Insight

…And the Sky Didn't Fall

GORDON GRAY | AUGUST 5, 2015

The Budget Resolution passed by Congress this year called on the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) to estimate the economic effects of major legislation, and how those effects might impact the federal budget. Known as "dynamic scoring," this new requirement was met with considerable resistance from certain quarters. For example, the Center on Budget and Policy Priorities (CBPP) made the argument that this new requirement would actually provide Congress with "less information." On August 4th, the CBO and JCT released its first "dynamic score" of a tax bill recently passed by the Senate Finance Committee since the new rule. As it turns out, Congress received *more* information, not less.

So, what additional information did Congress receive?

The analysis of the bill, or "score," issued by these agencies provides the customary revenue and spending tallies associated with the policies being scored plus a new estimate of the budgetary effects resulting from the policies' impact on the economy. For a policy that would harm the economy, the result would be to make the policy more expensive; for a policy that would improve the economy, the net effect would be to make policy cheaper.

Table 1: Budgetary Impact of the Tax Extension Act of 2015

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In this case, without considering the extenders package's effect on the economy, the bill would cost about $97 billion. However, the tax policies in the bill are expected to increase economic growth, which in turn increases tax receipts. Combined with slightly higher interest rates that tend to come with higher growth, the economic effects of the bill should shave about $10 billion off the $97 billion cost of the bill. For skeptics of dynamic scoring, this result should be sobering. Contrary to myth that dynamic scoring is rigged to have tax cuts pay for themselves, this tax act would hardly come cheaply. Rather, the modest pro-growth effects have modest budget effects: exactly the sort of information Congress should have.

JCT, which provided the estimates for all but one of the policies being scored, also provided supplementary data on the assumptions it used in its economic models, including labor supply, savings, and consumption effects that ultimately informed their estimates. Far from providing less information, the dynamic score provides Congress with a better sense of how the policies it's considering will affect America's bottom line.