17] Calibrating where on the Laffer Curve a policy might fall is difficult, but that difficulty does not discredit the entire process.[18]

Some economists may argue that dynamic scoring is unreliable: politicians will use dynamic scoring to make their policies seem more attractive than their political opponents'. Indeed, while they have fostered reputations for nonpartisanship, the directors of the Congressional Budget Office and the Joint Committee on Taxation are chosen by the majority leadership in Congress, and they report to Congress. Further, if these congressional agencies give multiple estimates, politicians use the one most favorable to their position, then publicize the results they find most advantageous.[19] If the economic benefits of a policy are less than anticipated, this could worsen the budget deficit as fewer cost cutting measures are



undertaken due to inflated estimates of revenues from tax cuts.[20] The effects can spiral beyond the legislation at hand, as policies have likely been passed which assumed the inflated savings of one piece of legislation would fund the mandates of another, allowing politicians to pass legislation that is allegedly cost neutral.

In response, former Congressional Budget Office director Douglas Holtz-Eakin, who supports dynamic scoring, argues that even if the scores are inaccurate, they use a consistent methodology. Thus, if the scores are demonstrably inaccurate, they will all likely be inaccurate to the same degree. The scores cannot be politically gamed because they are all similar. If the methodology of dynamic scoring remains consistent, it would not be possible to artificially inflate the score of one particular piece of legislation.[21]

Conclusion. Dynamic scoring has been used without fanfare during earlier debates about immigration.[22] The best argument for dynamic scoring is that it accurately reflects the fact that large pieces of legislation will affect the overall size of the economy. The arguments against dynamic scoring fall short. The process the CBO and JCT use will be reported broadly and their work will continue to be backed by rigorous methodological transparency and statistical sophistication. Should one projection be inaccurate, all of the projections will be inaccurate, making it difficult to use the CBO or JCT estimates to favor particular policies.

The noise around dynamic scoring is simply political: Democrats like dynamic scoring when it makes their policies look good and Republicans like it when it is favorable to tax policies. The rules for dynamic scoring require its use in very limited circumstances. It will not be done for all pieces of legislation, and it will not be excessively onerous on the CBO or JCT. The danger of dynamic scoring is not in its inaccuracy, but its ability to be misrepresented. The true test will be if Republicans use overestimates to finance continued federal overspending or if they use it to trim back the size of the federal government and the tax burden of the average American.

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Notes

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