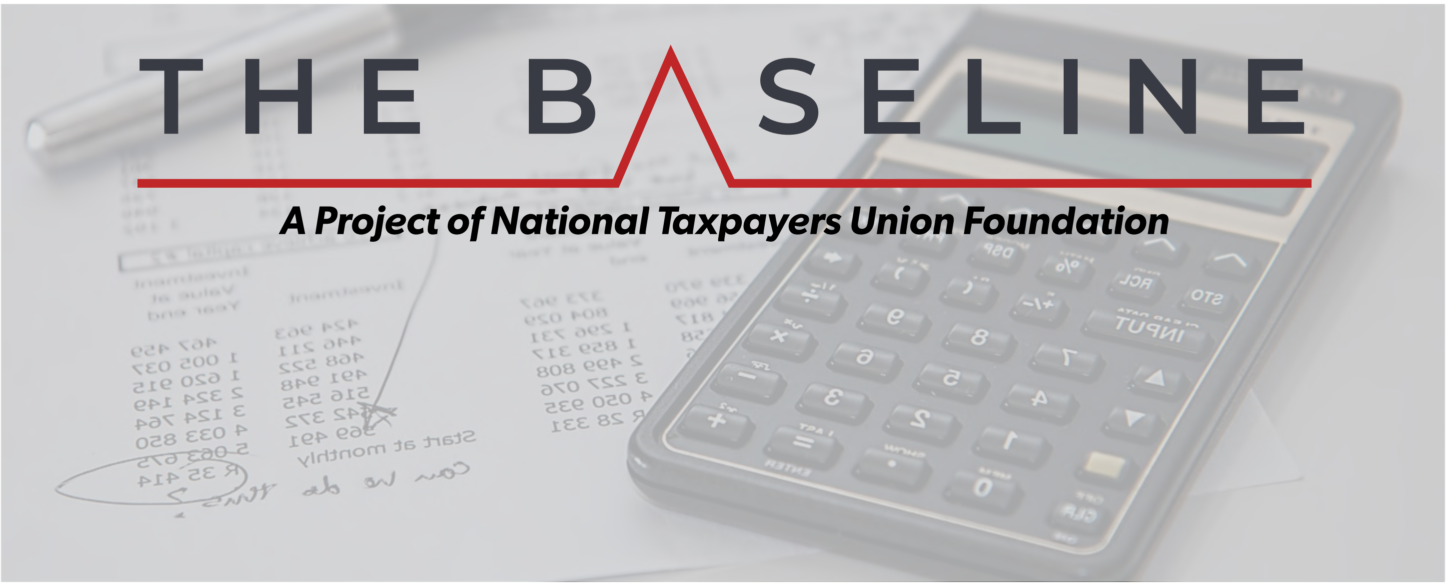

Strengthening the Congressional Budget Office Will Improve Cost Estimates and Help Hold Lawmakers Accountable

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Key Takeaways

- CBO fulfills a crucial role in shaping fiscal policy, and a series of hearings held by the House Budget Committee have highlighted members' need for more accurate budget estimates.
- Although its estimates are occasionally criticized from both sides of the aisle, CBO operates under rules and guidelines established by Congress. Understanding and revising these rules can improve the quality of CBO's budget projections.
- This paper recommends several key reforms to improve CBO's effectiveness, including:
  - adding dynamic scoring
  - incorporating debt service costs
  - improving its access to critical data from federal agencies
  - reintroducing generational accounting
  - using fair-value accounting
  - providing more transparency
  - producing a current-policy baseline.

Introduction

On Wednesday, September 11, the House Budget Committee (HBC) is set to convene a critical hearing on the topic, "Congress and the Congressional Budget Office (CBO): Examining Ways to Improve CBO." This hearing reflects an ongoing commitment to scrutinize and refine CBO's operations and methods so that lawmakers and taxpayers have access to accurate and reliable budget data as policies are debated and implemented.

This paper offers several suggestions for Congress to consider to enhance the quality of CBO's scores. As CBO operates under rules and guidelines established by Congress, understanding and potentially revising these rules is crucial for enhancing the quality of CBO's cost estimates and analyses.

CBO's Role and the Importance of Oversight

The September hearing is the latest of a series of hearings with CBO Director Philip Swagel that Chair Jodey Arrington (R-TX) has convened to fulfill HBC's critical oversight role regarding CBO's performance and its influence on fiscal policy. In January, the Committee held a hearing on "Creating a Culture of Fiscal Responsibility: Assessing the Role of the Congressional Budget Office," which sought to dissect CBO's impact on federal budgeting. Lawmakers used this platform to examine CBO's methods in projecting federal spending and deficits. The session emphasized transparency in how estimates are developed and scrutinized the overall efficacy of CBO in promoting long-term fiscal health. The core issue at hand: Does CBO equip lawmakers with the right tools to make decisions that foster a culture of fiscal responsibility?

A few weeks later, the Committee's hearing entitled, "The Congressional Budget Office Budget and Economic Outlook," highlighted persistent challenges in CBO's operations and cost estimates. Legislators voiced concerns over the timeliness and accessibility of CBO reports, which are essential for informed policymaking. More troubling to members was the revelation of a trillion-dollar error in CBO's deficit projections for FY 2023. FY 2023 outlays were $564 billion higher than CBO had projected, while revenues came in $477 billion lower. Swagel attributed these discrepancies to laws enacted and administration executive actions taken to forgive student loan debt that occurred after CBO published its projection. Federal Deposit Insurance Corporation (FDIC) spending in response to bank failures was also unexpected. Swagel also acknowledged CBO's own misses in inflation and interest rate forecasts.

By advancing these reforms, the Committee is pushing to ensure that CBO improves its performance. At the heart of these discussions is the undeniable fact that CBO plays a pivotal role in shaping federal policy. Whether through developing the ten-year budget baseline, assessing the fiscal impact of proposed legislation, or providing long-term projections, CBO's work influences every major fiscal decision in Congress. A CBO cost estimate and analysis can be a crucial factor in determining whether a bill becomes a law.

CBO was established in the Congressional Budget Act of 1974 so that Congress would have access to budget data independently of the White House's Office of Management and Budget (OMB). In the modern era, it has an extensive workload, with a budget of $70 million and roughly 270 employees. Bills passed by committees to the main floor of each chamber generally include a formal CBO analysis of how the provisions of the text would impact spending and revenues relative to CBO's baseline.

Each year, CBO completes nearly 700 formal cost estimates of authorizing legislation, 100 estimates of appropriations measures, and thousands of informal cost estimates and technical assistance to members and committees. To get a favorable score, lawmakers frequently request informal estimates and technical assistance from CBO while texts are being drafted. This way, unexpected costs can be addressed before CBO produces its formal, official score.

Over the years, CBO's cost estimates have been criticized from both ends of the political spectrum. In response to many of those complaints, CBO—under the leadership of its previous Director Keith Hall and continued under current Director Swagel—has taken significant steps to improve transparency regarding its methods and assumptions.

One important reform that CBO has implemented to emphasize the points of uncertainty in cost estimates: for scorekeeping purposes, CBO is required to produce a specific point estimate. Given the many factors that can go into producing budgetary projections, even small changes in some variables or assumptions could lead to far different outcomes than those presented in CBO's estimates. Previously, discussions of these and other points of uncertainty would generally be buried deep in the explanatory text. Now, they are also summarized on the front page of CBO's reports, just under the tables showing the top line budgetary impacts. This reform helps lawmakers and the public understand the potential range of outcomes more easily.

Additionally, CBO has published a series of explainers about its work and processes, including an overview of the scorekeeping rules it is required to follow. It has also stepped up its engagement with congressional staff, as well as parties outside of Congress, to respond to questions and get feedback on its work.

These reforms have helped CBO enhance its reputation, though it is still accused on occasion of letting political bias influence the outcome of its estimates. Congress could push for additional transparency to bolster the objectivity of CBO's nonpartisan work through reforms like the CBO Show Your Work Act (see below).

Nevertheless, it is important to recognize that CBO operates under the rules and guidelines established by Congress itself, and that many of the concerns that people have about CBO's scores stem from these scoring rules. Lawmakers are well aware of these scoring rules and know how to take advantage of them when drafting legislation to obtain a favorable score for a bill before it is unveiled.

Improving CBO

Given CBO's pivotal role in the development and passing of policy, Congress should look for ways to further bolster the accuracy and timeliness of its cost estimates. In addition to the series of CBO-related hearings at HBC, the Committee has also moved forward with legislative markups aimed at improving how CBO operates.

Include Debt Service Costs in Estimate: Representative Michael Cloud's (R-TX) Cost Estimates Improvement Act (H.R. 8341) would require the inclusion of debt service costs into CBO's official scores, filling what can be a huge gap in estimates for major bills. Under budget rules set by Congress, debt service costs are left out of the official scores. However, CBO has produced an interactive worksheet to demonstrate how changes in spending and revenues would increase or decrease the costs to finance the federal debt. Using this worksheet, NTUF found that the $95 billion defense supplemental enacted in April 2024 will actually cost taxpayers $31 billion more when taking into account the additional costs to finance the debt as a result of the higher deficit spending.

Another benefit is that this additional budget data could help expose the limitations of various budget gimmicks that are often employed in bills to game CBO's scoring methods. For example, the Protecting Medicare and American Farmers from Sequester Cuts Act of 2021 prevented sequestration (automatic spending reductions) to Medicare in 2022 and then "paid for" it by extending sequestration to 2030 and 2031. Along with an increase in Medicare payment rates for physician service and two other provisions, CBO determined that the law increased spending by over $7.1 billion in 2022 and the major offsets to "pay for" this were scored for years 2030 and 2031. Accounting for the debt interest payments that accrue during the intervening years would bring more transparency to the actual costs of efforts to game CBO's scoring methodology. These efforts also include frequent gimmicks such as extending customs user fees or loan fees for the Department of Veterans Affairs' home loan guarantee program years out to pay for upfront spending.

Improve CBO's Access to Data: In 2021, CBO detailed the challenges and delays that it encounters as it negotiates data sharing agreements with agencies. HBC Ranking Member Brendan Boyle's (D-PA) Congressional Budget Office Data Sharing Act (H.R. 7032) would make it easier for CBO to get access data it needs from federal agencies to complete cost estimates. The proposal aims to streamline CBO's data access, reduce delays, and foster collaboration with Congressional committees by dismantling barriers obstructing access to legally-protected information, clarifying data-use agreements, ensuring confidentiality protections, and bolstering transparency through mandated reports. Last year, the Senate unanimously passed a similar bill (S. 1549) introduced by Senator Gary Peters (D-M).

There are additional reforms that lawmakers should include in any discussions about improving CBO.

Dynamic Scoring of Major Proposals: While the Rules of the House for the current 118th Congress provide for dynamic scoring of proposals that have a budgetary impact of at least 0.25 percent of GDP, this is not the universal standard.

Dynamic scoring, which assesses how changes in policy affect economic behavior, could help Congress better understand the true macroeconomic impacts of legislation. For example, under the current static analysis used by CBO and the Joint Committee on Taxation, reducing marginal income tax rates would lower tax revenues. A dynamic score would also look at how the lower rate would enable further investment and economic growth, which could potentially offset a portion of the foregone revenues.

Republicans have sought this type of analysis for proposals to modify tax rates, while Democrats have sought macroeconomic feedback for increased spending on health care, education, and infrastructure. Instituting dynamic scoring as a standard for all major CBO estimates—not just those subject to House rules—would allow lawmakers to see the full economic effects of their decisions. Use of dynamic scoring can also highlight how different policies will impact growth, as CBO has found that private investment yields a return twice as high as public investment.

Fair-value Accounting for Federal Credit Programs: Under existing law, CBO is required to score federal loan and guarantee programs under the account method prescribed by the Fair Credit Reform Act of 1990 (FCRA). Here, the present value of the government's credit activity is discounted using the interest rates on Treasury securities. The alternative fair-value accounting method provides a more comprehensive assessment of the risks by estimating how the private sector would value the cash flows and defaults. To its credit, CBO regularly produces analyses on the federal government's direct loan and loan guarantee programs (currently there are 129) and finds a wide gap between the two methods. For example, in its newest report CBO estimates that the loans and guarantees the federal government will issue in FY 2025 will have a lifetime cost of $2.4 billion under FCRA and $65.2 billion under fair-value.

One option is the Fair-Value Accounting and Budget Act (H.R. 5571) from Reps. Ralph Norman (R-SC) and Glenn Grothman (R-WI). The bill would make fair-value accounting the official method, encouraging transparency and accuracy in accounting to loan programs administered by the federal government by making fair-value accounting the official method. CBO's annual report on federal credit programs demonstrates that it has the capacity to easily and readily implement this reform.

Account for the Debt Impact Being Passed onto Future Generations: One reason the government has added over $35 trillion to the national debt is because lawmakers have little incentive to account for the long-term impact of this growing debt. One proposal to address this is the implementation of "generational accounting," which would quantify the long-term fiscal burden of current policies.

Generational accounting is not a new concept. It was introduced over 25 years ago by economists Alan Auerbach, Jagadeesh Gokhale, and Laurence Kotlikoff, who developed a framework to assess the impact of government spending on future taxpayers. Their findings suggested that younger generations could face significantly higher tax rates as a result of deficit spending. Although the Office of Management and Budget briefly included generational accounting in budget reports under the Clinton administration, it was later removed due to its political implications.

The concept resurfaced in the form of the Intergenerational Financial Obligations Reform (INFORM) Act, introduced in the 113th Congress as H.R. 2967 and S. 1351 with a bipartisan list of sponsors to require CBO to provide generational accounting estimates for major legislation. It was most recently introduced in the 117th Congress as H.R. 5340 and S. 2548, though this time it did not garner any Democratic cosponsors.

By incorporating long-term fiscal projections, the INFORM Act would offer lawmakers better insights into how current spending choices will affect future taxpayers, potentially guiding more responsible fiscal policy decisions.

Scorekeeping Reports Transparency: CBO is required to report to the House and Senate Budget Committees with tallies of the cost of enacted legislation, as well as the allocation of funds by committee area, and whether these funds are constrained by caps. Under the Congressional Budget Act, these committees are supposed to update their respective chambers about the status of budget allocations and cap levels, but there have been lengthy gaps with no updates. To prevent this from happening again, CBO should make these scorekeeping reports available to the public.

Scoring Transparency: The CBO Show Your Work Act (H.R. 1492) introduced by Rep. Warren Davidson (R-OH) would increase the transparency of scorekeeping by requiring CBO to provide more information about its data and modeling so that others could replicate its work and better understand the assumptions that get built into CBO's scoring models. In cases where CBO uses non-disclosable proprietary information, the agency would be required to identify why the data is restricted and provide contact information for the source of the data.

Produce a More Realistic Current-Policy Baseline: Switching CBO from producing a current law baseline to a current policy baseline could provide a more realistic and transparent outlook on the federal budget and future deficits. The current law baseline often underestimates the true fiscal impact of existing policies because it assumes that certain tax provisions or spending programs set to expire will actually expire, even though Congress routinely extends them. A current policy baseline reflects what is more likely to happen, as it accounts for the renewal of expiring provisions, such as tax cuts or mandatory spending programs, that Congress has a history of maintaining. This approach would better capture the long-term fiscal trajectory of the nation, offering lawmakers a clearer understanding of the full scope of future budget challenges.

Conclusion

While CBO plays a critical role in ensuring fiscal accountability and providing lawmakers with essential budgetary analysis, it is clear that improvements can be made to enhance the accuracy and transparency of its work. The proposed reforms, such as incorporating debt service costs, expanding dynamic scoring, adopting fair-value accounting, and shifting to a current-policy baseline, would provide a more realistic and comprehensive picture of the federal budget. These changes are not only necessary to address current shortcomings, but are also vital for guiding future fiscal policy.

However, as Congress debates these reforms, it must also ensure that CBO's independence is preserved. CBO serves as a key check on excessive government spending and a resource for lawmakers who are serious about making informed, responsible budgetary decisions. Reforms should aim to bolster CBO's ability to provide unbiased analysis.

In the end, a stronger, more transparent, and more reliable CBO will better equip Congress to confront the nation's growing fiscal challenges and ensure that taxpayers have a clearer understanding of the long-term impacts of today's policy decisions.

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