

Discussion of:

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

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- Observations on scoring: purposes, processes, & politics
- Pros and cons of alternative approaches to scoring
- Examples
- Conclusions

Observations on scoring: purposes, processes, & politics

- Budget scores comprise the price system facing federal policymakers
- This price system is the visible hand that helps to guide the allocation of scarce public resources between competing uses
- As such, its highest value-added is informing **micro-economic** tradeoffs
 - E.g., how much budgetary space for other disaster relief is created by increasing deductibles in flood insurance policies

Observations on scoring: purposes, processes, & politics

- Budget scores are necessary but not sufficient statistics for policy analysis
 - Budget scores are a rule-based measure of government cost
 - **Budget scores do not attempt to measure benefits**
- For some programs, budget rules prevent assignment of scores that are unbiased estimates of economic cost
 - Based on estimates over a 10-year “budget window”; no discounting; no accounting for likely reauthorization
 - Rules for evaluating cost of accrual basis items (loans, guarantees, capital leases) force downward biases in scores
 - Exclusion of unfunded mandates that have the incidence of a tax

Observations on scoring: purposes, processes, & politics

- CBO and JCT not only produce cost estimates, but they work with Congressional staff to explain cost drivers and to offer suggestions to make proposals less costly
 - This is vital and time-consuming work
- **The importance of scoring and communicating about it is reflected in the heavy allocation of (very scarce) CBO resources to those activities**
 - **Total analysts ≈ 220**
 - **Budget Analysis Division (BAD) analysts ≈ 90**
 - **Macroeconomic Analysis Division (MAD) analysts ≈ 15**
 - The other program divisions cover taxes, health, income security, microeconomics, defense and finance
 - **A job of the program divisions is to provide in-depth policy analysis that is less constrained by the biases created by scoring rules and budget conventions**

Observations on scoring: purposes, processes, & politics

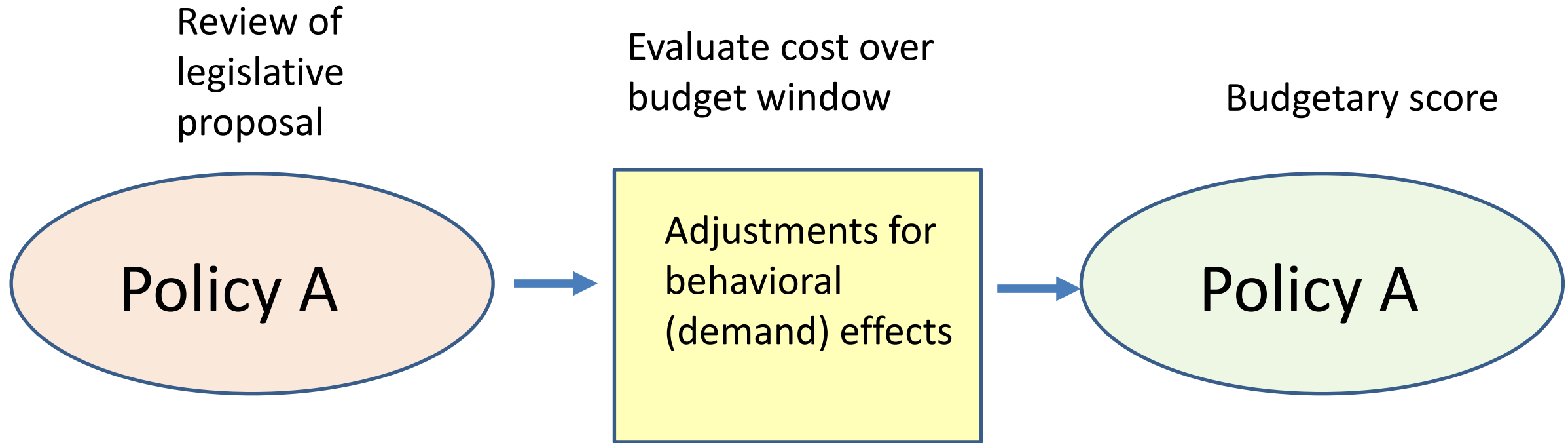
- Having lawmakers with widely divergent views agree to use a common set of numbers for budget deliberations is invaluable for transparency, credibility, and discipline
- It is also of paramount importance for maintaining an orderly, or at least less disorderly, budget process
- That agreement is fragile
- In considering changes to the rules governing the budget process, protecting the credibility and perceived neutrality of the estimation process is a top concern
- **A continuing focus on costs and not on benefits seems essential for maintaining the perception of neutrality**
 - Quantifying benefits is *much* harder than quantifying costs
 - CBO analysis from program divisions is less often questioned not because of the quality of the models or experts, but because budget scores matter to legislators much more than reports

Alternative approaches to scoring

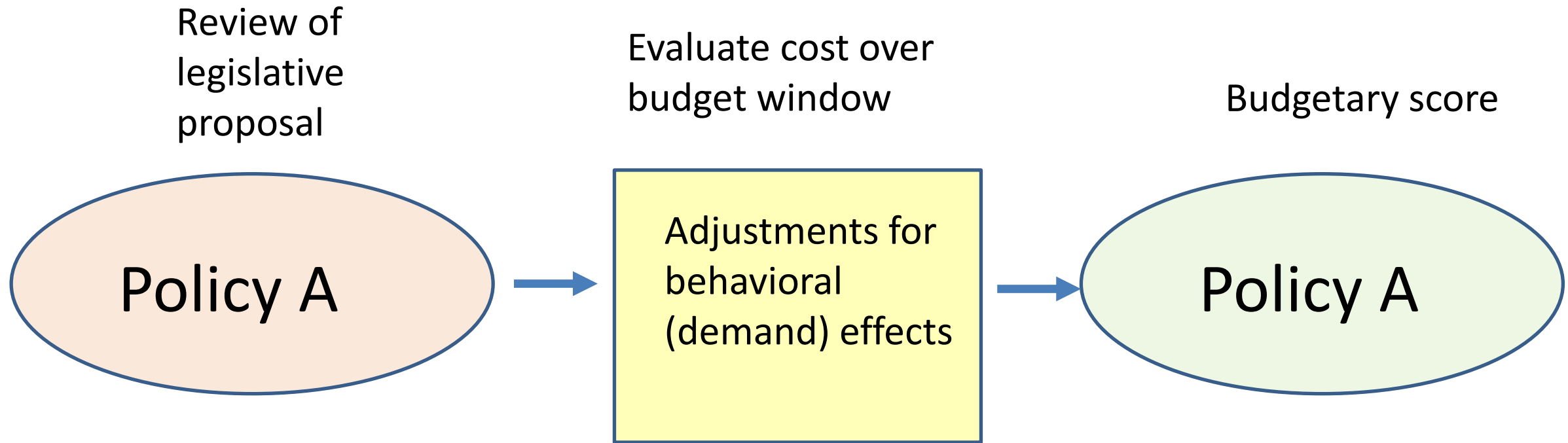
- Focus is on whether and when to more broadly adopt “dynamic scoring”
 - Also on relation between “behavioral” and “dynamic” modeling
- A critical distinction that is not discussed is whether or not spillovers affecting the cost of other policies should be taken into account

Let's consider the pros and cons of several alternatives...

Approach 1: Narrow “behavioral” effects (typical status quo)



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- **Advantages:** relative simplicity for analysts and users, transparency, usually limited need for information gathering or big assumptions
- **Disadvantages:** For large proposed expenditures or laws that cause major changes to rest of budget, can result in significant bias

Approach 2: Dynamic Scoring

Evaluate cost over budget window

Review of
legislative
proposal

Policy A

Adjust for
behavioral
(demand)
effects

Macro effects

Assess
policy's
impact on
macro
outcomes

Spillover effects

Quantify
effect of
macro
changes on
cost of all
policies

Budgetary score

Policy A

Policy B

Policy C

Policy D....

Policy ZZZ

Approach 2: Dynamic Scoring

Evaluate cost over budget window

Review of legislative proposal

Policy A

Dynamic scoring introduces two new elements:

- (1) Macro effects
- (2) Spillovers via macro effects

Adjust for behavioral (demand) effects

Macro effects

Assess policy's impact on macro outcomes

Spillover effects

Quantify effect of macro changes on cost of all policies

Budgetary score

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Budgetary score

Policy A

- **Advantages: Sometimes more accurate**
- **Disadvantages: Shortcomings of macro analysis; complexity; hard to audit & explain; uses more staff time; requires more assumptions**

Policy B

Policy C

Policy D....

Policy ZZZ

Approach 3: Incorporate significant spillover effects directly

Evaluate cost over budget window

Review of
legislative
proposal

Policy A

Adjust for
behavioral
(demand)
effects

Spillover effects

Assess
policy's
impact on
cost of
affected
other
policies

Policy H

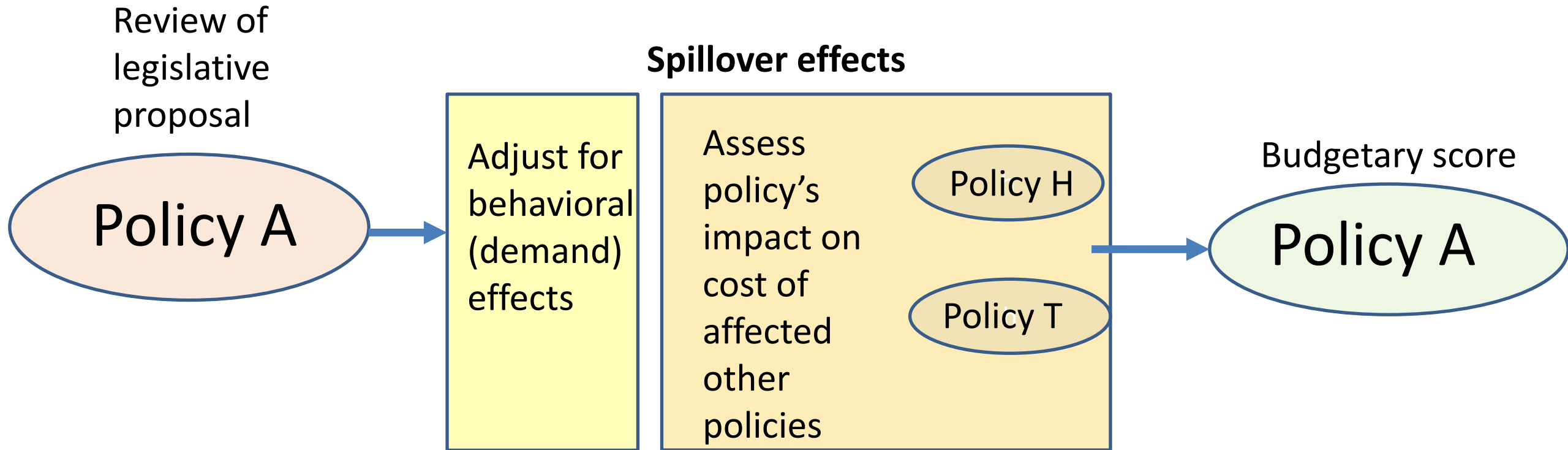
Policy T

Budgetary score

Policy A

Approach 3: Incorporate significant spillover effects directly

Evaluate cost over budget window



- **Advantages:** Will be more accurate than current or dynamic scoring approaches when there are large spillovers to specific policies but macro effects are small
- **Disadvantages:** Complexity; hard to audit & explain; uses more staff time; **requires more assumptions including forcing controversial judgments about benefits**

Example 1: Immigration

- Appears to be an example where CBO is taking Approach 3 (direct spillovers to rest of budget) and JCT taking Approach 1 (effectively narrow, no spillovers)
- Inconsistency between approaches is creating obvious bias
- As authors note, this doesn't require full-blown dynamic scoring to remedy
- Incorporating labor supply effects is attractive in that it introduces an effect that all would agree exists and is relevant.
- Having CBO also take Approach 1 and excluding spillovers from budget scores would also create symmetry and cause the legislation to have a very small effect on the budget
 - And information on the very complicated and long-run spillover effects would be supplied more appropriately in supplementary analyses

Example 2: Productivity

- Paper suggests reasons to include productivity effects (e.g., from infrastructure or research funding) as part of dynamic scoring or greater recognition of spillover effects
- Other considerations suggest it would be ill-advised to include these:
 - Some argue it will increase aggregate productivity and therefore taxes, even paying for itself.
 - Others believe it is largely pork, money thrown into the ocean.
 - The weight of “expert opinion” unlikely to move priors
 - Because implementation details are often not included in the legislation, it is hard to assess what the effects likely will be.
- In general, this is problematic because it requires assessing benefits and spillovers. Advocates often believe their programs pay for themselves. Under narrow approach, CBO doesn't have to step into these arguments.

Conclusions

- A valuable analysis of scoring methods and potential avenues for improvement
- The issues raised underscore the need to seriously revisit the budget process (set in the 1974 Budget Act)
 - How can the various scoring biases be reduced without opening the door to bigger problems?
 - What behavioral effects, broadly defined, should and should not be incorporated; and how consistently has CBO and JCT dealt with them across different policy areas?
 - Are some deviations from current practice (e.g., including the effects of population changes from immigration) a type of “behavioral” adjustment, already in line with standard CBO practices?
- I conclude that the costs of expanding “dynamic scoring” (or routinely incorporating spillover effects) would exceed the benefits
 - Threat to credibility and fragile consensus to use CBO numbers in budget deliberations
 - Technically, there are many challenges that would be difficult if not impossible to overcome. Importantly, the need to assess a policy’s benefits as well as its costs
 - CBO has better channels to inform policymakers about broader economic and budgetary effects

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