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Dynamic Scoring Threatens Budget Deficits and Working Americans

Less than three weeks ago, U.S. Treasury Secretary Steven Mnunchin claimed long-term economic growth will pay for the cost of President Trump's proposed tax reform plan.[i] This claim relies on using so-called "dynamic scoring," a tactic long exploited by Republicans to justify not paying for immense tax cuts. However, dynamic scoring methodologies can lead to wildly different estimates that often underestimate how much these tax cuts increase the budget deficit.

Fiscal responsibility is critically important and demands delivering public goods and services to the American people without throwing our budget completely off-balance. Changes to our tax code should be held to this same standard. Unfortunately, over the past several years, Republicans have demanded cuts to programs serving millions of working Americans under the guise of fiscal discipline while simultaneously pursuing massive unpaid-for tax cuts for the wealthiest individuals and corporations.[ii] Critical investments to Head Start, affordable housing, public health, and more, have faced such staunch partisan opposition that Republicans shut down the government and nearly defaulted on the nation's debt.[iii] By insisting dynamic scoring be the official measure of macroeconomic impact, the trend of balancing the budget on the backs of the most vulnerable Americans will continue as the deficit balloons.

In 2015, the House adopted a rule requiring dynamic scoring for any tax and spending bills that increased the deficit by at least .25 percent of Gross Domestic Product (GDP), or nearly $48 billion.[iv] In the Senate, dynamic scoring primarily serves a supplementary role to traditional scoring methods.[v] However, Republican majorities in both chambers created an uneven playing field by failing to extend the dynamic scoring requirement to discretionary spending bills including investments in education and infrastructure that are proven to strengthen the economy and increase revenue over the long term.[vi] As a result, these programs will appear more costly than tax cuts.

Static Scoring vs. Dynamic Scoring

So-called "static scoring" assumes no changes in the overall size of the economy as measured by GDP while dynamic scoring assumes the overall size of the economy will change in response to tax and policy changes.[vii] However, static scoring is actually far less static than some critics admit. By assessing a variety of potential behavioral outcomes, including how individuals adapt to new cost changes or tax rates, static scoring provides an established, transparent model from which to measure long-term budgetary impacts.[viii] Conversely, dynamic scoring models attempt to measure effects on overall economic output.[ix]

Expert Concerns

Concern over potentially inaccurate models has been raised by several economists familiar with dynamic scoring's pitfalls. Former Joint Committee on Taxation (JCT) Chief of Staff John Buckley testified before Congress that dynamic scoring often makes a series of "simplifying assumptions that are often speculative or counterfactual in the sense that they are inconsistent with observable facts."[x]

Even more, there is no agreement on a single model for dynamic scoring—the Congressional Budget Office (CBO) and JCT use two different models with two different sets of assumptions. Since these different methodologies can yield a range of final scores, Buckley believes it would be inappropriate to rely solely on dynamic scoring assumptions to measure budgetary impacts of proposed legislation.[xi] Likewise, over 20 years ago former Federal Reserve Chairmen Alan Greenspan and Paul Volcker testified before a bicameral Budget Committee hearing that inaccurate budget scores could erode financial markets' trust in the federal government's scoring process—potentially leading to higher interest rates.[xii] Similar concern was expressed by former President Reagan and President Bush senior advisor Bruce Bartlett, who referred to dynamic scoring as "smoke and mirrors."[xiii]

Conclusion

As Congress continues to pursue fiscally responsible policy that grows the economy and creates jobs, evaluating the long-term macroeconomic impacts of certain legislation should be embraced. While dynamic scoring seemingly offers that opportunity, it currently lacks the consistency and reliability necessary to be used outside of a complementary role. Prone to abuse, policymakers would be wise to consider all measures at their disposal and reject any effort to establish dynamic scoring as the primary assessment of budgetary impact.

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[i] http://www.cbsnews.com/news/growth-will-pay-for-a-majority-of-tax-reform-treasury-secretary-steven-mnuchin-says/

[ii] https://www.jec.senate.gov/public/index.cfm/democrats/reports1?ID=486224BE-BEDF-4E3C-9912-0BD3C4B148D2; https://budget.house.gov/uploadedfiles/fy15_blueprint.pdf

[iii] http://democrats.appropriations.house.gov/news/press-releases/lowey-statement-on-302b-allocations-0

[iv] http://thehill.com/blogs/floor-action/house/228684-house-adopts-dynamic-scoring-rule; http://www.cbpp.org/research/house-dynamic-scoring-rule-likely-will-mean-more-tax-cuts-not-more-information; https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/reports/52370-budeconoutlook.pdf

[v] https://www.gpo.gov/fdsys/pkg/CRPT-114hrpt96/pdf/CRPT-114hrpt96.pdf

[vi] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51628-Federal_Investment.pdf

[vii] http://www.cbpp.org/research/budget-and-tax-plans-should-not-rely-on-dynamic-scoring

[viii] Ibid.

[ix] http://www.crs.gov/Reports/R43381?source=search&guid=f1ba965cdac24afcb7c170f37c93a431&index=1#fn1

[x] https://www.jec.senate.gov/public/_cache/files/59b34bb0-2e8c-4ece-8b7b-bab9efdcc5ae/john-buckley-testimony----jec-hearing-on-dynamic-scoring.pdf

[xi] Ibid.

[xii] http://articles.latimes.com/1995-01-11/news/mn-18740_1_dynamic-scoring

[xiii] https://economix.blogs.nytimes.com/2013/04/02/dynamic-scoring-once-again/?_r=0