THE BASELINE

NTUF NATIONAL TAXPAYERS UNION FOUNDATION

Issue Brief

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Building on CBO's Transparency Progress: Recommendations for Further Reform

Key Facts:

Under the leadership of its recent Directors, CBO has made significant strides in shedding light on its methodology and processes for producing cost estimates, which are central to so many policy debates.

While work remains to further improve CBO, there are troubling reports that some in Congress want to force out the Director and strong-arm the agency into producing politically expedient scores.

Instead, Congress should implement reforms to further bolster transparency at CBO and improve the accuracy of its analyses.

Introduction

As part of its ongoing campaign to address concerns about its operations, the Congressional Budget Office (CBO) recently published a report reviewing its efforts to promote transparency of its processes and analytical methods.[1] Because of the pivotal role that CBO plays in the development and passage of proposals, it is crucial to ensure that it is producing budgetary projections and legislative cost estimates that are as accurate as possible. Clarity and openness enables outsiders to better understand and evaluate CBO's work.

Though much work remains to be done to improve the agency, CBO should be applauded for the transparency efforts detailed in the report, including publishing of spreadsheet of its data and releasing explanations of its methodology. It has also emphasized the sources of uncertainty in its cost estimates, which helps illustrate the ways actual budgetary outcomes could differ from its projections.

[1] Congressional Budget Office. (2021). Transparency at CBO: Future Plans and a Review of 2020. https://www.cbo.gov/publication/57008.

This raises questions about why some reporting has identified a movement to fire CBO's Director Dr. Phillip Swagel. While the agency is still in need of significant changes to fully live up to its mission of providing accurate information to lawmakers, Swagel's tenure has been marked by efforts to be more transparent and accountable in its work.

However, it seems that some have a gripe with CBO's recent analysis of a minimum wage hike proposal. The findings echoed the agency's previous work in this area dating back to its early years that a boost in the minimum wage will negatively impact employment; a conclusion that is shared by a preponderance of economic analysis about the impact of federal mandates on wages. Apparently, many Democrats are also upset that CBO continues to raise concerns about the level of federal debt along with the risk of higher interest rates that will present scoring obstacles to plans for more massive deficit-fueled spending hikes.

Instead of targeting CBO's leadership in a proxy battle against the laws of economics, Congress should be working to improve the quality of the agency's analyses through greater transparency and accountability to enhance its role as an independent budget scoring arbiter. As CBO continues to build on the progress it has made under the leadership of its recent Directors and in coordination with the House and Senate budget committees, there are additional reforms that could be implemented to further improve the accuracy of its cost estimates and to shed additional light on its scoring methods.

Boosting Transparency

CBO's recent work on transparency dates back to 2017 after a pair of unsuccessful votes in the House of Representatives to strip the agency's funding. The effort was launched in response to a series of deeply-flawed estimates of proposals related to the Patient Protection and Affordable Care Act (ACA). CBO had projected that the ACA's exchanges would be stable with more than twice as many enrollees as actually signed up, severely overestimating the impact that the individual mandate would have on driving middle class households into the exchanges.

Because of its misguided assumption regarding the efficacy of the individual mandate, legislation to repeal and replace the ACA hit a massive scoring roadblock. Despite the various options included in proposals, CBO assumed they would all lead to an increase in the number of uninsured by upwards of 20 million individuals.[2] After the individual mandate was erased in the Tax Cuts and Jobs Act of 2017, data from the Centers for Medicare and Medicaid Services showed how flawed CBO's estimates had been. There were indeed increases in the number of people who opted not to obtain health insurance, but by a fraction of what CBO had projected.[3]

Rank-and-file members also complained that they were unable to get information from CBO regarding its methodology and processes in putting together cost estimates. CBO generally reported only to the budget committee chairs, leaving other members in the dark as to how scores and budget projections came about.

In response to these concerns, the congressional budget committees convened a series of hearings regarding CBO and its score-keeping activities – among the first such dedicated hearings since CBO was founded in 1974. Swagel's predecessor as Director, Keith Hall, engaged in an effort to improve the transparency of the agency's methodology and workflow in order to improve perception of the CBO and its analytical products. Swagel was appointed to a four-year term in 2019 and continued to expand CBO's outreach and transparency.

CBO produced its new transparency review pursuant to a provision included in an appropriations bill last year requiring the agency to detail its "ongoing and future efforts to implement the multi-year plan to increase its capacity to make CBO's work as transparent and responsive as possible."

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[2] Roy, Avik. "CBO Predictions About The Senate Health Care Bill Are Deeply Flawed." Forbes. Jun 27, 2017. https://www.forbes.com/sites/theapothecary/2017/06/27/cbo-predictions-about-the-senate-health-care-bill-are-deeply-flawed/.
[3] Klein, Philip. "Government Report Reveals CBO Was Scandalously off in Obamacare Estimates." Washington Examiner. February 20, 2019. https://www.washingtonexaminer.com/opinion/columnists/government-report-reveals-cbo-was-was-scandalously-off-in-obamacare-estimates.

CBO has three main goals through its transparency: to promote clear understanding of its analyses, to explain how estimates might change "if policies or circumstances differed", and, to enhance the credibility of its analyses and processes.

In its review, CBO emphasized ten areas of its transparency efforts. Some of these transparency-related actions associated with its regular analytical and cost estimate products are more or less obligatory, including:

- Testifying and publishing answers to questions. CBO officials are regularly called to testify before the House and Senate budget committees and the legislative branch appropriation subcommittees about the agency's work. Members frequently have follow-up questions and CBO publishes its post-hearing responses on its website.
- Conducting outreach. This category includes direct communication with members of Congress and staff in order to explain its methodology. Members also regularly consult with CBO to get feedback on the cost implications of legislation during drafting. In fact, concern from rank-and-file members and staff in recent years about CBO's openness and objectivity helped kickstart the agency's current efforts. Since then it has increased its capacity to communicate more clearly and more often with member offices. CBO also conducts outreach through its Panel of Economic Advisers (which was established in CBO's first year of operation) and its Panel of Health Advisers (established in 2007). Feedback from these outside experts assist CBO in its effort to produce analyses that are objective, independent, and non-partisan.
- Explaining its analytic methods. CBO's reports and cost estimates generally include a discussion of the basis of its estimate and the factors considered. There are, however, occasionally instances where the procedural rush of action by Congress on a proposal does not provide CBO with sufficient time to prepare a detailed written analysis to go along with the dollar figures included in budget tables it produces.

Below are highlights of other most important actions CBO has implemented over the past few years that have greatly bolstered its transparency, along with recommendations for further improvement.

Estimating the Effects of Policy Alternatives

CBO produces several reports that show what project budgetary and economic outcomes under alternative assumptions. For example, CBO calculated that if interest rates grow just 0.1 percent faster than under its economic assumptions, then budget deficits would increase by $185 billion billion over the next decade.[4]

More importantly, CBO from time to time illustrates budgetary outcomes under assumptions different from those that Congress requires it to use. For example, the agency is obligated to produce its budgetary baseline – the yardstick against which legislative proposals are scored – using assumptions that spending and revenues will continue as written under current law. In general, the current-law baseline tends to mask deficits because policies set to expire under law are regularly extended time and time again. Producing alternative baselines based on the policies that Congress tends to enact will provide a more realistic budgetary projection, especially in the face of massive one-time spending programs like much of the response to COVID-19.

Similarly, CBO has produced analyses of federal credit programs using an alternative scoring methodology that entails a consideration of the market risk of the government's loan and guarantee activities. 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.

[4] Congressional Budget Office. (2020). How Changes in Economic Conditions Might Affect the Federal Budget: 2020 to 2030. https://www.cbo.gov/system/files/2020-02/56096-CBO-rules-of-thumb.pdf.

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. Under fair-value, many federal loan programs that appear on paper to generate budgetary savings are revealed instead to impose significant liabilities to taxpayers. For example, in a report last year estimating the cost of federal credit programs, CBO determined that the Department of Education's student loan programs were projected to save $3.2 billion under FCRA accounting, but would actually cost $16.9 billion on a fair-value basis.[5]

Recommendations

- At a minimum, the tables in CBO's cost estimates should note the annual level of spending under current law along with the net changes that would result from legislative proposals. This would provide readers with more context to assess the budgetary implications.
- To better illustrate the fiscal challenges facing taxpayers, CBO should regularly produce a current-policy baseline and score legislation against both the "standard" baseline and this alternative as much as is practical.
- CBO should make greater use of private sector modeling and Congress should require the use of fair-value accounting for credit programs.

Describing the Uncertainty Surrounding Cost Estimates

CBO has done an admirable job of emphasizing sources of uncertainty in its cost estimates and budget projections. For procedural and scorekeeping purposes, Congress requires CBO to produce point estimates of legislation, which often become fodder for newspaper headlines and press releases attacking the underlying proposal. But depending on the complexity of the legislation in question, there can often be a great deal of uncertainty underlying the cost estimate that doesn't lend itself to producing a single point estimate for budgeting purposes.

CBO's written analyses do generally include a discussion of the dependent variables and potential unknowns that could lead to much different outcomes, but these discussions are often found deep within the report. To elevate the visibility of these points, CBO's recently revised format for laying out its cost estimates includes a summary of the uncertainties on the first page along with the top line dollar estimates.

Recommendations

- CBO can supplement its analyses of uncertainty by increasing its discussion and illustration of the sensitivity of key variables in cost estimates of major legislation.
- Regularly applying a confidence index that would assess the likelihood of the outcomes presented in its analysis could better inform lawmakers about the difficulties entailed in scoring significant proposals.

Releasing Data

CBO has done a commendable job supplementing its reports and estimates with downloadable, standardized spreadsheets of budget data, making it easier for others to make use of and assess its findings. It has also published interactive visualizations so that users can engage with their data. For example, in February, CBO published an interactive spreadsheet allowing users to input changes in spending and revenues in order to calculate net change in debt service costs, total changes in the deficit, and cumulative changes in the federal debt.[6] NTUF used this tool to calculate that the American Recovery Plan Act would increase debt service costs by $160 billion over CBO's reported cost estimate.[7]

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[5] Congressional Budget Office. (2020). Estimates of the Cost of Federal Credit Programs in 2021. https://www.cbo.gov/publication/56315.
[6] Congressional Budget Office. (2021). How Changes in Revenues and Outlays Would Affect Debt Service, Deficits, and Debt. https://www.cbo.gov/publication/56993.
[7] Brady, Demian. Long-term Impact of the American Rescue Plan Act's "Temporary" Expansions Would Boost the Price Tag by Over $1 Trillion. National Taxpayers Union Foundation. March 9, 2021. https://www.ntu.org/foundation/detail/long-term-impact-of-the-american-rescue-plan-acts-temporary-expansions-would-boost-the-price-tag-by-over-1-trillion.

H.R. 638, the Cost Estimates Improvement Act introduced by Representative Michael Cloud (R-TX), would require that CBO include debt service costs in its estimates. In addition, the bill would have the agency include a duplication report in its estimates, identifying existing federal programs that could overlap with the new proposal.

Similarly, Senator Rand Paul introduced S. 664, the Duplication Scoring Act of 2021, requiring that CBO work with the Government Accountability Office (GAO) which regularly reports on duplication and overlap across the government.[8] CBO's analysis of the Paul bill estimates that it would cost GAO about $333,000 per year to complete the assessment of the roughly 650 bills each year ordered reported by committees.[9] The costs could be significantly reduced if federal agencies are finally able to produce a comprehensive inventory of federal programs.

Last year, NTU's Andrew Lautz testified before the House appropriations subcommittee about the importance of having CBO produce cost estimates of proposals before they are marked up.[10] This would enable members to correct any budget issues earlier in the legislative process. Additionally, completion of a duplication report prior to markup would allow the committees of jurisdiction to minimize overlap in the legislation it reports.

Senator Mike Lee introduced S. 793, the "CBO Show Your Work" Act, which would further promote scorekeeping transparency by requiring CBO to make available more of the underlying data and models used in its estimates.[11] There are cases where CBO uses proprietary information that it is unable to disclose. In those cases the bill would have CBO identify why the data is restricted and contact information on source of the data.

In addition to these proposals, CBO could take steps to provide more comprehensive estimates of the massive fiscal burdens faced by future generations. Over the past year, Congress has added trillions of dollars to the debt through a series of pandemic and economic recovery packages. Implementing generational accounting of major proposals would calculate how much future generations of taxpayers would have to pay to close the fiscal gap resulting from current deficit spending.[12]

Recommendations

- Congress should require that cost estimates include the impact on federal debt costs in order to provide a more accurate accounting of the total actual cost of legislative proposals.
- Congress should require that cost estimates include a duplication report of pending legislation.
- Congress should consider the feasibility of having CBO produce cost estimates earlier in the legislative process.
- Congress should increase transparency of scorekeeping by requiring CBO to provide greater information about its data and modeling.
- Providing a generational accounting report would cast light on the long-term consequences of reckless congressional spending.

Conclusion

CBO has made significant progress over the past several years in boosting transparency of its processes and its data. Attempts to force out the agency's director in order to strong-arm it into producing more

[8] Senator Rand Paul. S.664 - Duplication Scoring Act of 2021. March10, 2021. https://www.congress.gov/bill/117th-congress/senate-bill/664/.
[9] Congressional Budget Office. (2021). S. 664, Duplication Scoring Act of 2021: As ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on March 17, 2021. https://www.cbo.gov/publication/57100.
[10] Lautz, Andrew. NTU Testifies to House Subcommittee on Congressional Budget Office Reform. National Taxpayers Union. March 5, 2020. https://www.ntu.org/publications/detail/ntu-testifies-to-house-subcommittee-on-congressional-budget-office-reform.
[11] Senator Mike Lee. S.793 - CBO Show Your Work Act. March 17, 2021. https://www.congress.gov/bill/117th-congress/senate-bill/793.
[12] Brady, Demian and Daley, Anna Katherine. Congress Should Require CBO to Estimate the Impact of Big Bills on Future Generations. November 18, 2020. https://www.ntu.org/foundation/detail/congress-should-require-cbo-to-estimate-the-impact-of-big-bills-on-future-generations.

politically-expedient scores would undermine CBO's analysis and its reputation. As Nan Swift, former Senate Budget Committee staffer an an alumnus of National Taxpayers Union, wrote at the R Street Institute's blog, "Deteriorating trust in the CBO would call all of its work into question, making it difficult to get a real sense of legislative consequences for everyone, both on and off the Hill."[13]

Instead, Congress should continue to focus on improving CBO by bolstering transparency, objectivity, and accountability. Taking additional steps such as allowing for more realistic baselines, better accounting for net interest costs, and assessing long-term impacts of legislative proposals would further boost the accuracy and scope of CBO's important work.

About the Author

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[13] Swift, Nan. "If You Don't Like the Score, Play Better." R Street. April 16, 2021. https://www.rstreet.org/2021/04/16/if-you-dont-like-the-score-play-better/.

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