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Welcome:

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The Congressional Budget Office at Middle Age:

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Panel Discussion:

DAVID WESSEL, Moderator
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P R O C E E D I N G S

MR. WESSEL: Good morning. So I feel a little bit like the minister at church the week after the snowstorm here. So I want to encourage everybody to move up, and if you don't I'm going to call on people in the back for questions. (Laughter) Good morning, I'm David Wessel; I'm Director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings. Our mission is to improve the quality of fiscal and monetary policies and public understanding of them. And like so many people in Washington, people in this room, people on the Hill, people who watch Washington from outside Capitol Hill, we are all consumers of Congressional Budget Office data and analysis. Indeed, those of us who formulate, think about, report on, criticize, kvetch about budget policy, find it almost impossible to imagine doing any of those things without this steady supply of data and analysis from CBO.

But while Congress has a Joint Committee on Taxation for almost 90 years, which Tom Barthold of JCT reminded me -- wanted to know why we were doing a party for CBO's 40th (laughter). CBO is relatively young. It was just 40 years ago this week that our own Alice Rivlin, who is with us today, launched the Agency. And I've often thought that CBO is one of the few institutions in Washington that actually seems to be functioning reasonably well. But I think because the price tags of the scores that CBO attaches to bills are so pivotal, and because the Directors of CBO, Alice and all her successors, have been people with so much credibility, CBO has become controversial by people who just don't like the answer to the question CBO was asked.

Now we all know that CBO is controversial from time to time, and we do know that some CBO critics in my opinion really do seek to undermine the Agency, its independence, the conclusions it comes to free of political pressure. We, I want to establish, are not among them. But no one is perfect and certainly no part of the federal government is perfect, and no part of the federal government should ever be shielded

from constructive criticism, nor should any arm of the federal government be afraid of constructive criticism. And so that was one of the things that we talked about when we started the Hutchins Center a year ago. We've discussed other aspects of CBO's work and JCT's work, but today we gather to mark CBO's 40th anniversary, to celebrate its strengths, and to simply ask what is it do well and what could be better.

Now as I mentioned earlier this event was originally scheduled for last week but got snowed out. But I'm very pleased that a number of the people who had agreed to be here last week agreed to come back again this week. And I'm also glad that we have, despite a flood in our AV room, the capacity to webcast this. So it's on line now and the archive will be on our website.

We're going to begin with a presentation by Phil Joyce. Phil is a Professor of Public Policy at the University of Maryland, a long time student of budgeting and of CBO where he worked from 1991 to 1996. He is the author of what I believe to be -- Phil, correct me if I'm wrong -- the only book ever written about CBO. Is that right?

MR. JOYCE: You are correct.

MR. WESSEL: Yeah, yeah.

MR. JOYCE: Indeed, it's the best book ever written about CBO.

MR. WESSEL: The best book ever written about CBO. (Laughter) The Congressional Budget Office, Honest Numbers, Power, and Policy Making, which was published by Georgetown University Press in 2011. And one of my favorite parts of this book is that Phil did a lot of interviewing of people -- Ed Musky -- some of them not with us anymore, like Ed Musky about where this agency came from. Phil has written a background paper which has been on our website since the snow day. He is going to give us a brief presentation of it and then I'm going to be joined by four panelists who are consumers of CBO work. Two former members of Congress, Bill Gradison and Bruce Morrison, Susan Tanaka of the Peterson Foundation, and Alec Philips of Goldman Sachs.

So with that please welcome Phil Joyce for the beginning of our program.

(Applause)

MR. JOYCE: Thank you very much, David, and thanks to everyone for coming. I assume everyone would have come last week and I appreciate your hanging in there. I think that it's great to celebrate this anniversary and what I want to do is take my 15 minutes to talk briefly about how CBO got sort of where it is, but also perhaps as importantly, or more importantly, offer some thoughts about the future of CBO.

To start I think the reason we're here is because there are lots of people, the press, the public, even some members of Congress, who now view CBO as the authoritative source of information on the economy and the budget. And I think it's pretty clear, or it should be pretty clear that this was not foreordained. That is it was not necessarily the case that this would be true, and it's a great tribute to Alice and to Bob Reischauer and to others who set up CBO that it is now true; and further that from what I can tell people now seem to care a lot about who the CBO director might be which definitely was not a foregone conclusion.

So in the next few minutes I'm going to remind you how CBO developed such clout and also spend some time raising some challenges that I think CBO faces or I think the Congress faces in thinking about how to use CBO information. I want to point to three factors that I think are crucial to the establishment of CBO's credibility. The first one is that there were some key events. That is there were some points when CBO was asked to comment on particular proposals that were made, and in almost all cases, and definitely in all the cases I'm going to cite, these were CBO responses to presidential proposals. The first was the Carter Energy Policy in 1977, the second was CBO's response to the Rosy Scenarios by the Reagan administration in 1981, and then there were the two health plans, the Clinton Health Reform in 1994 when CBO is blamed or credited for helping to kill the plan, and in 2009 the Obama Healthcare Reform where certainly people argue that the final structure of the bill was the way it was in part

because of an interest in CBO scoring.

Second, there is the matter of CBO leadership. Some people who have led CBO, including Alice Rivlin and Bob Reischauer and Doug Elmendorf, who are in the audience. It is simply not possible to give too much credit to Alice Rivlin. She fought hard to create a non partisan culture. Laws, as those of you who spend any time studying laws may know, are usually not too clear on the specifics, but she had a very clear idea of what she wanted the organization to be, and I think the Agency was tremendously fortunate to have her as its first Director, but also has been very fortunate to have a series of Directors from Alice, to Bob, to Rudy Penner, up to Doug Elmendorf, who continually reinforce that vision. It also has had a staff who bought into that vision, was content to work behind the scenes, and just do a good job and stay out of the limelight. And I think the reputation of the Agency is as much a tribute to its staff as it is to its leadership.

Third, the Congress and especially the Budget Committees figured early on, and for the most part have never forgotten that a strong and credible and objective CBO is not just good for CBO, it's good for them; it's good for the Budget Committees, it's good for the Congress. They have been extraordinarily responsible in protecting CBO from politicizing the Agency, and I would say there are particular points when this came up. One of them was in the early Reagan administration when the Reagan administration thought it would be a nice idea to get rid of Alice Rivlin because she was saying things that were a little inconvenient. And Pete Domenici in particular stepped in and said no, she's doing a good job, that's not the way we treat CBO and so it didn't happen. And there have been a number of occasions, most of which were behind the scenes when that occurred.

A final point that I think it's worth raising about CBO's influence is that CBO has become more than just a Congressional staff agency. It has been influential in a way that's far beyond that. It has continually sounded the alarm about the problems

that are inherent with large federal debt, and it has played a much more substantial role in public education that I think was ever anticipated partly because CBO Directors have cultivated mostly behind the scenes relationships with journalists, but also because CBO's products have been widely accessible, even more accessible now because of the Web and its products have almost routinely been very readable and credible pieces of information. So it gets high marks for the readability of its products, and again that was something if you go all the way back to 1975 was something that Alice emphasized early on.

Now I want to move on to some challenges for CBO. Any organization with this kind of influence is going to make a lot of people mad. You talk to anybody who has been a CBO Director and they will say there is no shortage of angry phone calls that they get. And a key indicator is whether those phone calls tend to come from only one side of the aisle or equal opportunity angry phone calls. But CBO's main job either with respect to the economy or the cost of legislation or the overall budget, is to estimate what might happen in the future. This is a dicey enterprise and it's bound to encourage both positive and negative reactions. So I want to address three common criticisms of CBO.

The first is that CBO numbers are wrong. The second is that CBO estimates encourage too much attention to cost. And the third is that CBO is biased in favor of particular policies. So the first one is easy, at least on the surface. CBO numbers are wrong. That is it doesn't matter whether we're talking about the economy, whether we're talking about the budget, whether we're talking about costs estimates. And in terms of the baseline, the errors I think have increased since the estimates began to cover 10 years instead of 5, and that's for natural reasons. It's hard to predict the future further out than shorter. And I think one of the issues here is that the point estimates that CBO creates get imbued with a false sense of precision. The poster child for this was of course in 2001 when CBO estimated cumulative surpluses over the next 10 years of \$5.6 trillion, and that helped to pave the way for the Bush tax cuts. It is an

understatement to say that those surpluses were never real and they never actually materialized, but it should be clear that CBO never said we believe these are the one and only set of numbers. Instead they said in effect this is the midpoint of a range. But the Congress and the budget process doesn't deal very well in ranges, it deals better in point estimates. This is true for costs estimates as well. There is almost no chance that a given cost estimates is correct. In fact CBO knows that its estimates are wrong, but -- and I don't know if they quite say it this way, but I think you'll get my point, it tries to be wrong in as consistent a manner as possible. And what I mean by that is that it's often evaluating policies where there are a number of different policies, all of which are designed to reform healthcare for example. And that the important thing is that the ordering is correct. Of course it's important that they be as accurate as possible, but it's also important that people understand what the assumptions are, and that the assumptions are consistent. This was a big issue in the healthcare reform debate in both '94 and 2009, but it's something CBO deals with constantly.

So why if the point estimates are wrong, why present point estimates as opposed to ranges. The Hutchins Center had an event in December where Professor Maskey of Northwestern argued that CBO might present instead of a point estimate ranges, and in fact maybe a high estimate and a low estimate. And Doug Elmendorf was at the same conference and he said what I think what his predecessors would have said, or I assume all of his predecessors would have said, which is the Congressional budget process doesn't deal in ranges, it deals in point estimates. And that further if you present a high number and a low number, some people are going to pick the high number and other people are going to pick the low number, and now you just have even more confusion than you did before.

The other question of course is whether CBO errors tend to cluster in one direction. And I think there's a particular concern here that perhaps CBO is systematically underestimating costs. CBO actually rarely evaluates the accuracy of its

cost estimates. There are a couple of reasons for that. The first reason is that most of the bills that CBO does cost estimates for never become law. The second is because they are usually doing estimates of a change to an existing program or policy where even if it does become law it's difficult to disentangle the effect of the change from everything else that's going on with the policy. Now there is an exception to this and it's a pretty significant exception, which is Medicare Part D. Medicare Part D did become law and it did make a change that hadn't existed before. In this case CBO's original estimate was that it would cost \$550 billion over 10 years, and CBO found later that that estimate had been about \$200 billion too high. So rather than underestimating it had actually overestimated the cost.

The second criticism that I want to talk about is that CBO analyses elevate costs above all other factors. CBO does not generally attempt to estimate the effect on other actors or on the overall economy or on benefits. It's not that it never does this; the Unfunded Mandates Reform Act for example is a case where CBO has estimated the effects on state and local governments, tribal governments, the private sector. And also for particular pieces of legislation like the Affordable Care Act with respect to the number of people who have health insurance or the Recovery Act with respect to the employment effects, CBO has attempted to say something about benefits. But these don't score, and that means it's easy to cast them aside as perhaps being less important. The dynamic scoring debate really relates to this issue. And I discussed this some in the paper, but the Hutchins Center just had an event on dynamic scoring and CBO is not really the main Agency at issue here anyway since it doesn't do the tax estimates. So I'm not going to discuss macroeconomic estimating. I'm sure you're welcome to raise questions about it later. Instead I want to focus on the relative absence of information on benefits. Let's be clear that the critics are clearly correct about this as well, the cost estimate doesn't talk about benefits. The cost estimate talks about costs. So the Congress in an effort to reduce the cost may enact shortsighted policies or may

enact policies that have an overly narrow conception of what it is that we're trying to focus on. The Affordable Care Act, to cite the key example, would not look the way it does if there had been less focus on the federal cost. In fact, health estimates present a particularly fitting example of this dilemma I think. A health benefit to an individual or even a lot of people maybe a really good thing. It also might cost money. And this is true even if it reduces the per capita costs. When people live longer they may spend more time receiving government funded healthcare. This is good for them, it is bad for the budget. This doesn't mean we shouldn't do it, it just means that the cost estimate can present a radically incomplete picture of the effect of a given policy.

Now to the third argument. The third argument says CBO estimates are not only wrong they're biased. The main case made here is a circumstantial one that CBO estimates, cost estimates in particular, often appear to be consistent with some pre-established targets. That is political targets, or targets in the budget resolution, or a reconciliation bill. And there is an "aha moment" here because the CBO estimate hit the number it must mean they were in cahoots with someone, they were trying to make something happen. Exhibit A again for critics is the analysis of the Affordable Care Act where some opponents of CBO criticized CBO for a cost estimate which appeared to allow the administration to say that (a) it was not adding to the deficit, and (b) fit within the limit of spending that they had established. This would all be a lot more persuasive in my view if not for two things. The first is that there are lots of bills where people have criticized CBO for the opposite reason; that is because they think the cost estimate is too high. This occurred with the Clinton health plan in 1994. It also occurred more recently with the Veterans Health legislation last summer. Second, for major legislation the final CBO cost estimate is almost always the result of back and forth between CBO and the Committees. So CBO does an estimate, the Committees respond, they change the bill. So ultimately there's lots of informal contact, why would it then be a surprise when the cost estimate hit a particular number or came close to a particular number. Now there

are legitimate differences of opinion about whether those changes represent good policy, but it doesn't mean that they're biased.

Now to be clear I do think CBO has a bias, but it's not a bias in favor of more spending and it's not a bias designed to keep people happy. In fact if CBO's goal is to keep people happy I want to say they're doing a really lousy job of it. Instead I would argue that as a budget office CBO has a clear characteristic, and this shared by OMB and other budget offices, budget offices almost always require a higher level of proof than people who are proposing policies would like to be the case. So if CBO is biased because CBO staff think that lots of people are looking for a free lunch there may be a reason for that. That's because lots of people are looking for a free lunch.

I want to close by offering a couple of what I hope are constructive suggestions, one for CBO and one for the Congress. My suggestion for CBO is that I think they could do a better job of communicating the uncertainties surrounding their estimates. This would not go as far as to present at least formally the official estimate as a range. I think there's no way of getting around the fact that the budget process has to deal in point estimates, but some more explicit information on the level of uncertainty might be useful. The type of information presented by the Office of Budget Responsibility in Britain where they talk about the level of confidence surrounding a particular number I think might be helpful. It might discourage the Congress from treating estimates with a false sense of precision. We should say it also might not.

My advice for the Congress is to more explicitly recognize both the limitations and the benefits of the information that CBO provides. There are clearly certain policies, I would say perhaps lots of them, where the budgetary cost does not come close to being the most important factor to consider. The more those other factors enter the Congressional debate the greater the chance of avoiding narrow shortsighted policies. CBO's role at present is mostly to provide information on costs. If costs end up trumping other consideration it may be because the Congress has chosen to downplay

those other factors. So I think the Congress should consider perhaps not taking CBO analyses too seriously, but recognizing that they are an input. They are an important input, but they can only be used to effect if you recognize what they do and what they don't do.

Finally I will close by saying that I think as CBO reaches middle age it's particularly important that the Congress not contribute to a midlife crisis for CBO. The U.S. political environment is at present highly partisan. There is a big gap -- and I think the gap is getting larger -- between objective analysis and what I would call ammunition to be used in political debate. And in an environment that's that partisan I think there will continue to be a temptation to either politicize CBO or to selectively use its information.

While I've shown that substantial disagreements with CBO have come from both sides of the political spectrum, I think it's very important for the Congress to recognize that a credible, non partisan CBO is vital to the ability of the Congress to both set its own fiscal policy and to challenge the President, which by the way if you go back to the history was the point. And when I say the President, I mean any President on policy. If CBO becomes viewed as just one more source of partisan noise then I think it will cease to be of much use either to the Congress or to the country.

Thanks very much. (Applause)

MR. WESSEL: Can I ask the panelists to come up and someone will help you with your mics.

So there's a tradition in Washington that when you want to think about CBO you usually invite all the living CBO Directors to sit on a panel and discuss, to reminisce, and to tell war stories. Bill Hoagland did one of these at the Bipartisan Policy Center on the anniversary of the Budget Act, and CBO itself is doing one tomorrow and I'm enough of a budget nerd to say that I actually really enjoy those session. But I thought it would be useful to do something different and to think about people who are consumers of CBO information. And so we've assembled a panel here of people who

have very different perspectives. And let me introduce them briefly and then we'll turn to the conversation. And I want to invite you to join us. We have Alice Rivlin, Bob Reischauer, Doug Elmendorf, Bill Hoagland, people who have been around even longer than the CBO, who may be able to contribute to this conversation.

At the far end there is Bill Gradison. Bill Gradison was in Congress for 18 years from 1975 to 1993, and served as a republican ranking member of the House Budget Committee and was also on the Committee of Weights and Means. He actually can tell us what life was like in Washington before CBO right, Bill, since he started at the Treasury in 1953. Even after he left Congress he continued a distinguished career in public service at the Health Insurance Association of America at Patton Boggs, and at the Public Company Accounting Oversight Board which was created by Sarbanes-Oxley.

Next to him is Susan Tanaka. Susan is now the Vice President of research at the Peter G. Peterson Foundation which is an organization that worries a lot about the long-term debt and deficits, is very much a consumer of CBO information. But among the many things that Susan has done in the past is work both at OMB and at CBO.

Then we have Alec Phillips who has never worked at CBO, but he did once work for the Senate Finance Committee. And for the last 15 years or so he's been at Goldman Sachs where he keeps track of what's going on on fiscal policy for their clients. And I read his emails assiduously. He understands a lot more about what's going on on Capitol Hill than most of the people at Goldman Sachs. (Laughter) And that's because he is one of the few people at Goldman Sachs who actually lives in Washington.

And finally, last but not least, Bruce Morrison. Bruce was a Congressman from my hometown, New Haven, Connecticut, from 1983 to 1991. He later was the Chairman of the Federal Housing Finance Board which oversees the Federal Home Loan Banks and now has his own firm, Morrison Public Affairs Group.

And the only reason that I'm not sitting with them is that we can't fit five chairs on this stage, so it's not any kind of dominance thing going on here. (Laughter) And unlike the Oscars I'm not coming out in my underwear and I'm not going to sing. (Laughter) So I wonder if I could ask each of you -- Bill, maybe I can start with you -- so as a consumer of CBO information both as a member and after you left Congress, what was it that you found useful about it, or was it useful at all?

MR. GRADISON: Well, there's no question it was not only useful but it was essential. For one thing since it was the official score of wherever I was working, we pretty much figured those were the numbers that we had to take into account. Whether we thought they were right or wrong they were the numbers that would be the basis for scoring purposes. Beyond that they help in the development of policy. I have done these various things since leaving the Congress that you mentioned. Currently I'm serving on the Medicare Payment Advisory Commission. I've been there for four years and we're using CBO numbers all the time because as we consider alternatives to the current reimbursement process updates if you will in the various silos that make up Medicare we know those are the numbers, so if we have to suggest something that may increase costs we want to try to be constructive in suggesting ways to pay for our proposals.

MR. WESSEL: And do you find CBO ever frustrating?

MR. GRADISON: No, I really don't, but I think the --

MR. WESSEL: Are you still a Republican? (Laughter)

MR. GRADISON: But I think the best way to explain this is that I came into the House in 1975 just as this -- 40 years ago last month -- and the budget process was just underway. Republicans were to say at a low ebb is an understatement. There were approximately 100 less republicans in the House than there are today just to attach a number to the dramatic change, and I did sense a lack of enthusiasm about the Budget Act mainly from the appropriators who I think are probably still not very keen on it, which is understandable because I was on Weighs and Means. And when the budget required

some action in terms of deficit rejection called spending or revenue increases we had a choice between cutting program spending let's say in Medicare which we often did, or in increasing revenues. But the Appropriations Committee had no such option. In any event I was there for a while before -- I spent 10 years -- I was going to say served 10 years on the Budget Committee which is a little like saying served time, but that's another matter of words -- servitude. I mean it's a lot of things you're playing with words. In fact I jotted down four of them which I think are kind of fun, things that we certainly didn't have at that time. Reconciliation, which is a work I think means people of different views coming together to make a (inaudible). (Laughter) Sequester. One of the meanings of a sequester is for the government to insist that money be set aside until a resolution of a legal dispute. Directed scoring. That's a nice hammer type approach to the issue. And then deeming resolutions, which is how you pretend you've done something that you haven't done. (Laughter) But what really happened was that the republicans were being pretty much out of the process which is understandable since a Budget Committee like the Rules Committee in the House are leadership committees. That's just how it is. And there was an incident -- I wish I could tell you what the specifics are. Many of you may remember, I do not, but where the CBO made some pronouncement that sent Speaker Wright right up the wall. He was absolutely publicly furious about it. About that time I was just coming on the Budget Committee, Del Latta of Ohio was ranking, and I remember a private conversation with Del, he said hey, you know, Bill, maybe this place is on the level. (Laughter) And I think over time we need more and more people on both sides of the aisle to see that their party is not being singled out by things that they don't like.

MR. WESSEL: Bruce, in your time on the democratic side of the Hill, did you ever find CBO frustrating, or are you one of the people who thinks that basically everything they do is wonderful?

MR. MORRISON: Well, being in the Congress is frustrating, but it was

somewhat less frustrating when I was there than it is now because at least there was conversation across the aisle and some sense that solving a problem was more important than winning the next election. So I think CBO was -- first of all I came in '83 and it was already part of the furniture in a way that it hadn't been before. I have a science background in addition to my legal background and that made me like the idea of analysis and information. Not all my colleagues had as high enthusiasm for it. I was elected with a group of democrats that were different. We were elected in 1982. This was in reaction to the Reagan budget. There were 26 seats changed hands, and there were 57 new democrats that year. And we came in worrying about fiscal balance and deficits because the Reagan deficits were a real thing and the Reagan decisions to cut taxes without a corresponding cut in the expenditures was real political as well as I think substantive information to debate. And I remember telling Tip O'Neill when I was brand new and wet behind the ears that deficits mattered. And he wondered whether I was a democrat. Two years later in 1984 I was in a meeting where he said deficits are the issue. So everything changes.

I think that in that era it isn't that anybody thought CBO was perfect, but it was a tool and people had a lot of debates about the budget and there was a lot of budget activity during the 1980s, and it didn't all come out right necessarily, but there was a seriousness to it, the freezes and all of that. I was a participant in lots of floor resolutions on freezing spending. So I think that was an environment in which CBO was respected, and I worry about an environment in which somebody wants it to be on their side because that's really the danger.

MR. WESSEL: All right. So we've come from a period of time when Bill Gradison came to Congress where the republicans were a distinct minority, to a period of time where they have taken over the House and both in the Newt Grinch era and on the John Boehner era. My perception is that compared to a lot of other things in Washington, CBO has managed to avoid being too caught up in that partisan thing; that there always

seem to be people of both parties defending it. And I'm curious why you think that is. Well, first of all do you agree with my hypothesis, and secondly, if so why? What has kept CBO from becoming a ping pong ball on the partisan?

MR. MORRISON: Well, I wouldn't speak to quickly I guess is what I would say. I think there is a real danger. I mean dynamic scoring is more about taxes than it is about spending, but it's all about whether you can impose a kind of one sided economic model on something that is supposed to try to be a consensus tool. And so I think there's danger. And I think everything has that danger in the way we're running public policy in Washington right now. I mean I think everything including think tanks have that problem of being perceived as peddling one side's point of view rather than peddling information that people can debate. So I think there's danger. I think CBO has been run in a very professional manner by very skilled people who have tried very hard to cleave to an image of their own work that has objectivity at the core. I mean objectivity is hard to achieve, but I think that that has gone on, but the longer that the town operates in a way that sort of is so -- in which the partisan divide is so much -- you know, there are just two ways of looking at the world and the world is all one way or all the other way, and that's the way I perceive the way we talk these days. All institutions are at risk and I think CBO is at risk too.

MR. WESSEL: All right. I think Phil Joyce makes a good point in his paper with which I'm sure you'll agree that one of the reasons that CBO has maintained its integrity is that the Budget Committees have seen it in their interests, and success of Budget Committee Chairmen of both parties have prevented it from becoming a thing.

Susan, so you sit at Peterson and like all of us who study fiscal policy you look at the numbers coming in from CBO. How do you evaluate what they do well and what they don't do so well?

MS. TANAKA: Well, as an organization whose entire mission is devoted to long-term fiscal policy, we're very dependent on CBO. We turn to CBO for our

numbers and for our analysis. And I think that we're generally pleased that CBO tends to agree with us in terms of the dangers of long-term fiscal gaps. So that helps. But I also think that CBO has done several things well. One, as Phil, said there are authoritative. So CBO has managed to build up credibility and it has now become the place where -- because it doesn't have a partisan dog in the fight in terms of specific policies, it's hard to dismiss when CBO says something. It's not generally taken as a wacky sideshow. So when CBO comes out with an estimate, a number, a report it's hard to dismiss it as wacky. From our point of view at the Foundation where we're focused on fiscal policies, that's really important. Secondly --

MR. WESSEL: Can I just interrupt? So more so than OMB, and if so, why?

MS. TANAKA: More so than OMB. And having spent a good number of years at OMB, OMB has a mission, OMB is an advocate for the President' budget. And one of my former political bosses said OMB examiners would kill for the President, any President. (Laughter) There is no question that part of OMB's job is to advocate for the President's policies, whoever that president happens to be. CBO has an entirely different role, which is to be a neutral analyst of very difficult questions. How does policy affect the budget and the economy? Hard to say, but they are not swayed by being an advocate for one party or another. So I think that's the primary difference between OMB and CBO. So they've established that authoritative, neutral credibility.

They also I think have over the years developed the vernacular, the budget vernacular. So they've set the terms of the debate, they have words. When they issue a report we know what they mean. People may disagree with what CBO's findings are, but nobody is questioning what the words mean. So they serve as a very valuable reference point for the debate. We're all talking about apples and apples instead of pineapples and grapes, and I think that's really important and that's very helpful to the debate, so people can then focus more on the policy differences rather than what is this

animal, is it a cow or a pig.

Finally, I think that CBO improves the quality of the debate. When we were at OMB we always knew that our budget estimates were going to go over to CBO and CBO was going to scrub them. And as a result that made us be more rigorous in our analysis and more careful in our assumptions. So because CBO was there they served as a very valuable -- they kept us from being sloppy. You can't be sloppy around CBO. You know, some would argue that CBO has taken up too much of a role in that way; they've become the opener of what's good and bad policy, but I don't think that's what they're trying to do. I think what they're trying to do is define what's a reasonable estimate, a defensible estimate, and then people can differ over the policies, people will disagree about whether or not they've made the right assumptions. But I think everybody knows that at least it's been through a good quality scrub and that in itself is very important.

MR. WESSEL: Alec, I think most people in Washington don't ever think of Wall Street depending on CBO for anything. So could you talk a little bit about how you use CBO and how think Wall Street in general looks at the numbers that are coming out of CBO?

MR. PHILLIPS: Sure. So we probably use CBO's numbers in two main ways, and maybe one difference is we're less focused -- while we care about the long-term budget outlook that's not our primary focus. Our primary focus is more for instance on figuring out what quarterly issuance patterns are going to be for treasuries, figuring out what the year on year change in the deficit is going to be both again for issuance purposes as well as for that matter for figuring out what the fiscal impulse is going to be on growth and that sort of thing.

And I mean I would echo generally what's been said about not just the neutrality, but sort of the definitive nature of CBO's estimates in terms of their authoritativeness. You know, in some ways the frustration at this point is we in theory do

our own budget deficit forecast, but there is almost little reason to do it now because CBO ends up getting it right and we end up getting it wrong, and then we have to kind of mark the CBO's forecast again. Now occasionally they'll have one thing that may be a grey area. What's good about CBO is they'll acknowledge that it's a grey area. So for instance, will corporate tax receipts rebound in a given year? You know, maybe we have a slightly different view. Sometimes that view works out to be right, often it works out to be wrong. So those sorts of things, the things that we look at. I would say that in general what you could probably see is that on the street people have tended to do maybe a little bit less of their own fiscal analysis at this point and are relying more and more on CBO simply because there's not -- I mean as somebody said to me at one point, there's no reason really to do it yourself anymore. And I think that's a good sign.

MR. WESSEL: Plus it's free.

MR. PHILLIPS: It's free. They've got a couple of hundred people working at it and that's a lot more than say the five people on our economics team. And so there's not really a good reason to go out on a limb and try to do it yourself. Now that can be dangerous sometimes because if everybody has an accepted point of view, you still want to sort of crosscheck that point of view. But it's now more a question of where could CBO possibly be wrong rather than actually trying to come up with all of the answers on our own.

MR. WESSEL: So now we're at this point where the republican leadership is contemplating who to pick to replace Doug Elmendorf whose term is up. How important is that to Wall Street, the credibility of that person?

MR. PHILLIPS: I think it is important. I think what's mainly important is that the person is going to take a fairly objective point of view and ultimately get to a point where the answer that they're producing is the right answer. And so to sort of -- you know, I don't have a particular view on sort of the dynamic scoring question which is more of a joint tax question anyway, but in general I'd say the most important thing is that the

next person is seen as number one, objective first and foremost, and then number two, has the expertise to actually guide what is obviously an agency with a lot of expertise to get to the actual right objective answers. And in many cases there are objective answers, at least in terms of what is issuance going to be over the next year, what is the deficit going to be over the next year.

MR. WESSEL: Bill Gradison, one of the things that one hears most often from critics of CBO when it comes to healthcare goes something like this, as Phil Joyce mentioned budget offices in general require a certain amount of proof, evidence, before they're willing to say that something saves money. And that's for good reason, he suggested, because most of everybody else wants to exaggerate how much something saves or minimize the cost and pretend there's a free lunch. But when you look at the American healthcare system and we try and figure out what might we do to change it in order to have better quality with slower rising costs, we're going to have to experiment with some things that we don't know work. And the argument is sometimes made that CBO has created really bad incentives for good policy because they will only score things that definitely save money and that prevents us from trying things that could really -- though we don't know for sure -- pay off in the future. Do you share any of that concern or not?

MR. GRADISON: I've tried to understand a lot of parts of government in my work over the years, and I've never run into anything as complex as healthcare because there are so many interconnections that what you do in one area -- which was mentioned earlier, people get better care, live longer, it costs more. That seems to come as a surprise to a lot of people who say if you improve the quality of healthcare you're going lower costs. Well, maybe you will for a few years, but what about when they're 95 or 100 years old. There is an assumption based upon the experience of some parts of our healthcare system that improved quality and lower cost go hand in hand. I do not doubt that that already happens in some instances and can be demonstrated. I am not

about to accept though that that as a general proposition can be applied to the entire healthcare system for a whole lot of reasons, because there may be special circumstances that might prove that possible in some instances and not others. A better answer to your question is that the Affordable Care Act provided a very substantial amount of money which is now being used for a number of experiments and we'll see how they work out. The initial results with regard to accountable care organizations is certainly not a huge success. I'm not saying they may not work out in time, I'm not saying some of them, some of the pioneers aren't doing okay, but the experience as I read it so far is that it may be very difficult within the framework of a basically fee for service system which is what the accountable care organizations are built upon, to really achieve the results which it seeks to achieve. People are attributed to these organizations who can seek care outside of those which makes it a little hard to control costs or have a real ongoing review of the entire healthcare situation.

MR. WESSEL: So you're basically suggesting that CBO's skepticism about the promises that some people make about health reform is justified?

MR. GRADISON: I'm only saying it's going to take time to find out. With regard to the ACOs the great pressure is to give them longer. But that begs a more difficult question, are these folks that are participating -- and I know there are exceptions, but are many of the organizations that are new to this kind of thing capable of taking risk, of understanding risk, of budgeting for risk.

MR. WESSEL: Right. Well, we have colleagues here at Brookings who are trying to answer that question and I think the answer is so far maybe.

But, Bruce, I think another way to look at this is -- and Phil Joyce referred to this -- sometimes the problem seems to be not with CBO's answer, but that Congress lets that dictate its policy. Do you think that we've become too driven by the CBO score and that that's stopped us from doing things that might be in the public interest?

MR. MORRISON: Let me take a step back from that a minute. I mean a

lot of these what might be called criticisms of the limitations of the CBO score are the limitations of the CBO score. People would like to solve more problems, but CBO has a hard enough job already in terms of just cost assessment and it seems to me that looking to it to make it easier to make hard decisions rather than give inputs to hard decisions is where the mistake it. So I would agree with your basic premise there that at the end of the day Congress doesn't have to be slavishly tied to well it costs this so we can't -- I mean it's more about how we've apparently lost the ability to say if you're going to fight a war it costs money. You have to raise taxes to pay for it. God forbid that anybody should do that. There was a time that that was sort of an obvious answer. It's no longer an answer. So many of these things are political problems that no objective enterprise is going to solve.

I also think that there's an interesting thing about the politics that I found when I was in office and I was trying to argue about the President's budget and deficits. And I couldn't get the media to cover that issue using CBO numbers as anything objective. The media wants there to be a debate, a horserace, whatever. They want the politician on one side to say the deficit and all of these -- you know, this is the fiscal picture, and the other side to say no, no, no, it's not because of A, B, C. And nobody wants to actually report something as objective fact, and people are welcomed to have their solution to that objective fact. I don't know that that's CBO's problem, but I do think it's the media's problem that there is very little energy for reporting facts and a lot of energy for reporting debate. So that's another problem CBO can't solve, but it is a problem with running a democracy that addresses its problems.

MR. WESSEL: As a recovering journalist I measure events by how long into the event is it before someone says the problem is the press. (Laughter)

MR. MORRISON: Bashes the media.

MR. WESSEL: And I just want to establish that in this event Congress got blamed first (laughter), which is as it should be. Susan, so when we think about the

financial crisis, one of the -- and we think about all the people to blame, one that we often blame, the credit rating agencies and the accountants and the "risk management committees" of these banks that seem to be more about risk and less about management. And so we say that one of the reasons things went so badly was that the guardians, the gate keepers, the people that are supposed to hold authorities accountable, let us down. So is it possible to say that we should judge CBO not only by the quality of its information, but by how effective it is at forcing members of Congress to accept the laws of arithmetic. So are there things at CBO could do differently that you think would lead to better fiscal policy? Or do you think they're at the frontier of what they can do?

MS. TANAKA: Well, I think that in terms of long-term fiscal sustainability there is something more they could do. And it's always been frustrating to me that we have a 10 year baseline that comes out in the winter/spring and then a long-term outlook that comes out sometime in the summer which disconnects the short-term from the long-term. And I think it would be useful, and this is more important now that the youngest baby boomers are 51 and they're soon going to be 55, and when they get to 55 we all know they're going to probably be exempt for many further entitlement cuts. We are up against that big demographic shift. So the long-term is now very much short-term. So I think that one thing CBO could do in terms of the long-term problem is connect those two time periods because the short-term, 10 years looks relatively benign now. But we know we still have a long-term problem with deficits and debt. So that's one thing I think CBO could do.

I don't have any problem with CBO being more conservative in terms of its estimates. And if there is bias I would hope that there would be more bias towards more information than being more conservative in what they think legislation will do or not due. Because after all, again as Phil said, the job is to figure out what the impact of these policies will be on the budget. And while it may be that overall healthcare costs go down,

or things are better out there in the private sector, we know what's going to happen on the budget and it's CBO's job to account for those policies on the budget because it's different. Policies that are funded on the budget come from taxes or future taxes. And that's what CBO is accountable for. They cannot go out and account for what happens in the private sector. So I would hope that they would be more concerned --

MR. WESSEL: But that might lead us to do things that are very nice for some budget accounting spreadsheet, but not good for the country. That can't be the right.

MS. TANAKA: No, it's not. And I do think if things like healthcare where we know that it's the balloon, you push in one place it pops out somewhere else. That in something like healthcare and it's important for CBO to provide as much information as it can about what the impact will be on the private economy. Same thing with pensions and these big issues where we really know that there's a really close linkage between what the public sector does and what the private sector does. We should not allow the policy makers to think they're getting away with something free, but we also should account for what they're doing in ways that are visible to everyone else, and have people understand that that's not all there is. But after all, close to 50 percent of the population is going to be covered by federal programs in some or another within a few years. So it's really important to understand how much is on the federal budget and also to understand what that's doing to the private sector

MR. WESSEL: Alec?

MR. PHILLIPS: So I have I guess a slightly different view on the long-term versus short-term question which probably also just reflects sort of my focus which is if I were to choose sort of how CBO publishes their updates over the course of the year and what they focus on, I would almost think of even the 10 year outlook as a long-term very uncertain outlook and really just I mean for my purposes think about the next 1, 2, 3 years as what you have kind of a firm grasp on. And 10 years is a long way away. I

mean if you look at the revisions to -- just as an example because it's in my head -- the healthcare projections that we've seen over the last several years from CBO -- somebody can correct me but I think the dollar amount has changed by over a trillion dollars in terms of the budgetary effects of reduced health cost growth assumptions. And so to me it almost would make more sense to push some of that maybe in budgetary terms medium-term analysis out into the long-term and maybe even do more frequent updates of what I think of as the near-term which is something where we can on a monthly basis look at the monthly Treasury statement, or even the daily statements, and CBO publishes a monthly update, and sort of say okay, it looks like it's leaning a little bit more this way than this way. I'd rather actually get that sort of thing more frequently and think about the medium and long-term, you know, maybe in a more in depth way, but even maybe less frequently.

MR. WESSEL: Do you think you know enough about the black box, about how they come up with their numbers, or do you -- or not? Are they transparent enough?

MR. PHILLIPS: So I feel for my own position because we try to do something similar and we do just a very simplistic naive version of what they do, but I can sort of imagine the process that they go through, but in terms of actually understanding it and knowing it no, I don't know how they do it. I mean I can imagine how one would have to do it, but I certainly couldn't prove it.

MR. WESSEL: Before I turn to the audience, is there anything -- if while we were talking here the leadership of Congress anointed someone to be the next Director of CBO, what would you tell him or her ought to be at the top of the list of things to do?

MR. GRADISON: I think I'll pick up on the last point. I think transparency is extremely important. I think that it's important to make your assumptions as clear as possible. I think we should recognize that one of the biggest changes over the last 40 years has been the focus by organizations like Peterson, like Goldman Sachs,

like people in academia, not just hired guns that are working for some industry, but people who are really concerned about these issues. And they should be able to understand how these numbers were arrived at, and therefore able in a discussion to agree or disagree with some of the fundamental assumptions. I think that's in terms of the inside part one point I think is very important.

Another one is to encourage staff to feel free to come up with analyses which would be made public, somewhat like CRS' are made public, even if they don't necessarily represent the views of the overall organization. I know that's a big ask, but I think over time it could help to build credibility.

And a final point -- and I'm going to ask you to bear with me just for about a minute because this I did write down, I would like to see a plaque on the wall at CBO and its critics which recognizes that we are just emerging from a very sharp, extended economic downturn, and unless I missed something, and the plaque would indicate, it was not anticipated by the fed, the White House, the Treasury, the Council of Economic Advisors, the Congress, the Joint Economic Committee, the Banking Committee of the Senate, the Financial Services Committee of the House, either Budget Committee, or by CBO. I mean there's got to somehow other be an acceptance of that -- future is kind of hard to predict. And that we've seen a major, major --

MR. WESSEL: Yeah, (inaudible) said something about that.

MR. GRADISON: -- gap which is a whole lot more important than whether they are off even \$200 billion in a 10 year projection for Part D of Medicare. I've often thought as a former member of Congress that there was -- and this is speaking myself, not just others -- there's plenty of room for humility because we had a lot to be humble about.

MR. WESSEL: It doesn't seem to be the slogan of the House at the moment. (Laughter) Bruce, what would you tell the next Director of CBO?

MR. MORRISON: I think the focus is on maintaining the credibility of the

institution. And I think Bill has identified a number of the aspects of that, but you can't be too aware of how easy it is to destroy something that's taken a long time to build. And so I think that a very high degree of respect for that task, and I think that means very much today cutting against the grain of partisanship, meaning that you're not going to serve as effectively as they might like the people who are going to select you. And you're going to be encouraging the other side of the aisle to trust you, and that means to talk to you and to have a relationship that's not going to be as easy. It's never been easy, but it's probably harder now than it's been before. So that's where I'd put the emphasis.

MR. WESSEL: Susan, is there anything you want to add to what you said already?

MS. TANAKA: Similar thing. I guess what I would say is trust the staff and do no harm to the staff because it's a very highly qualified, very dedicated staff. And that's how I would say a Director would matter. If a Director came in and destroyed the staff and destroyed the organization, then we would have a lot to lose.

MR. WESSEL: That's easier advice than Bruce's which says that the first thing you ought to do is piss off the people who appointed you just to establish your credibility.

Alec, is there anything you want to add about what you think the new Director should know?

MR. PHILLIPS: No. I mean I think you asked before about sort of the transparency question and there's also this question of neutrality, and it seems to me that that's kind of the key tension to balance because the more transparent some of the assumptions for instance get the more then people can pick those things apart. You have to have some transparency but you also don't necessarily want to litigate every single little thing. So I think it's just working on that balance.

MR. WESSEL: Okay. Someone has a mic, right? Brendan has a mic. There's a gentleman here in the front, and why don't you tell us who you are and if you

want to direct your question to anybody in particular please do so.

MR. WEAVER: For the panel, starting on the left.

MR. WESSEL: You are?

MR. WEAVER: Bob Weaver, Kelly & Weaver. It's a law firm that represents local governments on environmental infrastructure. And the question is should CBO report on revenue options for the budget including use of dedicated revenue for infrastructure and national park investments?

MR. WESSEL: So run this by me again. Should they report?

MR. WEAVER: Yeah, should CBO report on revenue options.

MR. WESSEL: You mean like charging user fees and public-private partnerships? That kind of thing?

MR. WEAVER: Well, not P3s. That's not revenue. User fees are -- national user fees shared with the states is definitely revenue, including use of dedicated revenue for infrastructure, and national park investments.

MR. WESSEL: Okay. So let me -- I think I see where he's coming from. So I think another way to reframe that is so we have this sense in Washington that somehow we're not spending enough on public infrastructure, but it's hard to raise taxes so we have to find some other way to say we're financing infrastructure. Is there some role that CBO has to play here that they haven't played to date, do any of you think?

SPEAKER: I don't really know

MR. PHILLIPS: I mean I would say I'm aware already of -- you mentioned reporting on options or that sort of thing. I mean as far as I know in their budget and revenue options books I think they actually have a gas tax increase already in there. So they have to some extent I think already reported on that. Beyond that I mean I guess there probably is a role in terms of additional analysis of the benefit of let's say a user fee and the distributional consequences there versus let's say a corporate tax change which has been obviously discussed as one way to finance infrastructure in the

near-term. I mean I think there is certainly a role to play there, but my impression is that to some extent they are actually kind of playing that role.

SPEAKER: Well, user fees exist for highways, airports, and other kinds of infrastructure. Parks, national parks, land and water conservation funds.

MR. WESSEL: Right. Thank you. There's a question in the back there.

MR. CRISCITELLO: Hi, everyone, I'm Don Criscitello, CBO class of 1990. I have a specific question appreciating CBO's statutory charter. Might there be a larger role for CBO in working to enhance public understanding of fiscal issues facing Americans?

MR. WESSEL: Phil, if you want to join in here?

MR. JOYCE: Well, I mean as I said earlier I think actually CBO is playing a greater role in that respect than was ever anticipated. And the question is where you would want to amend the law in order to say it's CBO's job to inform the country not just the Congress, I think it sort of does that anyway. I think if you made it more explicit it is likely to be dangerous as not, and plus the fact that I'm not sure beyond just making public the studies and the reports that CBO does, if doing that kind of thing might detract from what its sort of main role is. So I mean I don't know that I would go any further than what's already happened. And to be honest, you know, CBO Directors, ex-CBO Directors, some of whom are in this room, have tried in a sense to do that, but do it through the media, you know which is to say we want journalists to understand, people who report on the budget to understand what is behind our numbers and what it is that we do so they are reporting accurately to the public. I don't know how much I would go beyond that.

MS. TANAKA: I think that CBO has come a long way in terms of making its information more accessible to the public. If you go back and look at the very first economic and budget outlook, compare it to today, you'll see that there's been quite an evolution in terms of accessibility for the public. But in an organization that spends its

time trying to educate the public I think that CBO's strength wise in doing the analysis and doing clear projections and estimates, there are many, many organizations in this town and around the country who will take that information and put it out into the public space. We like to think that we do a good job, but I think you'd have a richer debate if you would have perspectives coming from the right, center, and left than you would if you tried to set CBO as writing a textbook on fiscal issues.

MR. WESSEL: I wanted to second something you said that CBO in my time in Washington has come a long way, the internet makes it easier, there's many more graphics, and the way I always thought of it was that the challenge of CBO was to explain this stuff to the average member of Congress. And given the average members of Congress' understanding of these issues, they're probably aiming just about the right place for the American public.

Phil Wallach, you had a question.

MR. WALLACH: Hi, Phil Wallach from Brookings. I was wondering if somebody could talk a little bit about how PAYGO affects CBO. And how many of these criticisms about the narrow or limited perspective of CBO is actually related to sort of the limitations of the PAYGO way of thinking where we precisely line up pay fors and cost estimates, and maybe have a harder time thinking about probabilistic big picture savings.

MR. WESSEL: All right. Just to define the terms. So you mean that if a member of Congress has to find a way to pay for a program that he or she is proposing, then that puts pressure on CBO to kind of help them find something that equals that as opposed to saying let's do something that makes sense. Is that kind of the gist?

MR. WALLACH: Yeah. I mean it relates to the discussion of healthcare that was happening as well. If you're thinking not just about a single line item cost in the budget, but the bigger picture, social costs of something.

MR. WESSEL: Bill?

MR. GRADISON: I can't answer that directly, but regularly I'd have

groups come in from my District to ask my support for some -- I'm not being insincere -- very good cause, research into juvenile diabetes or whatever, and I'd make a point every time -- I'm surprised I ever got re-elected -- I'd make a point every time to say how would you pay for that. More often than not their response was, that's your job, Congressman. (Laughter) So I think that trying to line those things up has its difficulties. That's why we generally call it a general fund. As a matter of public finance theory in general there are a lot of limitations with if you have to line up a specific source of revenue for each major type of expenditures. We're accustomed to it in some areas, or we used to be at least with regard to highway finance. And some states for example the actual funding for education might be related to a particular fund. Maybe the lottery winnings go among other things for that purpose. But I think wisely at the federal level we've not thought about isolating those -- tying those things together in that way. And I think that's one of the purposes of the budget process where you try to lay it all out and draw your conclusions about how much revenue is needed, how much expenditures are needed from a total rather than just looking at the slices.

MR. WESSEL: Bruce?

MR. MORRISON: I mean I think your point is a good one. I mean PAYGO is the culmination of sort of the failure of the budget process as a writ large, and the inability to be governed by an overall number and to have the debate within that number. And so PAYGO becomes a mechanistic tool to enforce discipline which people have a hard time accepting in a broader way. A lot of people very close to the process don't really understand PAYGO because they believe that the revenues or the source of funds is dedicated in some way. Like Fannie and Freddie got a 10 basis point, 10 year increase in their guarantee fees in order to pay for a very short-term payroll tax holiday. That all happened. It has nothing to do with anything that happens after that. That's just the point -- it's not only a point in time estimate, it's a point in time event and it's all in the baseline, and tomorrow you can do whatever you want with those. You may have to find

revenue to balance off or cuts to balance off the change. But it's a very unrealistic -- I mean it's unrealistic in a way that CBO's projections and estimates are not unrealistic. It's a mechanism to get something done and to say that you didn't increase the deficit. It's not a very holistic approach to the problem.

MR. WESSEL: Susan, you look like you're dying over there.

MS. TANAKA: Yeah, let's just be clear that CBO did not invent PAYGO.

SPEAKER: Absolutely.

MS. TANAKA: So CBO has --

SPEAKER: Congress invented PAYGO.

MS. TANAKA: Right. CBO has instructions from Congress that it must fall when it's putting things on or off the PAYGO scorecard. So it's not CBO who created this.

MR. WESSEL: Right. But I think what Phil was saying is this one of the unfortunate side effects of PAYGO is that everything is weighed like -- as Bruce said, like we need an A and we need a -A, and rather than what's good policy.

MS. TANAKA: No, I think it's more an unfortunate consequence of what Phil called the free lunch. That policy makers would like to do things but not have to account for them on the budget.

MR. WESSEL: The gentleman right here, and then Stuart.

MR. GLOCK: Thank you. My name is Peter Glock and I'd like to ask how people on the panel think the current political environment is going to impact the selection of the next Director of CBO? And the context of my question is simply this, the effect of this incredibility of CEO has been in large part the result of the impeccable credentials and the non partisan management of the Agency notwithstanding the personal views of its Directors previously. Even the current Director was appointed before our political environment became so strident and dysfunctional. What's going to happen now?

MR. WESSEL: You want to take that one, Doug? (Laughter) Anybody want to? Phil? Yeah, thank you.

MR. JOYCE: Well, I just wanted to say I was around in 1994 when the republicans took over the Congress and there were a lot of statements that were made to the effect that we need to clean the place out, CBO, and replace the staff with right thinking Americans. And that did not happen. And so I am not going to be real worried about it until there is a reason to be worried because I think that the capacity of an individual Director to completely politicize the organization without just having a whole bunch of people leave en masse, is not as great as one might think. And even in the past when there have been concerns about this the Congress has always behaved I think quite responsibly. That doesn't mean it's inevitable that they always will. But the point that I made in the paper and the point that I made earlier when I was speaking is that I would hope that the Congress would recognize that it is in their interest to have a strong, credible, CBO. If I were the Budget Committee Chairs, I would say a weak CBO, one that loses its credibility, is not in my interests and is also not in the interest of the Congress when it inevitably will end up in conflict with the President, some President someday, over policy and the Congress wants to have its views taken into account. So I guess my answer would be it's important, but I wouldn't view it as inevitable that it will happen until the point at which it does happen, which I'm not convinced it will.

MR. WESSEL: Stuart Buck.

MR. BUCK: Thank you. Stuart Buck at Brookings. Phil Joyce at the end of his remarks made two suggestions, or two recommendations. One was that CBO should do a better job in indicating the uncertainty about its projections. And then in return that Congress should take that into account and essentially see CBO as an input into making decisions rather than sort of the crucial arbiter of what happens. I wonder first of all whether the panel agrees with that, and then secondly if they do what would be the best way to put those recommendations into practice? Through some kind of

instructions from the Congress, some rule informally? What would actually make this happen?

MR. WESSEL: Anybody want to try that one?

MR. GRADISON: I'm not sure I can add a whole lot. I think that the use of ranges -- I happen to like the idea of the use of ranges as a means of expressing numerically the uncertainty. This may be a terrible analogy, but it's the one that comes to my mind, weather forecasts. You can check the weather forecast out to 10 days and it will give you some very specific anticipations with regard to temperatures and with regard to precipitation, zone by zone all over the United States. They'll also have percentage of probability and I don't think that's conceptually a bad idea. I also think that the discussion, some of which I think was planned to be part of the afternoon session originally for last Tuesday, going back over some of the changes and the reasons for the changes, and the scoring of Part D as an example is very healthy I think. It's good to get out there and say we tried our best and this is what we came up with, but here's why, here were the changes. We didn't anticipate that generics would replace brand drugs so quickly, you know, high priced drugs so quickly and things like that.

MR. WESSEL: Just to clarify. So what Bill is referring to in terms of this event is the original concept was in the afternoon to have a closed door invitation only -- but we would eventually something -- discussion of how CBO handles two controversial matters of scoring, one on health and one on federal credit programs. We intend to do that, just the logistics made it hard to do it today. I thought about a joke on weather forecasting at the beginning which I controlled myself, but now you opened the door, Bill. (Laughter) I'm told reliably that CBO says that spring will come this year eventually.

Does anybody else want to weigh in on the uncertainty thing?

MR. PHILLIPS: Well, I was just going to say something quickly which is I feel like actually they talk a little about uncertainty. I mean if you look at the various fan charts that you see in publications. You read a couple of reports that they put out

periodically, one on I think revenue forecast errors and one on overall forecast errors or something like that. I feel like actually there are a lot of caveats in there. I think the question is do people pay attention to them. And ultimately that's more instructions for Congress rather than instructions for CBO.

MR. WESSEL: Susan?

MS. TANAKA: I think, Stuart, what I would say is the problem isn't that CBO isn't clear about the uncertainty, it's that the Congress will take action either on the revenue side or on the benefit side. That's hard to undo if it turns out that whatever information they have about the cost for the savings of a policy is wrong. So that means that you then either have to beef up the enforcement side of the budget so that you can ratchet back tax cuts or spending increases, or provide some kind of speed bump further along if it turns out that the estimates are really off. In the case of Medicare Part D it turned out to be a beneficial error. CBO estimated the benefit would cost too much money. And so that's a good kind of problem to have that the benefit costs us less than we thought it was going to be.

What I think that I worry about more is that it's going to be the other way, and the policy will end up contributing to deficits in a negative way. And then how do you ratchet back the benefits once they've been given? How do you ratchet back a tax cut once it's been given? So if you could beef up the enforcement side then I think you could allow more of the sort of uncertainty into the debate.

MR. WESSEL: You mean if you tell Congress too much they might do something you don't like? That's basically your argument, right?

MS. TANAKA: Yes.

MR. WESSEL: All right. So I want to back --

MS. TANAKA: No, no, no. If you're --

MR. WESSEL: If you're too open about how uncertain you are they might do something.

MS. TANAKA: They'll naturally take the least costly.

MR. WESSEL: But I think that's where it gets very tricky. So when we had the event a couple of weeks ago or a couple of months ago on uncertainty Robert Choate from the Office of Budget Responsibility of the UK showed how they do this. And what they do is when they make an estimate they have a kind of grid and they say so we're not really confident about this one because there's lousy data, or because this is an experiment and there's not really a lot of evidence to know how this works, or this depends on things that are very hard to predict. And so they did this very qualitative. It seems to me putting probabilities on stuff gets a little tricky because you could be accused of making up the numbers and that could actually be true. But I think some people felt that if you go too far in that direction -- and you were sort of alluding to this, Susan, that CBO is going beyond analysis to basically saying look, here's our estimate, but this is so wacky you guys shouldn't do that. And you're crossing a line from analysis to recommendations which is a line that Alice drew right in the very beginning, that CBO was not going to tell them what they should do.

MS. TANAKA: No, I think that when the evidence isn't there, and I'd ask the CBO Directors to weigh in, if there's not enough evidence to support an estimate, then there's going to be no estimate. So whatever --

MR. WESSEL: So the answer is zero? If you don't know anything the answer is zero?

SPEAKER: No, I think -- correct me if I'm wrong, but like on the preventive health debate several years ago there was a question as to what the scoreable savings were and the answer was well we're not quite sure, there probably are some savings, but we just don't know what they are. So maybe not having an answer isn't necessarily equal to zero.

MR. WESSEL: You want to weigh in on this? Louise? Now I know Doug doesn't. (Laughter)

SPEAKER: Yeah, I'm looking at Doug. So, no, I don't actually know exactly what CBO does in that case when you don't have an estimate, when you don't have much data. And so you can say we think it will be something small but we don't really know. And one of the questions we wanted to ask in the afternoon, which I'll let Doug answer, which is sometimes your best guess isn't zero because you use intuition, you use economics, you use common sense, but you don't have a study to say we've tried, it's been done, and so I can actually have confidence in my number. And I don't know sort of then how they treat that.

MR. ELMENDORF: So in general we try very hard to produce an estimate. If there is a bill that is moving in the Congress then if there is any way for us to get a sense about the rough magnitude we will put it down as an estimate. The number of times when we will actually say we have no idea is very, very rare. And I think that's on purpose. We think it is useful for us to give the members of Congress a sense of whether something is big or small, or positive or negative in its budgetary impact. And if we have enough information to do that, then I think it's right for us to do that.

So as you know I was part of this even about uncertainty in December and I thought the example that Robert Choate had about how the OBR talks about uncertainty was quite intriguing. It is -- but I think it would take us a good deal of effort to always attach that sort of judgment to the estimates. And as a regular trade off that we face between doing new estimates of new proposals and elaborating on the estimates we've already made, that elaboration sometimes could take the form of expressing uncertainty. And we've made a lot of effort in the last several years to show the uncertainty, to quantify the uncertainty in the long-term budget outlook, in some of these forecast accuracy pieces, in a number of macroeconomic analyses. So we believe strongly in that, but there is a trade-off between doing that sort of analysis to give confidence a region around a point estimate, or to be more transparent about how we came to an estimate versus moving on to the next assignment. And I think ultimately it is

up to the members of Congress to decide how they want us to use our time. But in general we find I think the people who are in the majorities who are trying to move legislation want us to get on to the next estimate, and the people who have less control over the process would like us to spend more time explaining how we got the estimates that we got to. And you can see why that arises, but I think that's the fundamental trade-off for some of these things.

We would like to be able to explain more about how we came to certain numbers and we'd like to spend the time quantifying uncertainty, but those things take time.

MR. WESSEL: All right. Alice, do you want to have a last word here about either this issue or how CBO turned out differently or similar to what you expected 40 years ago?

MS. RIVLIN: Oh, heavens. (Laughter)

MR. WESSEL: I have to warn, I didn't prepare; this just occurred to me, so.

MS. RIVLIN: I actually wanted to ask Alec Phillips a question.

MR. WESSEL: Oh, good.

MS. RIVLIN: Which is how he perceives the uncertainty faced by decision makers at Goldman Sachs, how does that compare to the Congress? I mean after all your colleagues at Goldman Sachs are making huge decisions in the face of very great uncertainty, and what do you tell them about the uncertainty? Is there inside a major financial operation a way of treating the uncertainty which would be useful to the Congress?

MR. PHILLIPS: I think there are a lot of differences. I mean thinking of two, you've got hedging, and you've also got the government's ability to run large budget deficits. So I think in the end I mean I think the purpose for Congress when thinking about let's say economic uncertainty is much more about how to respond to that, not so

much about minimizing losses or anything like that, though maybe there is a piece of that. But more about thinking about the effects that go well beyond the government's balance sheet. Now you could say for a financial institution there might be aspects where they also want to think about beyond their balance sheet, but obviously it's going to be much more about just securing their balance sheet and minimizing any disruptions in the event of let's say a severe recession or something like that. So I think in many ways there are a lot of big differences.

One thing that did occur to me earlier though in the discussion of uncertainty is we haven't really talked about the fact that when you're doing 10 year projections you're going to have probably pretty major business cycle fluctuations throughout that and how do you -- I mean thinking about the uncertainty of a given cost estimate for a given program or whatever. To me that's actually less of a concern than people looking at 10 year budget projections, thinking that you're going to get the budget balance back to 2.-something percent of GDP and not recognizing the fact that there's probably a reasonable chance of a recession during that 10 year period. CBO for instance accounts for that I believe by plugging in a very small persistent output gap of half a percentage point which in any given year is probably going to be wrong, but on average might be closer to right. You know, I think most people in the private sector wouldn't really do it the same way, they would think more about contingency planning and so on. But so I think that's probably the biggest piece of uncertainty that policy makers need to think about, is okay it all looks fine right now, but in year five what if you plug in a \$1.3 trillion deficit instead of a \$600 billion deficit. Now how do we think about it?

MR. WESSEL: There's a gentleman in the back and then Tracy Gordon.

MR. WARSHAWSKY: Mark Warshawsky. This is I guess motivated by a statement that Phil Joyce made that the CBO gets things wrong and sort of his approach to that was of course it gets thing wrong and there's nothing wrong with that, or

it's sort of to be expected. But I think some people think that it's a little different, it sort of goes in a different direction. If they get things wrong -- in other words that they should have known better right off the bat. In other words it was wrong because there was sort of a shoddy analysis, or incorrect assumption, or missing information which they should have had. And we can all I think come up with examples. I have a couple that I've discovered over the years. And really then the question is if that's a possibility and really is sort of aimed to improve the Agency in terms of how it does its work, how can we do that? In other words how can we identify those and learn from those mistakes, and we'll call them mistakes, to improve the process?

MR. WESSEL: Phil?

MR. JOYCE: Doug thinks they should have more staff. I'll say this on his behalf.

SPEAKER: I think that one of the biggest changes in -- and it was mentioned earlier in these 40 years there are so many outside organizations very competently reviewing these things, so my answer is that if after -- within let's say six months or a year after a budget comes out, serious people take a look at it and say you really screwed up this particular part of an estimate, that's a conversation worth having. To come back years later and claim there was some kind of bias totally after the fact I think just isn't fair game. On the other hand we're talking about human nature. There's a close pitch on the outside corner. If it's my team I hope it's not called as a strike, but it's called as ball.

My favorite cartoon, which I think is relevant and that's why I'm going to mention this and then I'll stop, shows a priest at a crowded baseball game in New York on his feet, shouting at the umpire, fist in the air, and saying, thou hast eyes but seeth not. (Laughter) And I think that's a point. If something is said and you immediately -- or not immediately, but within a reasonable point of time can point out an error, that's a conversation worth having. I think if it's done way after the fact, I think that's just not fair.

MR. WESSEL: Well, but I would say that, Mark, that that's kind of one of the things we're thinking about here. Is that some outside group that doesn't have a dog in the fight should be able to look and see if not -- are there things that they systematically miss. I mean people are always going to miss things, and I think that's what Phil was saying. Their numbers are wrong because they are estimates and projections, and life turns out differently than we anticipate. But the question is really are there things that you can identify that they should have seen and that's a game we play with the fed, and there's no reason we shouldn't play it with the CBO. And I think the bigger question is -- and Phil dealt with this -- are they systematically doing something. And Susan kind of made a case a little bit that yes, they should systematically err on the side of being conservative. And some people think that's an unstated bias that should be acknowledged or changed.

Tracy?

MS. GORDON: Hi, Tracy Gordon, Urban Institute. Before Phil's excellent book the seminal piece on the CBO was a Kennedy School case study about Alice's contributions in the beginning and the management challenge of an organization that has both policy analysis and cost estimates under the same roof. Having just finished a stint in government, one area where I was surprised to see how complex both side of the equation were was in transportation. So the scoring of the Highway Trust Fund and transfers from general revenues is very complicated and people I think agree now that it does in fact score, but there was some feeling that it doesn't score and there have been blogs written about this. So that's an area where the arcana of budgeting is getting increasingly complex. At the same time I think that the policy analysis is very complex. It's getting harder and harder to identify what if any contributions a given infrastructure boost is going to have on GDP.

So in a world of constrained resources, given this tension between sort of cost estimates and policy analysis, I wonder where the panelists would like to see CBO

focus our efforts?

MR. WESSEL: Phil?

MR. JOYCE: First, for the many, many people who haven't read the book I wanted to point out something that was a very early decision that Alice made which sort of continues to this day which is to organizationally separate budget analysis from policy analysis in CBO. That is there are two possible organizations. There is one that says there's the world of infrastructure and we're going to have all the policy analysis, all the budget analysis essentially in the same division. There's another that says there are going to be people over here to do policy analysis, people over here to do budget analysis. Alice's concern -- and she can correct me if I'm wrong -- was that if you put it all together in one organization the short-term work, the budget work will always force out the policy analysis work. So I think that if you want attention paid to policy analysis, I think that's fundamentally the right way to organize for it.

What I think you can't do anything about is the other fact that I was sort of pointing to is that the budget number score and the policy analyses don't, so that you can have one part of CBO talking about the infrastructure effects on the economy and another part saying how much does it cost in the budget. The difficulty is in getting people to pay attention to the broader economic effects and not focus only on what it costs in the budget. And I don't know beyond saying what I said earlier which is that the Congress needs to recognize that the cost is about the cost, it's not about everything. I don't know if that's about the way CBO does its work or even the amount of emphasis it places as opposed to how people treat the information.

MR. WESSEL: Unless somebody else wants to add I think we'll close here. I want to thank everybody for coming and particularly the panelists and Phil and Doug. (Applause) And there will be -- if you want to listen to it all over again it will be on our website.

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