

**Dynamic
Scoring:
A Progress
Report on Why,
When, and How**

Presented at the Fall 2024
Brookings Papers on Economic
Activity

September 26, 2024

Doug Elmendorf, Glenn Hubbard,
and Heidi Williams

A very brief introduction to official budget estimates

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) provide official budget estimates used by Congress in considering potential policy changes

The estimating process is often called “scoring”

In a typical year, CBO publishes roughly 700 public estimates, and it and JCT provide thousands of private estimates

A very brief introduction to official budget estimates

Budget estimates by CBO and JCT take account of expected behavioral responses by households, businesses, executive branch agencies, and state and local governments

Except: By longstanding convention, estimates do not include responses that would change nominal aggregate output and income (such as changes in labor supply or productivity)—including such responses would be dynamic scoring

An important question is whether this longstanding convention is the best way for CBO and JCT to serve Congress and the public

Our paper does not recommend an approach to scoring, but instead analyzes the economic and institutional issues presented by the choice between conventional and dynamic scoring

The structure of the paper

How to think about dynamic scoring:

Why? When? How?

Illustrative examples:

Potential changes in immigration policies and
in federal investment and permitting

Why?

What are the advantages and disadvantages of dynamic scoring relative to conventional scoring?

Two simple arguments in favor

1: A change in a benefit program might induce someone to change their benefit takeup and their work effort; these responses are connected and both matter for budgetary impact

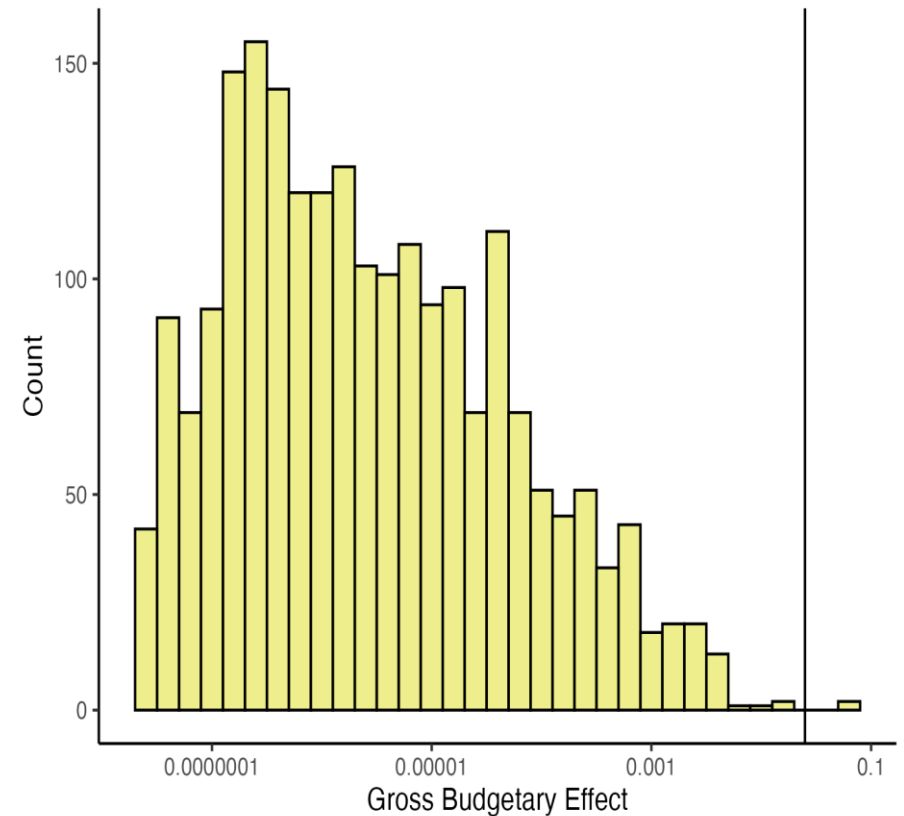
2: Policymakers care about the effect of policies on labor, capital, productivity, and other economic measures even apart from the budgetary impact

Concern #1: Is it feasible to produce dynamic estimates given time and resource constraints?

Dynamic scoring requires more calculations and review

One approach: “major legislation”

Another approach: standardized and simplified processes within policy areas (but still takes more time)



Concern #2: Are the excluded effects especially uncertain?

Uncertainty of labor and saving responses is no greater than uncertainty of many other responses that are included today

Concern #3: Are the excluded effects usually small?

Yes, relative to the size of the economy in many cases. But:

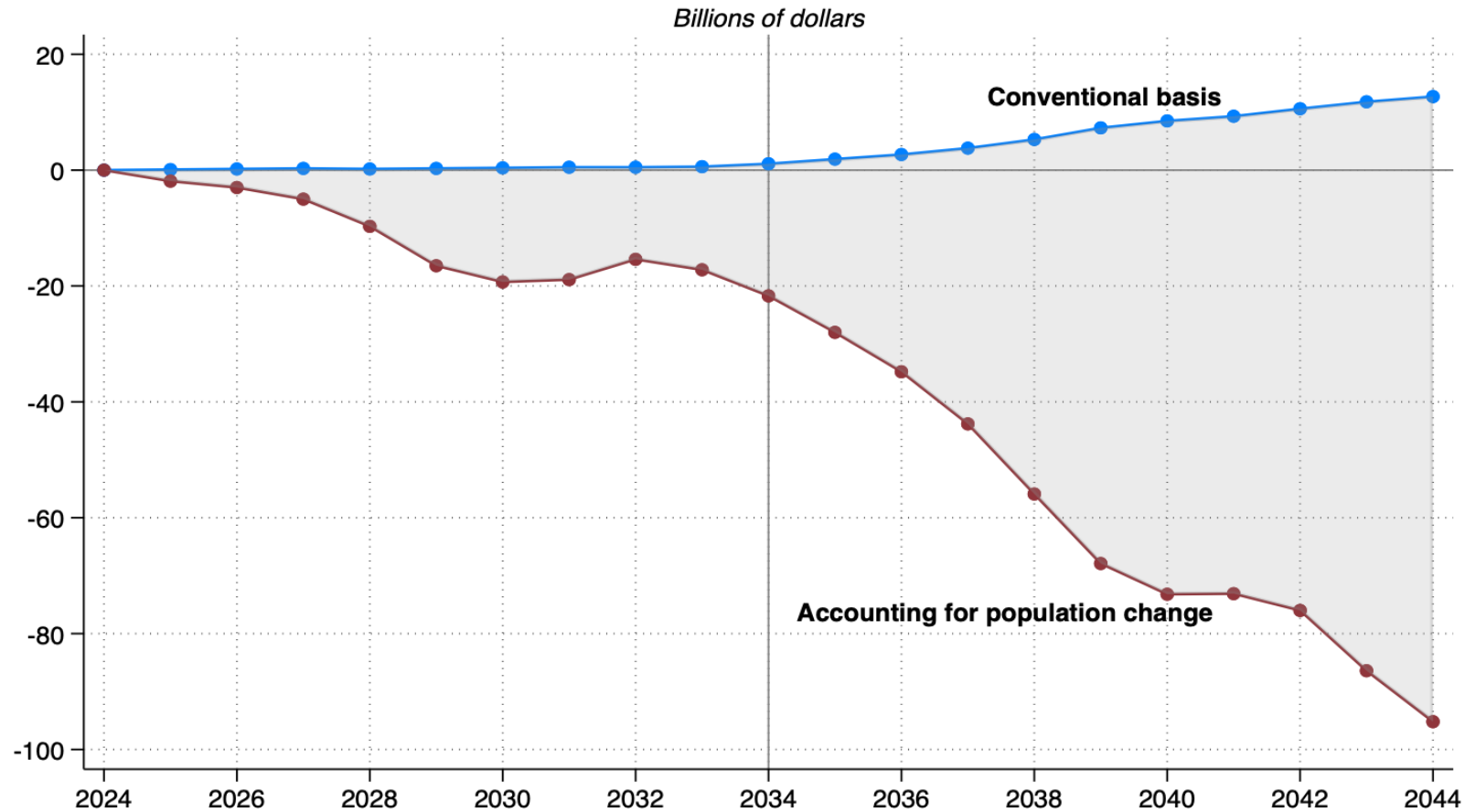
1: It is valuable for policymakers to get objective estimates of whether those economic effects would be large or small

2: Even if small, their budgetary effect can be large relative to other budgetary effects of a proposal and thus can significantly affect the overall estimate

Example: Conventional & dynamic estimates for tax bills

	<u>Increase in deficit</u>		<u>(C-D)/C</u>
	<u>Conventional</u>	<u>Dynamic</u>	
Tax Relief Extension Act of 2015	\$97 b	\$87 b	10%
Modify and Make Permanent Bonus Depreciation from 2015	\$281 b	\$267 b	5%
Tax Cut and Jobs Act of 2017	\$1456 b	\$1071b	26%
Protecting Tax Cuts Act of 2018	\$631 b	\$545 b	14%

Example: Conventional & population-change approaches for increase in green cards for advanced STEM degrees



Example: Conventional & population-change approaches for increase in green cards for advanced STEM degrees

A fully dynamic approach would incorporate many additional effects, such as the likely impact on productivity

The population-change approach would also show more favorable federal budget outcomes than the conventional approach for increases in immigration of immigrants who are not STEM degree holders (based on CBO's latest update to its baseline economic and budget projections)

Concern #4: Would changing methodology and making estimates more complex reduce credibility?

All else equal, credibility is fostered by consistency over time in methodology and by simplicity of methodology

But all else is not generally equal, so:

Over time, CBO and JCT have made ongoing advances in methodology, usually involving greater complexity, to improve accuracy and expand the information presented

When?

When might dynamic scoring be deployed?

What are some advantages of different approaches to dynamic scoring?

Major legislation:

- Focus on proposals with largest economic impact

- Threshold could be chosen to get more or fewer estimates

Selected policy areas:

- Consistency across proposals being compared by Congress

- Agencies could focus capacity-building investments

What aspects of a policy area increase the value of investments in dynamic scoring capacity?

Topics of broad and enduring interest from policymakers

Substantial research base about the economic effects of policies

Straightforwardness of modeling policy alternatives:
standardized units (dollars, numbers of people, tax rates) versus
structural changes to programs or the tax code

How?

How have CBO's and JCT's past dynamic analyses illustrated the process of dynamic scoring?

Illustrative examples:

Potential increase in green cards for people with advanced STEM degrees

Potential changes in federal investment and federal permitting of investment

CBO's 2021 report on federal infrastructure spending can be applied directly to federal funding for R&D

Flexible modeling organized around five key factors:

- How state and local governments respond to additional federal funding

- How quickly funding leads to outlays

- How quickly outlays increase productivity

- How much outlays increase productivity

- How outlays are financed

CBO's report on increasing federal infrastructure spending might be applied later to federal permitting

NEPA requires major infrastructure projects that are federally funded or subsidized to receive permits before construction

Accelerating the permitting process might increase spending on infrastructure projects

As the research literature in this area develops over time, dynamic scoring will become more feasible

Conclusion

Over time, CBO and JCT have drawn on expanding evidence bases, built new tools, and gained experience in analyzing the effects of potential policy changes on labor, capital, productivity, and other economic measures—and on the federal budget

Decisions by Congress about the extent to which such analyses should be included in budget estimates involve tradeoffs regarding time, resources, accuracy, and comparability